

Informational Paper 25

Farmland Preservation and Tax Relief Credits

Wisconsin Legislative Fiscal Bureau
January, 2007

Farmland Preservation and Tax Relief Credits

Prepared by

Al Runde

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703

Farmland Preservation and Tax Relief Credits

Introduction

The farmland preservation program provides property tax relief to farmland owners and encourages local governments to develop farmland preservation policies. Relief is provided as a credit reducing income tax liability or as a cash refund if the credit exceeds income tax due. The credit formula is based on household income, the amount of property tax, and the type of land use provisions protecting the farmland (either a preservation agreement or exclusive agricultural zoning).

Tax credit payments are made from a sum sufficient, general fund appropriation. Claimants may receive a credit on up to \$6,000 of property taxes. The maximum potential credit is \$4,200. In 2005-06, credit payments totaled \$12.5 million.

Except for agreement holders at the end of their contract, a penalty generally exists for owners of farmland if they choose to remove farmland from the program and convert their land to nonagricultural use. In this case, owners are usually subject to a rollback tax for credits received over the previous 10 years.

The farmland tax relief credit is also a refundable credit that is provided through the state income tax system. The credit reimbursement rate for net property taxes levied on agricultural land only is established annually by the Department of Revenue (DOR). The maximum allowable credit is \$1,500. This credit is not affected by an individual's income. Credit payments are made from a sum sufficient, lottery fund appropriation, except for 1999-00, when the credits were paid from a sum sufficient, general fund appropriation. In 2005-06, credit payments totaled \$13.5 million.

The majority of this paper describes the more-involved farmland preservation tax credit. The first three sections of this paper provide a detailed description of the farmland preservation program, including the credit formula and eligibility criteria, land use provisions, and contract relinquishments, while the fourth and fifth sections describe program participation and expenditures and property tax relief under the program. The last two sections describe the farmland tax relief credit and examine program participation and expenditures under that program.

Farmland Preservation Program

Credit Formula and Eligibility Criteria

Tax Credit Computation

The farmland preservation credit received by eligible claimants depends on the interaction of household income and allowable property taxes and on the contract, zoning, or planning provisions that cover the land.

Household Income. Household income includes all income of the claimant and spouse and, for minor dependents, any income they earn on the claimant's farm. Income is broadly defined (see Appendix I) to include net farm income; nonfarm wages of the claimant and spouse; tips and salaries; dividends; interest; pensions; public assistance; all nonfarm depreciation expenses and farm depreciation expenses over \$25,000; certain tax preference items, such as excluded capital gains; and nonfarm business losses.

Property Taxes. Eligible property taxes include up to \$6,000 of property taxes levied on the farmland and improvements, exclusive of special assessments, delinquent interest, and charges for service. A claimant must certify that all taxes owed on this property in the previous year have been paid. This requirement may not apply to claimants who choose to compute their credit using the law as it existed when they first signed a preservation agreement.

Formula. Although the tax credit formula is complex, the claimant refers to a table in order to determine the credit amount. The formula calculation is outlined in Table 1.

Step one of the formula determines the income factor, which can be interpreted as the amount of income that a household can afford to contribute to the payment of property taxes. By including higher percentages of income as income rises, an element of progressivity is introduced. In step two, the deduction of the income factor from eligible property taxes serves to determine what portion of the taxes are "excessive" for a claimant with a particular income level. Step three prorates the "excessive" property tax to determine the potential credit, which guarantees that claimants of all income levels continue to pay part of their property tax, with larger farms paying a higher percentage. Finally, step four adjusts the potential credit depending on the degree of land use restriction, with larger credits given for more restrictive conditions.

The degree of land use restriction and the associated percentage of the potential credit received by claimants vary by municipality. Appendix II lists the percentage of the potential credit available to a farmland owner by municipality for tax year 2006. Table 2 shows the calculation of a farmland preservation tax credit for a hypothetical claimant.

Application Requirements

The following eligibility conditions must be met for a farmland owner to qualify for a credit:

1. The farmland involved must:

- a. consist of at least 35 contiguous acres;
- b. produce gross farm profits of at least \$6,000 in the preceding year or at least \$18,000 in the three preceding years, unless at least 35 acres was enrolled in the federal conservation reserve program;
- c. be devoted to agricultural use for at least 12 consecutive months during the preceding 36-month period; and
- d. be covered by a farmland preservation agreement or be located in an exclusive agricultural zone.

Gross farm profits are defined as gross receipts from the farmland's agricultural activities, including payments from the federal dairy termination program and payments in-kind for placing land in federal programs, but excluding both rent and the initial cost of livestock or any other items bought and resold within the year.

Agricultural use is defined as beekeeping; commercial feedlots; dairying; egg production; floriculture; fish or fur farming; forest and game management; grazing; livestock raising; orchards; plant greenhouses and nurseries; poultry raising; raising of grain, grass, mint, and seed crops; raising of fruits, nuts, and berries; sod farming; placing land in federal programs in return for payments in-kind; owning at least 35 acres of land enrolled in the federal conservation reserve program; participating in the federal milk production termination program; and vegetable raising.

Table 1: Calculation of the Farmland Preservation Tax Credit

Step 1: Calculate "income factor." The income factor is based on the following percentages of household income:

	Maximum Income Factor for Income Bracket	Cumulative Income Factor
0% of 1st \$5,000 of household income	\$0	\$0
7% of 2nd \$5,000 of household income	350	350
9% of 3rd \$5,000 of household income	450	800
11% of 4th \$5,000 of household income	550	1,350
17% of 5th \$5,000 of household income	850	2,200
27% of 6th \$5,000 of household income	1,350	3,550
37% of household income over \$30,000	2,450	6,000

Step 2: Determine "excessive property tax."

$$\text{Excessive Property Tax} = \text{Eligible Property Tax} - \text{Income Factor}$$

The maximum eligible property tax that may be claimed is \$6,000.

Step 3: Determine "potential credit." The potential credit equals:

90% of first \$2,000 of excessive property tax plus 70% of next \$2,000
of excessive property tax plus 50% of next \$2,000 of excessive property tax

The maximum potential credit equals \$4,200.

Step 4: Determine "actual credit."

The actual credit depends upon individual agreements and the zoning or planning actions taken by local government. The actual credit equals:

- 100%** of the potential credit for farmland covered by county, city, village, or town zoning and a county preservation plan.
- 80%** of the potential credit for farmland covered by a preservation agreement and a county preservation plan. Owners of farmland subject to a farmland preservation agreement have the option of calculating their credit based on the farmland credit law that existed on the effective date of the agreement.
- 70%** of the potential credit for farmland covered by county, village, or city zoning without a county preservation plan.
- 10%** of eligible property taxes if this amount is larger than the tax credit formula amount.

Table 2: Example Calculation of a Farmland Preservation Tax Credit

Example Claimant

Farm located in the Town of Hobart in Brown County
Household Income = \$23,000
Property Taxes = \$4,700

Formula	Example Claimant																											
<u>Step 1: Calculate "Income Factor"</u>																												
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="text-align: center;"><u>Income</u></th> <th style="text-align: center;"><u>Factor</u></th> </tr> </thead> <tbody> <tr> <td>0% of 1st \$5,000 of household income</td> <td style="text-align: right;">0% x \$5,000</td> <td style="text-align: right;">= \$0</td> </tr> <tr> <td>7% of 2nd \$5,000 of household income</td> <td style="text-align: right;">7 x 5,000</td> <td style="text-align: right;">= 350</td> </tr> <tr> <td>9% of 3rd \$5,000 of household income</td> <td style="text-align: right;">9 x 5,000</td> <td style="text-align: right;">= 450</td> </tr> <tr> <td>11% of 4th \$5,000 of household income</td> <td style="text-align: right;">11 x 5,000</td> <td style="text-align: right;">= 550</td> </tr> <tr> <td>17% of 5th \$5,000 of household income</td> <td style="text-align: right;">17 x <u>3,000</u></td> <td style="text-align: right;">= <u>510</u></td> </tr> <tr> <td>27% of 6th \$5,000 of household income</td> <td></td> <td></td> </tr> <tr> <td>37% of household income over \$30,000</td> <td></td> <td></td> </tr> <tr> <td style="text-align: right;">TOTAL</td> <td style="text-align: right;">\$23,000</td> <td style="text-align: right;">\$1,860</td> </tr> </tbody> </table>		<u>Income</u>	<u>Factor</u>	0% of 1st \$5,000 of household income	0% x \$5,000	= \$0	7% of 2nd \$5,000 of household income	7 x 5,000	= 350	9% of 3rd \$5,000 of household income	9 x 5,000	= 450	11% of 4th \$5,000 of household income	11 x 5,000	= 550	17% of 5th \$5,000 of household income	17 x <u>3,000</u>	= <u>510</u>	27% of 6th \$5,000 of household income			37% of household income over \$30,000			TOTAL	\$23,000	\$1,860
	<u>Income</u>	<u>Factor</u>																										
0% of 1st \$5,000 of household income	0% x \$5,000	= \$0																										
7% of 2nd \$5,000 of household income	7 x 5,000	= 350																										
9% of 3rd \$5,000 of household income	9 x 5,000	= 450																										
11% of 4th \$5,000 of household income	11 x 5,000	= 550																										
17% of 5th \$5,000 of household income	17 x <u>3,000</u>	= <u>510</u>																										
27% of 6th \$5,000 of household income																												
37% of household income over \$30,000																												
TOTAL	\$23,000	\$1,860																										
<u>Step 2: Determine "Excessive Property Tax"</u>																												
Eligible Property Tax - Income Factor = Excessive Property Tax	\$4,700 - \$1,860 = \$2,840																											
<u>Step 3: Determine "Potential Credit"</u>																												
Potential Credit equals:																												
90% of first \$2,000 of excessive property tax	90% x \$2,000 = \$1,800																											
plus 70% of next \$2,000 of excessive property tax	70 x 840 = <u>588</u>																											
plus 50% of next \$2,000 of excessive property tax																												
Potential Credit	= \$2,388																											
<u>Step 4: Determine "Actual Credit"</u>																												
Actual Credit equals:																												
100% of the potential credit if the farmland is covered by county, city, village, or town zoning and a county plan.	Town of Hobart is covered by a county plan and town zoning. Therefore, the formula credit equals:																											
	100% x \$2,388 = \$2,388																											
80% of the potential credit for farmland covered by a preservation agreement and a county plan.	The minimum credit equals:																											
	10% x \$4,700 = \$470																											
70% of the potential credit for farmland covered by county, village, or city zoning without a county preservation plan.	\$2,388 is greater than \$470, so																											
10% of eligible property taxes if this amount is larger than the tax credit formula amount.	Actual Credit = \$2,388																											

2. The claimant:

a. may be an individual, legal guardian, partnership, corporation, trust, estate, or two or more persons holding an interest in the land;

b. must be a Wisconsin resident for the entire year for which the credit is claimed; and

c. may not receive a farmland preservation tax credit in a year in which a homestead tax credit is received (the claimant may receive both a farmland preservation tax credit and a farmland tax relief credit within the same year, but the sum of the two credits may not exceed 95% of the property taxes accrued on the farm).

An applicant must file a claim with the Department of Revenue in order to receive a credit. The due dates, extensions, late fees, penalties, interest charges, and time for filing amended claims and claims for refund for the farmland preservation tax credit are the same as for the individual income and corporate income and franchise taxes. Individual income tax returns are due three and one-half months after the end of the tax year and extensions are allowed for up to two months following the due date. Corporate income and franchise tax returns are due two and one-half months following the close of the tax year and extensions are allowed for up to six months. Claims for refunds of either tax may be filed up to four years after the unextended due date of the original return.

Land Use Provisions

Land use provisions are required to ensure that tax credits are paid only for farmland that local governments believe is important to preserve for agricultural use. They also ensure a long-term commitment to preserving individual parcels for agricultural use. The three land use provisions under the farmland preservation program are: (1) county farmland preservation plans; (2) individual

preservation agreements; and (3) exclusive agricultural zoning. The level of tax credit varies depending on the land use policy in effect. In addition, all participants must comply with certain soil and water conservation standards.

Farmland Preservation Plans

In order for farmland owners to receive a credit under a preservation agreement, the county containing the farm must have a farmland preservation plan in place. Preservation plans include maps that identify farmland to be preserved, special environmental areas (such as wetlands), and transition areas suitable for future development. The county must also state its policies regarding farmland preservation, development, the provision of public services, and protection of environmental areas. The plan must contain a program of "specific public actions designed to preserve agricultural lands and guide urban growth." Only Milwaukee and Menominee counties have not adopted a county plan.

Under 1999 Act 9, local governments are required to develop comprehensive plans for development. The Act also specifies that, by January 1, 2010, any program change or action under a farmland preservation plan must be consistent with the comprehensive development plans. All town, village, city, and county zoning ordinance actions, including exclusive agricultural zoning actions, must also be consistent with these comprehensive development plans by that date.

Preservation Agreements

A preservation agreement is a contract between a farmland owner and the Department of Agriculture, Trade and Consumer Protection (DATCP) under which the owner agrees to maintain farmland in agricultural use. The farmland must be in a farmland preservation area under a county preservation plan before the owner can sign a contract.

Application. An eligible farmland owner files an application for a contract with the county clerk. This is followed by a period for review and comment by affected governments and agencies (for example, the county planning and zoning agency or county land conservation committee). The local governing body with zoning jurisdiction (generally the county board) must certify that the land is subject to the required planning provisions. The local governing body then approves or rejects the application.

If the local governing body approves the application, DATCP then enters into the contract if the land is eligible. If the local governing body rejects the application, the farmland owner can appeal to the Land and Water Conservation Board (LWCB). The LWCB consists of the secretaries of DATCP, Administration, and Natural Resources, three members of county land conservation committees, and five public members appointed by the Governor.

Contracts. Contracts are for 10 to 25 years for land in a preservation district and five to 20 years for farmland in a transition area under a county preservation plan. Contracts are not required for land located in an exclusive agricultural zone, but farmers with land in these areas can sign a contract.

Urban Counties. Before July, 1988, only farmland owners in rural counties (less than 100 residents per square mile) could enter into farmland preservation agreements. 1987 Wisconsin Act 399 allowed farmland owners in urban counties to participate in the farmland preservation program by signing a preservation agreement before June 30, 1991. During this period, no urban county or municipality was allowed to rescind its exclusive agricultural zoning ordinance.

Current Participation. As of December, 2006, there were about 6,700 farmers under farmland preservation agreements covering 900,000 acres.

Exclusive Agricultural Zoning

Exclusive agricultural zoning ordinances designate certain lands for exclusive agricultural use, allowing the owners of such lands to claim a tax credit. In general, the procedures for adopting and administering exclusive agricultural zoning are identical to procedures for other types of zoning.

In nonurban counties, if a county adopts exclusive agricultural zoning, the town must also adopt it before it goes into effect. If a town adopts the county version, claimants receive 100% of the potential credit. Also, if the town adopts a different zoning plan or the town alone has a zoning plan, claimants receive 100% of the potential credit. In an urban county, towns must accept the application of a county's exclusive agricultural zoning unless a majority of the towns file resolutions disapproving it within six months of its adoption. In this case, the county zoning is rejected for all towns.

If a county simply amends an existing zoning ordinance to make the agricultural district provisions consistent with the standards for an exclusive agricultural zone (this method is more widely used), the amendment takes effect in each town (even in nonurban counties) unless that town board specifically rejects it.

The following minimum standards must be contained in an exclusive agricultural zoning ordinance:

1. Prior to January 1, 2001, the minimum parcel size for a residence or farm was 35 acres. However, 1999 Act 9 repealed this requirement and instead provides only that the ordinance specify a minimum lot size, effective January 1, 2001. For purposes of farm consolidation and if permitted by local regulation, farm residences or structures that existed prior to adoption of the ordinance may be separated from a larger farm parcel.

2. With some exceptions, the only residences that are allowed are those housing the owner, a person who (or family with one member who) earns the majority of his or her income from conducting the farming operations, or a parent or child of an owner who conducts or previously conducted the majority of farm operations.

3. No structures or improvements can be made on the land unless they are consistent with agricultural use.

4. Agricultural zones must be consistent with the county plan.

5. Special exceptions and conditional uses are limited to agricultural, religious, utility, institutional, and governmental uses, farm family business under certain restrictions, oil and natural gas exploration and drilling, and nonmetallic mineral extraction under a state- or locally-approved reclamation plan.

6. The ordinance must contain adequate provisions for its effective administration and enforcement.

Exclusive agricultural zoning ordinances have been adopted by 33 county governments. However, exclusive agricultural zoning exists in 12 other counties due to a town, village, or city zoning ordinance. A total of 440 municipalities are under exclusive agricultural zoning. Much of the acreage protected by these ordinances is concentrated in several south central and southeastern counties.

Of the roughly 19,000 farm owners currently claiming the farmland preservation credit, approximately three-fourths are under exclusive zoning. However, exclusive agricultural zoning applies to more than these farmers since some farmers subject to zoning choose to not participate in the farmland preservation program.

Soil and Water Conservation Standards

Farmland preservation participants must either comply with soil and water conservation standards (preservation agreements on or after July 1, 1986, and zoning participants) or be in "substantial accordance" with a soil and water conservation plan (preservation agreements before July 1, 1986). The soil and water conservation standards, which replaced the plans, are developed by the land conservation committee of the county board, following guidelines set by the state Land and Water Conservation Board. In 2005, seven participants were rejected for not complying with these standards. (For additional information on soil and water conservation standards, see the Legislative Fiscal Bureau's informational paper entitled, "Nonpoint Source Water Pollution Abatement and Soil Conservation Programs.")

Contract Relinquishments, Rezoning, and Rollback Provisions

DATCP must relinquish land from a farmland preservation agreement: (1) at a contract's termination date; (2) at the owner's request, after 10 years; (3) upon the owner's death or total and permanent disability; (4) for use as a site for a public electric generating plant or other public utility use; or (5) for use for state or federal public improvements or structures, including highway improvements. Contract relinquishment or release of part of the land is also allowed under certain other circumstances if agreed to by the owner, county board (or city, village, or town where applicable), and state.

Before a local government can approve a request for early termination or release, it must find that one of the following applies to the request: (1) it will allow the owner to resolve foreclosure or bankruptcy proceedings by a voluntary settlement with a mortgagee or creditor; (2) the natural physical conditions of the land have changed so it is no longer good for farming; (3)

surrounding conditions prohibit agricultural use; (4) it would assist local economic development; or (5) it would allow land to be transferred and subsequently used for agriculturally-related, utility, religious, governmental, or institutional purposes that are consistent with agricultural use and that are found to be necessary in light of the alternative locations available for such uses.

For approval under (4) or (5), the local government must find that the proposed development or use meets the following conditions: (a) there are adequate public facilities to serve it, unless provided as part of the development; (b) the land is suitable for it; (c) it will not cause excessive air or water pollution or soil erosion, adversely affect rare or irreplaceable natural areas, or otherwise harm the environment; (d) it is consistent with remaining agricultural uses in the area; (e) it is consistent with any existing county agricultural preservation plan; (f) it is not for residential use; (g) it is consistent with local economic development plans; and (h) there is no suitable alternative location for it.

In addition to these mandatory conditions, the local government must consider the following factors: (a) the agricultural productivity of the land; (b) whether the amount of agricultural land converted to nonagricultural uses would be minimized; (c) the relative economic costs and benefits of developing the land and leaving it in agricultural use; and (d) the cost and ability of affected local governments to provide public facilities.

Rezoning

Land subject to an exclusive agricultural zoning ordinance can be rezoned if a petition is made to the local governing body. A finding must be made that the following conditions are met before a petition can be approved: (1) adequate public facilities to accommodate development either exist or will be provided within a reasonable time; (2)

provision of these facilities will not place an unreasonable burden on the affected local units of government; and (3) the land proposed for rezoning is suitable for development and this development will not result in undue water or air pollution, cause unreasonable soil erosion, or have an unreasonably adverse effect on rare or irreplaceable natural areas.

Rollback Tax

Early cancellation of a contract, early release of land, or rezoning of eligible agricultural land result in the assessment of a rollback tax against the land. A rollback tax is not assessed if an agreement holder, who has fulfilled all terms of the contract, does not renew the contract at the termination date, dies, or becomes totally and permanently disabled. The rollback tax equals the amount of tax credits received in the last 10 years on the farmland taken out of agricultural use. If a tax is imposed, a lien is attached to the property for the amount of the tax and any interest.

The rollback tax does not have to be paid until some part of the land is sold or converted to a use prohibited by the contract or zoning ordinance. The owner can choose to pay the tax earlier. A lien filed on land for which a preservation agreement has expired does not have to be discharged or paid at the time of sale if the land is sold to the owner's child and it remains in agricultural use. A lien filed on land for which an initial preservation agreement expired is discharged if the land is zoned for exclusive agricultural use. Also, a lien may be waived when, for purposes of farm consolidation, a building located on a parcel of five acres or less, which existed before the land was enrolled in the farmland preservation program, is separated from a farm protected by the program.

Table 3 summarizes the various rollback tax and interest provisions that apply to relinquishment of contracts or rezoning of land under the permanent farmland preservation program.

Table 3: Rollback Tax Provisions Under the Farmland Preservation Program When a Contract is Relinquished, Land is Rezoned, or Land is Released Under Permanent Program Provisions

Situation	Rollback Tax	Interest Charges
Regular or Transition Contract Expires (No New Contract Signed)		
1. Within Exclusive Agricultural Zone	None	None
2. Outside of Exclusive Agricultural Zone		
a. Fulfilled All Terms of Agreement	None	None
b. Did Not Fulfill Terms of Agreement	Last 10 years of tax credits	6% interest from contract expiration date
Early Contract Cancellation (or Early Release of Land)		
1. Within Exclusive Agricultural Zone	None	None
2. Outside of Exclusive Agricultural Zone		
a. Death or Total & Permanent Disability	None	None
b. Owner's Request Using 10-Year Rule	Last 10 years of tax credits	9.3% interest from credit receipt
c. Economic Hardship, Local Economic Development, or Public Purpose	Last 10 years of tax credits	6% interest from credit receipt
Land Rezoned Out of Exclusive Agricultural Zone	Last 10 years of tax credits	6% interest from payback calculation date

Program Participation and Expenditures

The farmland preservation tax credit is funded through a sum sufficient appropriation from the state's general fund. The amount expended for credit payments for each fiscal year since 1996-97 is listed in Table 4.

Table 5 shows the number of claims and total and average tax credits for non-corporate claimants by tax year since 1996. For 2005, the credit amount was provided on nearly four million acres. During the mid- to late-1990's, total credits declined significantly due to the assumption of two-thirds

funding of partial school revenues by the state and as a result of the state's use value assessment law. Under the use value assessment law, for tax years 1996 and 1997, agricultural land values remained at their 1995 levels. In 1998, use value assessment began to be phased-in. However, under a DOR emergency rule, use value assessment was fully implemented for property taxes levied in 2000 (payable in 2001), which again has had a downward impact on agricultural property taxes and consequently a downward impact on the credits. In addition, with the exception of 1999, the number of claimants has declined each year since 1996, which also reduces the total credit amounts.

Table 4: Farmland Preservation Tax Credits by Fiscal Year

Fiscal Year	Total Amount of Claims
1996-97	\$22,672,900
1997-98	19,995,000
1998-99	18,108,300
1999-00	18,497,000
2000-01	17,358,000
2001-02	16,800,000
2002-03	16,507,000
2003-04	14,472,700
2004-05	13,460,000
2005-06	12,522,000

Table 5: Farmland Preservation Program Participation by Tax Year*

Tax Year	Number of Claims	Total Amount of Credits	Average Tax Credit
1996	22,137	\$22,114,900	\$999
1997	21,531	19,571,700	909
1998	21,521	17,475,100	812
1999	21,628	17,821,500	824
2000	20,918	16,880,800	807
2001	20,490	16,351,000	798
2002	20,128	16,122,500	801
2003	19,477	14,042,900	721
2004	19,184	13,141,000	685
2005	18,773	12,240,000	652

* Excludes corporate claims.

Property Tax Relief Under the Farmland Preservation Program

Table 6 shows average property taxes and tax credits, by household income, for the 2005 tax year. The amounts shown are based on aggregate data reported by the Department of Revenue.

The average tax credit tends to decline as household income increases. Farm households

with negative or no household income (depreciation or other expenses exceeding current income) received the largest tax credits. Farm households with the highest incomes received the lowest tax credits. The percentage of claimants in this category has increased from 16.5% for 1986 credits to 64.9% for 2005 credits.

In general, the percentage of property taxes offset by the tax credit decreases as household income increases. This demonstrates the "circuit breaker" effect of the farmland tax credit formula. As property taxes consume a greater share of household income the formula grants relief from these "excess taxes."

Distribution By Type of Credit

After claimants calculate the potential credit, the type of land protection determines the final credit. Table 7 shows the tax credit distribution by type of credit claimed on 2005 taxes.

In 2005, approximately 77.2% of all claimants received the 10% minimum credit available to higher-income households. The average percent of property taxes offset by the credit for this group (9.2%) is less than 10% due to some claimants having property taxes in excess of the maximum eligible property tax (\$6,000). Due to the lower credit level, this group received only 36.7% of the total credits distributed.

The tax year 2005 farmland preservation tax credit averaged 19.1% of property taxes, but if minimum credit claimants are excluded, all other claimants received credits that averaged 51.1% of property taxes. Average household income for all individual claimants was \$67,584, but was \$83,011 for minimum credit recipients and only \$15,055 for all other claimants.

Table 6: Farmland Preservation Tax Credit Characteristics of Individual Claimants by Household Income -- Tax Year 2005*

Household Income	Number of Claimants	Percent of Claimants	Average Property Tax	Average Credit	Average Credit as a % of Average Property Tax
Zero or Less	530	2.8%	\$3,809	\$2,544	66.8%
\$1 to \$4,999	335	1.8	2,853	2,085	73.1
\$5,000 to \$9,999	492	2.6	2,782	1,930	69.4
\$10,000 to \$14,999	741	3.9	2,848	1,736	61.0
\$15,000 to \$19,999	1,010	5.4	3,008	1,478	49.1
\$20,000 to \$24,999	1,094	5.8	3,078	1,130	36.7
\$25,000 to \$29,999	1,172	6.2	3,122	681	21.8
\$30,000 to \$34,999	1,208	6.4	3,002	359	12.0
\$35,000 and over	<u>12,191</u>	<u>64.9</u>	<u>3,604</u>	<u>329</u>	<u>9.1</u>
Total/Average	18,773	100.0%	\$3,414	\$652	19.1%

*Excludes corporate claims.

Table 7: Farmland Preservation Tax Credit Characteristics of Individual Claimants by Type of Credit -- Tax Year 2005*

Group	Credit Type	Number of Claims	Percent of Total	Average Household Income	Average Property Tax	Average Tax Credit	Average % of Property Taxes Offset by Credit
I	County, village, city, or town zoning with a plan (100%)**	3,462	18.4%	\$11,049	\$3,534	\$1,868	52.9%
II	Preservation agreement with a plan (80%)**	580	3.1	9,378	3,688	1,633	44.3
III	County, city, or village zoning without a plan (City of Franklin) or a prior law agreement (70%)**	80	0.4	10,119	3,740	1,436	38.4
IV	Multiple township	153	0.8	15,835	3,402	1,516	44.6
V	Minimum credit (10% of property taxes)	<u>14,498</u>	<u>77.2</u>	<u>82,991</u>	<u>3,372</u>	<u>310</u>	<u>9.2</u>
	Total/Average	18,773	100.0%	\$66,641	\$3,414	\$652	19.1%
	Total/Average excluding 10% minimum credit	4,275	22.8%	\$10,971	\$3,555	\$1,815	51.1%

*Excludes corporate claims.

**Excludes 10% minimum credit claims.

Farmland Tax Relief Credit

Program Description

The farmland tax relief credit was created in the 1989-91 budget. 1999 Act 5 modified the credit by replacing the previous credit reimbursement rate, which equaled 10% of the first \$10,000 in property taxes. Under the modification, the reimbursement rate on the first \$10,000 in property taxes is to be

determined annually by DOR at a rate that will distribute the funds available for credit payments in that year, which was set at \$15 million for claims filed for tax year 1999. For each year thereafter, annual credit payments are to total \$15 million plus an amount (which can be positive or negative) equal to the amount estimated to be expended in the previous year minus the actual expenditures for the credit in the previous year. For tax year 2006, with \$16,528,000 available for distribution, DOR established the credit reimbursement rate at 23% of the first \$10,000 in property taxes. Act 5 also

increased the maximum allowable credit from \$1,000 to \$1,500.

The credit is not affected by the owner's income. Taxes levied on improvements, such as buildings, are not eligible for the credit. Also, eligible property taxes cannot include the part of the gross tax levied that is paid by the state's school levy tax credit. The credit can be claimed against individual and corporate income taxes. If the credit exceeds income taxes due, a refund is provided.

The sum of the farmland tax relief credit and any farmland preservation tax credit cannot exceed 95% of the total property tax amount. An individual farm owner could receive both a homestead tax credit and a farmland tax relief credit. However, a farmer could not receive both a farmland preservation and homestead tax credit.

The acreage and production requirements for participation in this program are the same as those for the farmland preservation tax credit. Under these requirements, a claimant must own at least 35 acres of state farmland that produced gross farm profits of at least \$6,000 in the preceding year or at least \$18,000 in the three preceding years, unless at least 35 acres was enrolled in the federal conservation reserve program. A claimant must also be an owner of farmland who was domiciled in Wisconsin for the full year.

In addition to individual owners, the credit is available to: (a) corporations incorporated in this state; (b) partnerships or associations of two or more persons having a joint interest in the land; (c) the personal representative of an estate of a person who was a Wisconsin resident at the time of death; (d) the trustee of a trust, unless the trust was created by a nonresident, received its farmland from a nonresident, or had a beneficial interest in the trust retained by a nonresident; (e) the buyer, if the land was sold under a land contract; and (f) the guardian for a ward who owns the land.

Program Participation and Expenditures

The farmland tax relief credits are funded from a sum sufficient appropriation from the segregated lottery fund, except for 1999-00, when the credit was funded from general fund revenues. The total amount of credits claimed each fiscal year since 1996-97 is listed in Table 8.

Table 8: Farmland Tax Relief Credit by Fiscal Year

Fiscal Year	Total Amount of Credits
1996-97	\$12,939,200
1997-98	10,701,900
1998-99	11,218,200
1999-00	16,019,700
2000-01	11,748,000
2001-02	13,744,600
2002-03	23,516,900
2003-04	13,252,400
2004-05	11,694,600
2005-06	13,469,000

However, in recent years, the annual target appropriation amount for the credit has been fluctuating regularly as a result of the mechanics established for setting that target level under Act 5. Although the mechanism was intended to spend about \$15 million per year, difficulties in projecting claim levels have resulted in underspending in some years and overspending in other years. Carrying forward these impacts then affects the credit funding in subsequent years. For example, the 2006-07 targeted amount will be set at \$16.5 million (\$15 million plus the \$1.5 million that was unspent in 2005-06 when only \$13,469,000 in credits were provided). The maximum property tax reimbursement rate was set at 23% for tax year 2006. As a result, the total credits and average credit amounts will likely increase for tax year 2006, compared to tax year 2005.

Table 9 shows the number of claims and the total and average tax credits for noncorporate

Table 9: Farmland Tax Relief Credit Program Participation by Tax Year*

Tax Year	Number of Claims	Total Amount of Credits	Average Tax Credit
1996	57,371	\$12,065,436	\$210
1997	56,689	10,379,300	183
1998	55,687	10,598,780	190
1999	55,181	15,017,361	272
2000	55,119	10,937,285	198
2001	54,404	13,005,971	239
2002	53,736	22,835,432	425
2003	54,757	12,544,355	229
2004	52,177	10,921,831	209
2005	51,186	12,625,373	247

*Excludes corporate claims.

claims, by tax year, since 1996. Except for an increase in 2003, the number of farmland tax relief credit claimants has decreased each year since 1996.

The credit levels from 1996 through 1998 reflect the assumption of two-thirds funding of partial school revenues by the state, which resulted in a decrease in statewide property tax levies in 1996(97), the implementation of a two-year freeze in agricultural land values, and transition to use value assessment of agricultural land. The funding level for the credit and the maximum property tax reimbursement rate were increased under the 1999 Act 5 program changes. Consequently, total credit payments and the average credit amounts have been higher than they were immediately prior to Act 5.

APPENDIX I

Sources of Income Included in "Household Income" Under the Farmland Preservation Tax Credit Program

Household income includes all income of the claimant and the claimant's spouse and, for minor dependents, any income they earn on the claimant's farm. Household income includes income from the following sources:

- sum of Wisconsin adjusted gross income
- maintenance payments (except foster care maintenance and supplementary payments excludable under s. 131 of the internal revenue code)
- support money
- cash public assistance and cash benefits paid under county relief programs
- gross amount of any pension or annuity
- railroad retirement benefits
- social security payments
- veteran's disability pensions
- nontaxable interest received on federal, state, or municipal bonds
- worker's compensation
- unemployment compensation
- gross amount of "loss of time" insurance
- compensation and other cash benefits received from the United States for past or present services in the armed forces
- scholarship and fellowship gifts or income
- capital gains
- gain on the sale of a personal residence excluded under s. 121 of the internal revenue code
- dividends
- income of a nonresident or part-year resident who is married to a full-year resident
- housing allowances provided to members of the clergy
- amount by which a resident manager's rent is reduced
- nontaxable income of an American Indian
- nontaxable income from sources outside this state
- nontaxable deferred compensation
- intangible drilling costs
- depletion allowances and depreciation (excluding first-year depreciation allowances)
- amortization
- contributions to individual retirement accounts
- contributions to Keogh plans
- capital loss carry-forwards deducted in determining Wisconsin adjusted gross income
- nonfarm business losses
- payments received under s. 46.27 of the statutes (long-term support community options program)
- all farm depreciation over \$25,000

APPENDIX II

Farmland Preservation Tax Credit Levels for the 2006 Tax Year

NOTE: Landowners in all counties (except for Milwaukee and Menominee counties) are now eligible to claim at the 80% tax credit level if they have a long-term agreement. All claimants are eligible for a minimum credit equal to 10% of up to \$6,000 of property taxes if the minimum credit is greater than the formula amount.

County	Date County Plan Certified	Tax Credit Level	County	Date County Plan Certified	Tax Credit Level
Adams	1981 (Revised 2004)	100% Towns of Adams, Dell Prairie, Easton, Jackson, Lincoln, New Chester, New Haven, Preston, Richfield and Springville 80% Others, with a long-term agreement.	Calumet	1980	100% Towns of Brillion, Charlestown, Rantoul and Woodville 80% Others, with a long-term agreement.
Ashland	1982	80% With a long-term agreement.	Chippewa	1984	80% With a long-term agreement.
Barron	1979	100% Towns of Almena, Barron, Crystal Lake, Cumberland, Dallas, Maple Grove, Maple Plain, Oak Grove, Prairie Lake, Rice Lake, Stanford, Stanley, Sumner and Turtle Lake; Cities of Barron, Barron Extraterritorial and Rice Lake Extraterritorial 80% Others, with a long-term agreement.	Clark	1986	100% Town of Colby 80% Others, with a long-term agreement.
Bayfield	1982	80% With a long-term agreement.	Columbia	1978	100% All towns except Pacific, Randolph and Scott; Village of Doylestown 80% Others, with a long-term agreement.
Brown	1985	100% Villages of Howard and Wrightstown; Towns of Bellevue, De Pere, Eaton, Glenmore, Green Bay, Hobart, Holland, Humboldt, Lawrence, Morrison, New Denmark, Pittsfield, Rockland, Scott, Suamico and Wrightstown 80% Others, with a long-term agreement.	Crawford	1981	100% Village of Soldiers Grove; Towns of Haney and Utica 80% Others, with a long-term agreement.
Buffalo	1980	80% With a long-term agreement.	Dane	1981 (Revised 1996)	100% All towns except Bristol, Burke, Middleton and Springdale; Village of Dane and Cities of Fitchburg Extraterritorial and Sun Prairie Extraterritorial 80% Others, with a long-term agreement.
Burnett	1982	100% Towns of Anderson, Dewey, Rusk, Swiss and Trade Lake 80% Others, with a long-term agreement.	Dodge	1980 (Revised 2002)	100% Towns of Burnett, Calamus, Elba, LeRoy, Lomira, Oak Grove, Portland, Shields, Theresa, Trenton and Williamstown 80% Others, with a long-term agreement.

APPENDIX II (continued)

County	Date County Plan Certified	Tax Credit Level	County	Date County Plan Certified	Tax Credit Level
Door	1982	100% Town of Clay Banks 80% Others, with a long-term agreement.	Iowa	1980	100% All 14 towns, City of Mineral Point and Village of Highland 80% Others, with a long-term agreement.
Douglas	1982	80% With a long-term agreement.	Iron	1983	80% With a long-term agreement.
Dunn	1981	100% Towns of Grant, Lucas and Wilson 80% Others, with a long-term agreement.	Jackson	1986	80% With a long-term agreement.
Eau Claire	1983	100% Towns of Brunswick, Clear Creek, Drammen, Lincoln, Otter Creek, Pleasant Valley, Seymour and Washington; Village of Fall Creek 80% Others, with a long-term agreement.	Jefferson	1978 (Revised 2001)	100% All towns and City of Lake Mills 80% Others, with a long-term agreement.
Florence	1983	80% With a long-term agreement.	Juneau	1979	80% With a long-term agreement.
Fond du Lac	1981	100% City of Fond du Lac; Villages of St. Cloud and Oakfield; All towns 80% Others, with a long-term agreement.	Kenosha	1982	100% Towns of Brighton, Bristol, Paris, Randall, Salem, Somers and Wheatland; Village of Pleasant Prairie 80% Others, with a long-term agreement.
Forest	1983	80% With a long-term agreement.	Kewaunee	1982	100% Village of Luxemburg; All 10 towns 80% Others, with a long-term agreement.
Grant	1982	100% Towns of Clifton, Ellenboro, Fenimore, Hickory Grove, Jamestown, Liberty, Lima, Millville, Mount Hope, Mt. Ida, Paris, Platteville, Potosi, South Lancaster, Watterstown and Wingville; City of Platteville Extraterritorial 80% Others, with a long-term agreement.	La Crosse	1980	100% All towns except Campbell and Medary; City of La Crosse 80% Others, with a long-term agreement.
Green	1981	80% With a long-term agreement.	Lafayette	1980	100% Towns of Argyle, Belmont, Fayette, Graitot, Kendall, Lamont, Monticello, Shullsburg, Wayne and Wiotra 80% Others, with a long-term agreement.
Green Lake	1983	100% City of Berlin Extraterritorial; Towns of Berlin, Brooklyn, Green Lake, Mackford, Manchester and Marquette 80% Others, with a long-term agreement.	Langlade	1982	100% Towns of Ackley, Antigo, Elcho, Neva, Norwood, Parrish, Peck, Polar, Rolling, Vilas and Wolf River 80% Others, with a long-term agreement.

APPENDIX II (continued)

County	Date County Plan Certified	Tax Credit Level	County	Date County Plan Certified	Tax Credit Level
Lincoln	1983	80% With a long-term agreement.	Outagamie	1982	100% City of Seymour Extraterritorial; Towns of Black Creek, Cicero, Deer Creek, Hortonia, Kaukauna, Maple Creek and Seymour 80% Others, with a long-term agreement.
Manitowoc	1981	100% Towns of Cato, Centerville, Cooperstown, Eaton, Franklin, Gibson, Liberty, Manitowoc, Manitowoc Rapids, Maple Grove, Meeme, Mishicot, Newton, Rockland, Two Creeks and Two Rivers 80% Others, with a long-term agreement.	Ozaukee	1983	100% All towns 80% Others, with a long-term agreement.
Marathon	1982	100% Towns of Brighton, Day, Eau Pleine, Hull, Marathon, McMillan, Mosinee and Stettin 80% Others, with a long-term agreement.	Pepin	1979	80% With a long-term agreement.
Marinette	1981	80% With a long-term agreement.	Pierce	1982	100% City of River Falls Extraterritorial; Towns of River Falls and Salem 80% Others, with a long-term agreement.
Marquette	1982	100% Towns of Moundville, Neshkoro, Newton, Packwaukee and Westfield 80% Others, with a long-term agreement.	Polk	1979	100% Towns of Alden and McKinley 80% Others, with a long-term agreement.
Milwaukee	NA	70% City of Franklin	Portage	1985	100% Towns of Almond, Buena Vista, Carson, Eau Pleine, New Hope, Plover and Sharon 80% Others, with a long-term agreement.
Monroe	1982	80% With a long-term agreement.	Price	1983	80% With a long-term agreement.
Oconto	1985	80% With a long-term agreement.	Racine	1982	100% Towns of Burlington and Waterford 80% Others, with a long-term agreement.
Oneida	1983	80% With a long-term agreement.	Richland	1981	100% City of Richland Center Extraterritorial; Towns of Akan, Buena Vista, Dayton, Eagle, Forest, Hennietta, Ithaca, Marshall, Orion, Richland, Westford and Willow 80% Others, with a long-term agreement.

APPENDIX II (continued)

County	Date County Plan Certified	Tax Credit Level	County	Date County Plan Certified	Tax Credit Level
Rock	1979	100% Cities of Edgerton Extraterritorial, Evansville Extraterritorial and Milton Extraterritorial; All 20 towns 80% Others, with a long-term agreement.	Vilas	1984	80% With a long-term agreement.
Rusk	1983	80% With a long-term agreement.	Walworth	1978	100% All 16 towns; City of Elkhorn Extraterritorial 80% Others, with a long-term agreement.
St. Croix	1980	100% Towns of Baldwin, Cylon, Erin Prairie, Pleasant Valley, Rush River, St. Joseph, Somerset, Stanton, Star Prairie and Troy; City of River Falls Extraterritorial 80% Others, with a long-term agreement.			
Sauk	1979	100% Towns of Franklin, Honey Creek, Ironton, Prairie du Sac, Reedsburg, Sumpster, Troy and Westfield; Villages of Sauk City Extraterritorial, Prairie du Sac Extraterritorial and Spring Green Extraterritorial 80% Others, with a long-term agreement.	Washburn	1982	80% With a long-term agreement.
Sawyer	1982	80% With a long-term agreement.	Washington	1981	100% Village of Germantown; Towns of Barton, Hartford, Kewaskum, Richfield and Trenton 80% Others, with a long-term agreement.
Shawano	1982	100% Towns of Aniwa, Fairbanks, Grant, Hartland, Maple Grove, Navarino and Washington 80% Others, with a long-term agreement.			
Sheboygan	1979	100% Villages of Cedar Grove and Glenbeulah; All towns except Mitchell and Sheboygan 80% Others, with a long-term agreement.	Waukesha	1984	100% Towns of Eagle, Mukwonago, Oconomowoc, Ottawa and Pewaukee; City of Muskego 80% Others, with a long-term agreement.
Taylor	1981	80% With a long-term agreement.	Waupaca	1981	80% With a long-term agreement.
Trempealeau	1980	80% With a long-term agreement.	Waushara	1981	80% With a long-term agreement.
Vernon	1981	100% Towns of Coon and Harmony 80% Others, with a long-term agreement.	Winnebago	1982	100% Towns of Clayton, Neenah, Nekimi, Utica, Vinland, Winchester and Wolf River 80% Others, with a long-term agreement.
			Wood	1984	80% With a long-term agreement.