

05hr_CRule_05-063_AC-Ag_pt01



Details:

(FORM UPDATED: 07/12/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Assembly

(Assembly, Senate or Joint)

Committee on ... Agriculture (AC-Ag)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**
- Record of Comm. Proceedings ... **RCP**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt**
- Clearinghouse Rules ... **CRule**
- Hearing Records ... bills and resolutions
 - (**ab** = Assembly Bill) (**ar** = Assembly Resolution)
 - (**sb** = Senate Bill) (**sr** = Senate Resolution)
 - (**ajr** = Assembly Joint Resolution)
 - (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**



State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX (608) 266-5718 • <http://www.dor.state.wi.us>

Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

August 11, 2005

Honorable Alan Lasee
President State Senate
Room 219 South, State Capitol
P.O. Box 7882
Madison WI 53707-7882

Honorable John Gard
Speaker State Assembly
Room 211 West, State Capitol
P.O. Box 8952
Madison WI 53708-8952

Re: Clearinghouse Rule 05-063

Dear Senator Lasee and Representative Gard:

This is to notify you, in accordance with sec. 227.19(2), Wis. Stats., that the proposed rule order relating to the assessment of agricultural property is in final draft form. The proposed rule order and Notice of Hearing were published in the Wisconsin Administrative Register on July 14, 2005. A public hearing was held on July 25, 2005.

Copies of the proposed rule order and Report required under sec. 227.19(2) and (3), Wis. Stats., are enclosed. A brief summary of the proposed rule order follows:

Summary of Proposed Rule Order

The proposed rule order revises Chapter Tax 18, which currently specifies a formula that produces negative assessments for agricultural land. The revisions prescribe an agricultural land assessment methodology that is in accord with sec. 70.32(2r)(c), Wis. Stats., while ensuring positive and stable values for 2006 and thereafter. The rule specifies the amended calculation process, the underlying components, and the sources of information.

More specifically, the proposed rule order specifies a landlord-tenant appraisal methodology for estimating rental income in 2006 and thereafter. This generally accepted appraisal practice for estimating agricultural land value is based upon an agreement, or crop-share lease, between a landowner (landlord) and a farm operator (tenant).

The rule provides an equal distribution of income and direct operational costs among the landowner and farm operator. This is reflective of the agricultural industry standard, where the landowner assumes all property tax payments and the farm operator assumes all labor and machinery costs.

August 11, 2005
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The rule also adheres to the generally accepted appraisal practices for the income approach to value where net income is capitalized to produce a value, expressed as value = income / rate. The rule achieves this by specifying the net income calculation process and the subsequent capitalization of net income to produce a value.

Sincerely,


Michael L. Morgan
Secretary of Revenue

MLM:SRS

Enclosure

cc: Assistant Revisor

DEPARTMENT OF REVENUE

CLEARINGHOUSE RULE NUMBER 05-063

SECTION 227.19(2) AND (3), WIS. STATS., REPORT

Basis and Purpose of the Proposed Rule

The proposed rule order for Chapter Tax 18 is necessary to amend the current specifications that produce negative agricultural land assessments. The amendments specify an agricultural land valuation methodology that will produce positive and stable assessments that are determined according to the income that could be generated from the land's rental for agricultural use, which is in accord with sec. 70.32(2r)(c), Wis. Stats.

Summary of Public Comments

The following provides a summary of the oral and written comments received along with the Department's response.

- Jeff Lyon, of the Wisconsin Farm Bureau Federation (WFBF), submitted written comments in support of the proposed rule order.
 - Supportive statements were provided regarding the proposed rule order's specifications for determining agricultural land assessments.
 - Supportive statements were also provided regarding the provisions in the proposed rule order that moderate the changes in value from year to year.

Response: No response, the WFBF comments support the proposed rule order in its current form.

- Marc Weinberger submitted written comments that provided format suggestions.
 - Mr. Weinberger recommends a citation that captures the rule changes over time.
 - A statement supporting or objecting to the proposed rule order was not provided.

Response: Through discussions with the Revisor's Bureau, and the Department's Office of General Counsel, it has been determined that the current format of the proposed rule order is in accord with drafting and formatting standards. Mr. Weinberger's concern will be addressed by the Revisor, who will include a historical note in the final published rule. The note will indicate the Clearinghouse Rule number, a list of the amended paragraphs, and the effective date of the amendments.

- P. Scott Hausman submitted written comments that objected to the proposed rule order.
 - Mr. Hausman contends that the proposed rule order should include provisions that specify how pasture land and specialty land are valued.

Response: The proposed rule order does not amend Tax 18.06 and the five categories of agricultural land, which are first grade tillable, second grade tillable, third grade tillable, pasture, and specialty land. The current process of calculating the yields for all three grades of tillable land and pasture land is maintained. All categories will be subject to the value change specifications in the proposed rule order. In addition, the proposed rule order does not change the assessment procedures in the *Wisconsin Property*

Assessment Manual for specialty land. The Department has revised the plain language analysis to include this information.

- Ron Kuehn submitted the following written comments regarding the proposed rule order on behalf of the Wisconsin Cattlemen's Association, the Wisconsin Muck Farmers Association, the Wisconsin Pork Association, the Wisconsin Potato and Vegetable Growers Association, the Wisconsin Soybean Association, and the Wisconsin State Cranberry Growers Association.
 - Use-value assessment of agricultural land is supported.
 - The freeze for the 2005 assessment year is supported.
 - The taxation concepts in the proposed rule order's fiscal estimate are supported.
 - The proposed rule order may not support the results specified in the fiscal estimate.
 - Each association will conduct an impact analysis to determine if the proposed rule order is supported or opposed.
 - The proposed rule order does not specify the valuation of cranberry lands and crop lands with center pivot irrigation.

Response: The proposed rule order limits the annual change, either positive or negative, in use-values to the percentage change in the statewide equalized value in the prior year. The fiscal estimate provides an analysis in accord with this value change limit specification.

The proposed rule order does not amend Tax 18.06 and the five categories of agricultural land, which are first grade tillable, second grade tillable, third grade tillable, pasture, and specialty land. All categories will be subject to the value change specifications in the proposed rule order. In addition, the proposed rule order does not change the assessment procedures in the *Wisconsin Property Assessment Manual* for irrigated land and specialty land, which includes cranberry lands. The Department has revised the plain language analysis to include this information.

- Janet Gehl submitted the following written comments regarding the proposed rule order.
 - The proposed rule order should specify pasture land and specialty land valuation.
 - The statutory basis of the change limitations and the absence of rental rates were questioned.
 - A recommendation was provided to maintain the current use-value calculation in Tax 18 with an amendment that specifies the inclusion of federal payments as part of the income stream.
 - Concerns were also raised with the impact upon residential property owners, the impact upon conservation practices, and benefits received by non-farmers.

Response: The Department offers the following in response to Mrs. Gehl's comments.

- The proposed rule order does not amend Tax 18.06 and the five categories of agricultural land, which are first grade tillable, second grade tillable, third grade tillable, pasture, and specialty land. All categories will be subject to the value change specifications in the proposed rule order. In addition, the proposed rule order does not change the assessment procedures in the *Wisconsin Property Assessment Manual* for irrigated land and specialty land, which includes cranberry lands. The Department has revised the plain language analysis to include this information.
- The change limitations are applied uniformly to all agricultural land and are in accord with the state constitution and state statutes. Additionally, the change limitation clause ensures that use-values will remain positive and stable over time.

- The proposed rule order specifies a shared-rent or crop-share approach as a proxy for rental rates. With no consistent and accurate source of rental data, the Department proceeded with an alternative that is a generally accepted appraisal practice for estimating the income attributable to agricultural land.
 - Maintaining the current calculation process with a specification to include federal payments was not perceived as a viable alternative with the volatility of federal payments in type, amount, and participation.
 - In 2004, the value of agricultural land represented less than 1% of all property value in the state. The proposed rule order maintains this distribution; as such there is no adverse impact on residential property.
 - The Department will be convening a diverse team of individuals that will analyze the issues of use-value benefits received by non-farmers and the impact of use-value assessment upon conservation practices. The team will be charged with developing possible courses of action to address these issues.
- Four individuals presented oral testimony at a July 25, 2005 public hearing with written comments regarding conservation programs and their eligibility for agricultural classification and use-value assessment.
 - The four individuals who provided this information were Erin O'Brien and Eugene Roark from the Wisconsin Wetlands Association, Alison Peña from the United States Department of Agriculture—Natural Resource Conservation Service, and Jim Ruwaldt from the United States Fish and Wildlife Service.
 - The information presented was primarily concerned with lands eligible for enrollment in conservation programs. According to these individuals, eligible land is not being enrolled due to tax advantages that stem from tilling or pasturing the land and receiving agricultural classification and use-value assessment.
 - Arguments were presented to address the issue through revisions to the definition of agricultural use in Chapter Tax 18.
 - Statements supporting or objecting to the proposed rule order were not provided.
 - Written comments in support of revising the definition of agricultural use were provided from Scott VanDeList, Bev Anderson, a former Department of Agricultural Trade and Consumer Protection Board member, and Sandi Cihlar, a member of the Wisconsin Land & Water Conservation Board.

Response: The Farmland Advisory Council's Environmental Expert, Linda Bochert, raised the same issues regarding use-value and land conservation at a June 7, 2005 Council meeting. Since the definition of agricultural use is outside the scope of this proposed rule order, Secretary Morgan stated that the Department will convene a diverse team of individuals that will identify the issues and determine possible courses of action.

- Clyde Winter submitted written comments regarding voluntary conservation practices, conservation program enrollment requirements, and eligibility for use-value assessment.
 - Mr. Winter presented information regarding farm lands that were voluntarily established conservation lands, however, these lands are not eligible for enrollment in a conservation program that qualifies for use-value assessment.
 - Mr. Winter suggests that this issue could be addressed by redefining conservation program eligibility requirements and redefining agricultural use eligibility requirements.
 - A statement supporting or objecting to the proposed rule order was not provided.

Response: Since the definition of agricultural use is outside the scope of this proposed rule order, the Department will respond to these comments by convening a diverse team of individuals that will identify the issues and determine possible courses of action.

Public Hearing

A public hearing was held on July 25, 2005. A list of those who attended is enclosed.

Analysis and Fiscal Estimate Changes

Changes to the analysis prepared under sec. 227.14(2), Wis. Stat., were made based upon comments received from the Legislative Council. Specifically, an explanation was added for an amendment to Chapter Tax 18 that eliminated the authority for an assessor to adjust the use value per acre of agricultural land.

No changes were made to the fiscal estimate prepared under sec. 227.14(4), Wis. Stats.

Legislative Council Staff Recommendations

A copy of the Legislative Council staff recommendations is enclosed. All recommendations have been incorporated in the proposed rule order.

Regulatory Flexibility Analysis

The proposed rule order does not have a significant effect on small business.

Wisconsin Department of Revenue
 Tax 18 Public Hearing—Sign In Sheet
 July 25, 2005

Name	Organization or Company	Address	Telephone
1 Joan Sanatelli	Agri - View	P.O. Box 44182 Madison, WI 53744-4182	608-238-2023
2 Jim Ruvoldt	U.S. Fish + Wildlife Service	4511 Helgeum Av. Madison, WI 53718	608/221-1206 x14
3 Jeff Heynd	Wi. Fish Environ	1212 Deming Way Madison, WI 53719	(608) 828-5713
4 Erin Ruby	Rep. Al Ott Chair, Assembly Ag. Cmttee	P.O. Box 8953 Madison, WI 53708	260-5831
5 Erin Obrien	WI Wetlands Association	222 S. Hamilton St. Madison WI 53703	608-250-9971
6 Alison Peña	USDA - NRCS	8030 Excelsior Dr. Madison, WI 53717	608-662-4422 x254
7 Tom Throck	Throck Cons. Consulting	222 S. Hamilton Madison, WI 53719	608-255-2656
8 Eugene Roark	Wis Wetlands Assoc	16 Grand Ave Madison 53705	608-238-5349
9 Rachel Hart	Wis wetlands Assoc	1315 W. Dayton Madison 53715	608-661-3729
10 Mike Carter	WPU 6A	PO Box 327 Antigo 54409	715.623.7176
11 Frank Humphrey	DOR - STEF-BAR	2135 Rimrock Rd Madison, WI 53713	(608) 261-5364
12 Jordan Lamb	Pew With Ross & Stewart	2 E Millikin St Ste 600 Madison WI 53703	608 252 9358

13	Name	Organization or Company	Address	Telephone
14	<i>Michael Johnson</i>	<i>Adm S&F</i>	<i>6th Floor. Madison Rum Rook</i>	<i>608-266-0939</i>
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PROPOSED ORDER OF THE DEPARTMENT OF REVENUE

The Wisconsin Department of Revenue hereby proposes an order to amend Tax 18.07(1)(b)1., 2., 3., (c)5., and Tax 18.07(3)(a), create 18.07(1)(d)1. and 2., and repeal 18.07(1)(b)4., 5., 6., 7., (c)6., and 7.

ANALYSIS PREPARED BY THE DEPARTMENT OF REVENUE

Statutes interpreted

Sec. 70.32(2r)(c), Wis. Stats.

Statutory authority

Sec. 227.11(2)(a), Wis. Stats.

Explanation of agency authority

Each agency may promulgate rules that interpret the provisions of any statute enforced or administered by it, if the agency considers it necessary to effectuate the purpose of the statute.

Related statute or rule

Sec. 70.32(2r)(c), Wis. Stats.

Plain language analysis

Pursuant to sec. 70.32(2r)(c), Wis. Stats., agricultural land is assessed according to the income that could be generated from its rental for agricultural use. Wisconsin Chapter Tax 18 specifies the formula that is used to estimate the net rental income per acre. Income, expense, and value are determined by applying an owner-operator appraisal methodology. With an owner-operator method, net income is determined by deducting all operating costs and overhead from gross income. The formula specifies corn prices, cost of corn production, and corn yield for determining net income. Net income is capitalized to determine the agricultural use-value per acre. The capitalization rate is the sum of the interest rate for a medium-sized, 1-year adjustable rate mortgage and the municipal net tax rate for property taxes levied two years prior to the assessment year.

A landlord-tenant appraisal methodology is another means to estimate rental income. The basis for this method is an agreement or crop-share lease between a landowner (landlord) and a farm operator (tenant). Crop-share leases allow landowners and farm operator to share risk and management of a farm operation. The lease provisions will specify the distribution of income and costs. Typically, income and direct operational costs are equally distributed among the landowner and farm operator with the landowner assuming all property tax payments and the farm operator assuming all labor and machinery costs.

The proposed rule order specifies the provisions of a crop-share lease for determining the net rental income per acre of agricultural land for 2006 and thereafter. The rule will specify the process and components for determining the landowner's share of gross income, cost of production, and net income.

Second, the proposed rule specifies a capitalization rate that is 11% or the sum of the interest rate for a medium-sized, 1-year adjustable rate mortgages and the municipal net tax rate for property taxes levied two years prior to the assessment year, whichever is greater.

Third, the proposed rule specifies that the annual change, either positive or negative, in use-values for 2006 and thereafter shall be limited to the percentage change in the statewide equalized value in the prior year. In determining the percentage change in the statewide equalized value, the value of agricultural land and the value of new construction are excluded.

Lastly, the proposed rule repeals subdivisions that are no longer applicable. Specifically, the subdivisions that specified the use-value calculations for 2004 and 2005 are repealed. Also repealed is a phrase allowing adjustments to the use-values that are determined by the Department. This phrase is

repealed in order to ensure observance of the revised rule that specifies the commodity for determining net income and the percent that the use-values may change from one year to the next.

It is important to note that the proposed rule order does not amend Tax 18.06 and the five categories of agricultural land, which are first grade tillable, second grade tillable, third grade tillable, pasture, and specialty land. The current process of calculating the yields for all three grades of tillable land and pasture land is maintained. All categories will be subject to the same aforementioned value change specifications. In addition, the proposed rule order does not change the assessment procedures in the *Wisconsin Property Assessment Manual* for irrigated land and specialty land, which includes cranberry lands.

Summary of, and comparison with, existing or proposed federal regulations

Property taxation is governed by Wisconsin's constitution and statutes, as such there are no current or pending federal regulations regarding agricultural assessment.

Comparison with rules in adjacent states

The valuation of agricultural land in Illinois, Michigan and Minnesota are specified by statute; therefore, there are no administrative rules related to agricultural valuation in these states. The Iowa administrative rule related to agricultural valuation provides no detail regarding the formula used to calculate agricultural land value; reference is made to the Iowa real property appraisal manual.

Summary of factual data and analytical methodologies

The proposed rule order specifies a landlord-tenant crop-share appraisal method to estimate the rental income of agricultural land. Under a crop-share lease agreement, a landowner provides the land and assumes the property tax expenses for the land. A farm operator provides the machinery, fuel, and labor. The landowner and farm operator share the direct operating expenses, including the seed, fertilizer, and pesticides or chemicals. Income from the harvested crop is also shared on the same basis as the direct operating costs. The proposed rule provides for an equal distribution of income and cost among the landowner and farm operator, which is reflective of a common crop-share lease.

Gross income, cost of production, and net income are determined based upon the following.

- Gross income is determined by multiplying the 5-year average corn yield by the 5-year average market price of corn. The result is reduced by 50% in order to determine the landowner's income under a crop-share lease.
- Cost of production is determined by multiplying the 5-year average direct operating costs of corn production by the 5-year average corn yield. The result is reduced by 50% in order to determine the landowner's costs under a crop-share lease.
- The landowner also incurs a management expense that captures the cost of maintaining and administering the operation. Management expense is 7.5% of the landowner's gross income.
- Net income is calculated by subtracting management expenses and direct operating expenses from gross income. Dividing net income by the capitalization rate provides the estimated value of agricultural land.
- Property taxes, which are a landowner responsibility, are realized in the capitalization rate.
- With the exception of the capitalization rate's municipal tax rate, all data is averaged over a 5-year period.

Analysis and supporting documents used to determine effect on small business or preparation of economic impact report

The department has prepared a fiscal estimate regarding this proposed rule order. It was determined that there is not a significant fiscal effect on small business.

Effect on small business

This proposed rule order does not have a significant effect on small business.

Agency contact person

Please contact Scott Shields at (608) 266-2317 or sshields@dor.state.wi.us, with any questions regarding this proposed rule order.

Place where comments are to be submitted and deadline for submission

Comments are to be sent to the attention of Scott Shields at Department of Revenue, Mail Stop 6-97, 2135 Rimrock Road, P.O. Box 8971, Madison, WI 53708-8971. Comments must be received no later than August 1, 2005.

TEXT OF RULE

SECTION 1. Tax 18.07(1)(b)1., 2., 3., are amended to read:

Tax 18.07(1)(b) *Net rental income per acre*. 1. Beginning in ~~1997~~ 2006 and in each year thereafter, net rental income per acre for each category of agricultural land in each municipality shall be calculated according to the income attributable to a landowner under a crop-share lease. The department shall assume a lease agreement where the income and direct operating costs are distributed equally between the landowner and farm operator. The department shall adhere to professionally accepted appraisal practices in determining gross income, cost of production, and net income that are attributable to a landowner under a crop-share lease. Net income shall be calculated by subtracting average total cost of production per acre under subd. 3. from average gross income per acre under subd. 2.

2. Beginning in ~~1997~~ 2006 and in each year thereafter, the landowner's average gross income per acre for each category of agricultural land in each municipality shall be calculated by multiplying the category's 5-year average corn yield per acre, adjusted for the typical productivity of that category, by the 5-year average corn market price per unit of output. The product shall be reduced by 50% to reflect a crop-share lease with equal distribution of income. Yield per acre shall be based on the ~~federal soil conservation~~ natural resource conservation service's soil productivity indices and corn market price data shall be obtained from the Wisconsin department of agriculture, trade and consumer protection. If the ~~federal soil conservation~~ natural resource conservation service and the Wisconsin department of agriculture, trade and consumer protection are unable to provide, or to provide timely, soil productivity indices and corn market price data, respectively, comparable data shall be obtained from other generally acceptable sources.

3. Beginning in ~~1997~~ 2006 and in each year thereafter, the landowner's average total cost of production per acre for each category of agricultural land shall be calculated by multiplying the category's 5-year average corn yield per acre, adjusted for the typical productivity of that category, by the 5-year average cost of corn production. ~~calculated from farm expense information obtained from the Wisconsin department of agriculture, trade and consumer protection, the university of Wisconsin, federal agencies, or farm credit services associations.~~ In calculating the 5-year average cost of corn production, the department shall include the direct operating costs incurred by the landowner under a crop-share lease, which shall include the cost of seed, fertilizer, lime, manure, chemicals, commercial drying, interest on operating capital, or their equivalent. The total cost of corn production is reduced by 50% to reflect a crop-share lease with equal distribution of direct operating costs. The 5-year average cost of corn production shall not include those costs incurred by a farm operator under a crop-share lease, which includes labor, opportunity cost of unpaid labor, machinery, fuel, repairs, overhead, or their equivalent. An additional landowner cost for operational management, equal to 7.5% of the average gross income determined in subd. 2., shall be subtracted from the average gross income calculation in subd. 2. Property taxes are not a farm expense for purposes of calculating average total cost of production per acre. Yield per acre shall be based on the ~~federal soil conservation~~ natural resource conservation service's soil productivity indices and cost of corn production data shall be obtained from the Wisconsin department of agriculture, trade and consumer protection. If the ~~federal soil conservation~~ natural resource conservation service and the Wisconsin department of agriculture, trade and consumer protection are unable to provide, or to provide timely, soil productivity indices and cost of corn production data, respectively, comparable data shall be obtained from other generally acceptable sources.

SECTION 2. Tax 18.07(1)(b)4., 5., 6., and 7. are repealed.

SECTION 3. Tax 18.07(1)(c)5. is amended to read:

Tax 18.07(1)(c) 5. The capitalization rate for each municipality for each assessment year shall be 11% or calculated by adding the sum of the statewide 5-year moving average rate for the year prior to the assessment year and to the net tax rate of that municipality for the property tax levy 2 years prior to the assessment year, whichever is greater.

SECTION 4. Tax 18.07(1)(c)6. and 7. are repealed.

SECTION 5. Tax 18.07(1)(d)1. and 2. are created to read:

Tax 18.07(1)(d) 1. Beginning in 2006 and in each year thereafter, increases and decreases in the use values for each category of agricultural land in each municipality shall be limited to the prior year's percentage change in the statewide equalized value. When determining the percentage change in the statewide equalized value, the department shall exclude the value of agricultural land and new construction. New construction shall include increases in land value due to higher land use, new subdivisions, and increases in improvement value due to new construction, completion of improvements partially assessed, remodeling and additions, and land improvements such as addition of curb, gutter, sewer, water, or their equivalent. The amount of new construction shall be reduced by the loss of land utility and loss of property value due to full or partial destruction, removal, contamination, or their equivalent.

2. The department shall calculate the percentage change from the previous year's use-values to the current year's use-values according to the formula in s. Tax 18.07(1)(b). Increases and decreases in the use values for each category of agricultural land in each municipality shall be limited to the percentage change determined in subd. 1. If the increase or decrease is less than the percentage change determined in subd. 1, the use value per acre will equal the value calculated by the department according to the formula in s. Tax 18.07(1)(b).

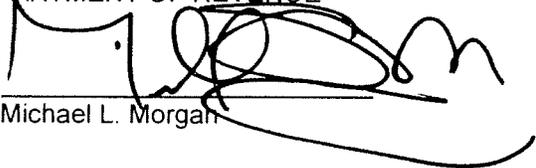
SECTION 6. Tax 18.07(3)(a) is amended to read:

Tax 18.07(3)(a) The assessor shall determine the use value of each parcel of agricultural land based on the use value per acre for that category of agricultural land in that municipality provided by the department, ~~adjusted by the assessor to reflect more accurately the use value of that parcel of agricultural land.~~

This rule shall take effect on the first day of the month following publication in the Wisconsin administrative register as provided in sec. 227.22(2)(intro), Wis. Stats.

Dated: 8-11-05

DEPARTMENT OF REVENUE

By: 
Michael L. Morgan

FISCAL ESTIMATE FORM

2005 Session

- ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB # CR 05-063

INTRODUCTION #

Admin. Rule # Chapter Tax 18 2006 (permanent)

Subject

2006 Use Value Assessment for Agricultural Land

Fiscal Effect

State: No State Fiscal Effect
 Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation

- Increase Existing Appropriation Increase Existing Revenues
 Decrease Existing Appropriation Decrease Existing Revenues
 Create New Appropriation

- Increase Costs - May be Possible to Absorb Within Agency's Budget Yes No
 Decrease Costs

Local: No Local Government Costs

1. Increase Costs
 Permissive Mandatory
 2. Decrease Costs
 Permissive Mandatory

3. Increase Revenues
 Permissive Mandatory
 4. Decrease Revenues
 Permissive Mandatory

5. Types of Local Governmental Units Affected:
 Towns Villages Cities
 Counties Others _____
 School Districts WTCS Districts

Fund Sources Affected

- GPR FED PRO PRS SEG SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate:

The proposed rule amending Chapter Tax 18 would have the effect on 2006 and later assessments of agricultural land.

Under the current permanent rule, the 2006 use value of agricultural land would be based on the 5-year average corn price, cost, and yield for the 1999-2003 period, and the capitalization rate would be based on the 5-year average interest rate for the 2001-2005 period. Using the data for these periods, it is estimated that agricultural land values would be negative. It is unclear how property with negative values would be taxed.

To avoid negative values for agricultural land, the Department of Revenue issued emergency rules to hold agricultural land values at 2003 levels in both 2004 and 2005.

Under the proposed permanent rule, the 2006 and later use values would be based on income capability from agricultural land using a crop share lease approach. Under a crop share lease, a landowner and a farm operator share the cost of growing a crop. The common split in such agreement is 50-50, where the landowner and farm operator equally share the harvested grain and input expenses. The proposed rule specifies the process of determining gross income, cost of production, and net income. Also, the proposed rule specifies a capitalization rate as a 1-year adjustable rate mortgage for farmland plus the net tax rate in the municipality from all taxing jurisdictions or 11%, whichever is greater.

Under the proposed permanent rule, the annual change of agricultural land value per acre would be limited to the percentage change in equalized value of real and personal property statewide, less new construction and agricultural land. From 2003 to 2004 the statewide equalized value (less new construction and agricultural land) increased by 6%. Assuming the same growth in equalized value from 2004 to 2005,

Long-Range Fiscal Implications:

Agency/Prepared by: Milda Aksamitauskas Wisconsin Department of Revenue (608) 261-5173	Authorized Signature/Telephone No. Paul Ziegler (608) 266-5773	Date
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FISCAL ESTIMATE FORM

Chapter Tax 18

Page 2

assessed values per acre for each type of soil would only increase by 6% from current values. As a result, statewide agricultural land values will approximately equal \$2.1 billion in 2006. Since growth of agricultural land value will be limited to the statewide change in equalized value excluding new construction and agricultural land itself, agricultural land as a share of total equalized value will decrease.

An average 200 acre farm can be an illustration of the fiscal effect on farmland property taxes. For example, under the current permanent and emergency rules, an acre of grade 1 soil in Dodge County was assessed and then frozen at \$261 per acre. Assuming an average Dodge County tax rate of \$21.48 per \$1,000 of assessed value, property taxes levied on a 200 acre farmland in 2005 were about \$1,120 ($\$261 \times 200 \times 0.02148$). Under the proposed permanent rule, a grade 1 soil would be assessed at \$276 ($\261×1.06) per acre. Because agricultural land value growth will be smaller than the growth of total equalized value, property tax on agricultural land as a percent of total levies is expected to decrease statewide. Property tax changes will vary by municipality, however, based on local decisions and changes in state aid.

Under the proposed rule, there will be no loss of state forestry tax revenue. To the extent that the current permanent rule would result in negative values for agricultural land and therefore a loss of state forestry tax revenue, the proposed rule would result in an increase of \$413,000 in state forestry tax revenues ($\$2.1 \text{ billion} \times .0002$).

Relative to the valuation of agricultural land under the emergency rules that were adopted to avoid negative values, however, the proposed rule will result in a forestry tax revenue increase of about \$23,000.



Ruby, Erin

From: Rep.Ott
Sent: Friday, August 19, 2005 8:32 AM
To: Rep.Ainsworth; Rep.Gronemus; Rep.Hines; Rep.Loeffelholz; Rep.Molepske; Rep.Nerison; Rep.Parisi; Rep.Petrowski; Rep.Sinicki; Rep.Suder; Rep.Towns; Rep.Vruwink; Rep.WilliamsM; Rep.Ziegelbauer
Cc: Anderson, John; Berken, Nathan; Boardman, Kristina; Christopher, Marc; Cross, William; Emerson, Anne; George, Mary Beth; Hilgemann, Luke; Hutkowski, Hariah; Jahnke, Carolyn; Junck, Linda; Kostelic, Luanne; Kraak, Maureen; Langan, Casey; Loomans, Scott; Mueller, Virginia (Legislature); Parrott, Douglas; Patronsky, Mark; Peterson, Eric; Polzin, Cindy; Redell, Carol; Scott, Katie; Shea, Heather; Whitmore, Lori; Ourada, Thomas D; Smyrski, Rose; Schoenfeldt, Jeff
Subject: Clearinghouse Rule Referred to Assembly Committee on Agriculture
Attachments: 05-063.pdf

The following Clearinghouse Rule has been referred to the Assembly Committee on Agriculture for a 30 day review period:

Clearinghouse Rule 05-063: Relating to the use value assessment of agricultural land.

A copy of the rule is attached. Please contact my office if you have any questions.

The initial 30 day deadline for committee review is Monday, September 19, 2005.



05-063.pdf (747
KB)