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TAX PROBLEMS FROM THE AGRICULTURAL POINT OF VIEW

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The farmer in the State of Washington carries a heavier state and local tax burden in relation to both his net income and his gross return from products and services sold than any major industry not specially taxed. Although specially taxed businesses such as liquor, tobacco, and amusements often carry very high taxes in relation to their volume of business, in most cases all competitors for the market carry the same tax load in the market area in which they compete. While this makes the incidence of the tax hard to trace, it is fairly certain that such taxes generally result in higher charges to the consumer. Quite the opposite is true of farm income inasmuch as prices of farm products are generally based on national or international markets.

There are two reasons why tax loads on agricultural producers in Washington average higher than other Washington taxpayers. First, the farmer is a heavier consumer of production equipment and supplies in relation to his share of the gross national output than almost any other large enterprise. Purchases of machinery and equipment by farmers in 1961 amounted to ten percent of farming's share of the gross national product (not the same as gross output). This compares to manufacturers' purchases of machinery and equipment in 1961 amounting to only 5.7 per cent of manufacturers' share of gross national product.[1]

The second factor is that the farmer's investment in real and personal property is also greater in relation to gross output than is the case in any other productive industry with the possible exception of forestry complexes owning and growing their own basic material. In 1962 the farmers' total investment in real and personal tangible property exceeded the comparable investment in the manufacturing industry by more than one-third. At the same time the manufacturers'

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[1] Computed from U.S. DEP'T. OF AGRICULTURE, AGRICULTURAL STATISTICS 444 (1963); U.S. DEP'T OF COMMERCE, SURVEY OF CURRENT BUSINESS 10 (1963); and U.S. DEP'T. OF COMMERCE, STATISTICAL ABSTRACT OF THE UNITED STATES, 789 (1964).

share of the nation's gross national product was over six and one-half times that of farming's share.[2]

Discussing first the farmer's position as a consumer in a state relying heavily on consumer taxes, let us take a look at his problems as a consumer. The farmer is a consumer in the sense of family consumption of items of personal use in about the same volume as other citizens of the same living standard. The days when farmers raised their own vegetables, fruit, meat, milk, eggs, and produced their own fuel have given way in most agricultural areas to specialized production and the demand for modern processing of items of food, as well as the installation of automatic heat. The farm family finds most of its items of consumption reaching the home after a trip through the tax collector's check-out station. There are still farmers that use meat from their own herds, but it is almost universally processed through a commercial slaughter house and stored in a deep freeze that costs several hundred dollars plus taxes, with more taxes on the energy that keeps it operating.

Turning to the tax load on production items in agriculture, we must realize that investment in production items usually classed as personal property or real estate improvements, all subject to sales tax, is especially high in relation to gross output. It is hard to do anything but generalize regarding this particular problem, as agriculture is as varied within itself as the variation in all types of manufacturing. The difference between a wheat farm where man-hours are an insignificant proportion of production expense and the small berry farm where labor is the predominant factor makes any generalization invalid in many instances. Nevertheless, a study of investment in production machinery, special structures, and improvements finds agriculture with a heavy investment in items that are in use only a comparatively short period each season. For the last twenty-five years, technological improvements in farm equipment and operating procedures have advanced so rapidly that economic obsolescence has dictated frequent replacement of equipment. Machinery prices and construction costs have risen much more quickly than the prices of farm products. Thus, the cost and therefore the tax load has constantly increased in relation to product income. From 1950 to 1962, prices on commodities sold by farmers have declined by 6.5 per cent, while, at the same time, prices

[2] Computed from U.S. DEP'T OF AGRICULTURE, AGRICULTURAL STATISTICS 437 (1963); U.S. DEP'T OF COMMERCE, STATISTICAL ABSTRACT OF THE UNITED STATES 789 (1964); and U.S. DEP'T OF COMMERCE, SURVEY OF CURRENT BUSINESS 10 (1963).

paid by farmers for commodities, including wages, taxes, etc., have increased by 19.3 per cent.[3] The most compelling reason for technically improved machinery has been the necessity to reduce the number of man-hours used in a given amount of production. Elimination of labor may have preserved a farmer's income status, but it thas not decreased his tax liability.

It should be recognized that a sales tax exemption is granted on certain items used for packaging or production, such as feed, seed, fertilizer, and on the sales or purchases of certain livestock and other items. This generally parallels the exceptions in most sales tax laws granted to producers of items for sale at retail. Except for such exceptions, the compounding effect of a sales tax at today's rates would preclude Washington's manufacturing industry, as well as its agriculture, from competing in many products.

The fact that farm production machinery is often upgraded by the process of "trading in" the used equipment long before it is mechanically worn out results quite frequently in a sales tax being paid on purchases in excess of the earnings of the farm operation for the full year in which the purchase is made.[4] Farmers usually give little thought to the impact of the sales tax on their operation as they frequently elect to treat such taxes on equipment as a part of the cost of equipment.

The biggest single inflexible cost of operation for many farm operations is the property tax. Washington's property taxes on farm real estate and equipment are lower than the national average and less burdensome than those of neighboring states. According to a study made by the Advisory Commission on Intergovernmental Relations, the effective property tax rate on farm real estate in Washington is thirty-three per cent below the national average and about forty per cent below Oregon.[5] It might be argued, therefore, that the Washington farmer does not carry an especially significant burden in the case of property tax. However, before advancing to the oppressive rates now existent in many states, the Washington farmer's case against heavy reliance on the property tax should be examined.

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[3] Computed from U.S. Dep't of Agriculture, Agricultural Statistics, 476 (1963).

[4] In Washington State, the 4% retail sales tax applies to the total purchase price with no allowance for trade-ins. A farmer purchasing a $5,000 tractor may only be paying $2,000 plus his old tractor. In this case, the sales tax would amount to 10% of his actual out-of-pocket expense.

[5] Advisory Commission on Intergovernmental Relations, Measures of State and Local Fiscal Capacity and Tax Effort 131 (1962).

There was a time when both benefits received and ability to pay were fairly adequately measured by the amount of property owned. This measure has become less reliable as the percentage of persons engaged in skilled professions and crafts has increased. From the viewpoint of ability to pay, it is increasingly evident that a dollar spent in specialized training or education will develop more earning power than a dollar invested in property. Very few types of farm operation will develop a return of three percent per year above a fair return for labor and management. It is quite usual to find property taxes equalling five percent of the gross value of products produced on a farm.[6] Many instances of taxes equal to ten percent of gross product value are found in the case of farm operations generally restricted to grain or forage production. By comparison, it is unusual indeed to find a merchandising or manufacturing concern in Washington State that has an effective property tax burden in excess of one percent of gross income.[7]

Washington's farmers in many areas find that their property tax problems are being magnified by the rising values of land, caused by pressure for land for development and speculation. It is difficult to feel sorry for the farmer who watches the value of his property double each ten years in a location where population pressures are pressing for a change of the use of land devoted to farming. It must be realized, however, that until such time as the farmer gives up and sells out, he does not derive any income from this increased value, and his taxes rise without relation to his farm income. It might be expected that the amount of land needed for housing and industrial development would affect only the number of acres of land currently needed for these new developments. But, it appears to affect many times the land actually needed for several years ahead. The very fact that taxes on land have been kept low in Washington in relation to many other states makes land speculation more attractive in Washington, and long range speculation has a tendency to eliminate the advantage of the lower tax rate by over-capitalization.

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[6] In 1963, total taxes on farms amounted to 4.6% of total farm cash income. U.S. DEP'T OF COMMERCE, STATISTICAL ABSTRACT OF THE UNITED STATES 630 (1964).

[7] A study made by the State Department of Commerce and Economic Development and the Washington State Tax Commission indicated that the average property tax burden on four major manufacturing industries related to the gross income of the firm is as follows: Food products .3%, chemicals .5%, fabricated metals .4%, and electrical equipment .4%. WASHINGTON STATE DEP'T OF COMMERCE AND ECONOMIC DEVELOPMENT, INDUSTRIAL TAX LOADS IN WASHINGTON AND COMPETING STATES: A FOUR INDUSTRY TAX COST COMPARISON (1963).

Technological advances in agriculture have increased the demand for land. Much of the modern farm machinery is most efficient in large units that will handle more production than was available with farms of the size prevalent a decade ago. The crop control programs that remain necessary in spite of increased population have accented this pressure for crop land. Thus, farmer competing with farmer for added acreage has kept the price of land advancing rapidly even where no change of use pressure exists.

Many states have recognized the existence of pressures that are prematurely moving farm land into speculative and an oftentimes unproductive status. So-called "greenbelt" laws are being enacted. Oregon, having property tax rates generally fifty per cent higher than those in Washington, now has such a law. The greenbelt law provides for a rate of assessment of farm land computed on the basis of the value of the land for agricultural use, so long as it remains in such use. Upon conversion to another use, some part of the "deferred or omitted" tax load is reimposed. It is thus hoped to keep valuable farm lands in production adjacent to large population centers. This procedure offers little, if any, relief to the total problem.

Most arguments against any "classification" of agriculture for tax purposes assume that government expenses for which taxes are levied have a reasonable relationship to property ownership. The fallacy of this reasoning is evident if we look to the major areas of public expenditure. Education is the largest and will increase faster than any other public expense for several years to come. The number of children coming from farms, in relation to property values, continues to decline. Farms become larger and more expensive and require fewer farm families, both as owners and employees each year. Other areas of large public expenditure, such as public assistance and institutional care, are also closely related to numbers of people. Again agriculture pleads innocent to being a prime source for the need for such programs. In the area of roads, a good case is made that the farmer derives benefit from the tax money collected from his city cousins. Even here a question arises as to whether such transportation advantages benefit the farmer as much as the processor who receives his products. The fact that the farmer's highway equipment operates only a fraction of the miles per year of other similar equipment has been recognized and compensated for by a reduction in weight taxes on farm trucks.

The conclusions we must reach from this review of the problems of agriculture in the field of state and local taxes are seemingly contradictory. First, we conclude that farmers pay heavier, on the average, than other citizens to the support of state and local government programs. Our second conclusion, which is less evident because we have talked of it much less, is that our farmers are favorably treated when compared to the tax treatment of farmers in other states generally. This is principally because we rely less on property taxes in Washington than is usual in other states. While the Washington farmer can make an argument that he is a heavier contributor to the costs of government in relation to either ability to pay or benefits received, he is probably well advised to defend the present position he holds rather than endeavor to radically change our pattern of state and local tax application.