

## Chapter Tax 18

### ASSESSMENT OF AGRICULTURAL PROPERTY

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**Note:** Chapter Tax 18 was created as an emergency rule effective January 29, 1986. Chapter Tax 18 was repealed and recreated by emergency rule effective December 6, 1995. Chapter Tax 18 as it existed on August 31, 1996 was repealed and a new chapter Tax 18 was created effective September 1, 1996.

**Subchapter I — Assessment of Agricultural Property in 1996 and in 1997**

**Tax 18.01 Purpose.** The purpose of this subchapter is to establish definitions and provide criteria that will facilitate implementation of 1995 Wis. Act 27 with regard to the assessment of agricultural land in 1996 and in 1997.

**History:** Cr. Register, August, 1996, No. 488, eff. 9-1-96; am. Register, September, 1997, No. 501, eff. 10-1-97.

**Tax 18.02 Definitions.** In this subchapter:

(1) "Land devoted primarily to agricultural use" means land classified agricultural in 1995 that is not in a use that is incompatible with agricultural use on the assessment date. Swamp or waste or productive forest land located in villages and cities is not devoted primarily to agricultural use, and agricultural buildings and improvements and the land necessary for their location and convenience are not devoted primarily to agricultural use.

**Note:** Under prior law, swamp or waste or productive forest land located in villages and cities was classified agricultural because villages and cities were not permitted to classify land swamp or waste or productive forest land. Since 1995 Wis. Act 27 requires villages and cities to use the swamp or waste and productive forest land classifications, all such land located in villages or cities is to be reclassified swamp or waste or productive forest, according to the Wisconsin Property Assessment Manual.

**Example:** Twenty acres of agricultural land were sold and recorded as a legal description in April 1995 and commercial construction began in October 1995. Although the land was in agricultural use in 1995, this legal description is not devoted primarily to agricultural use due to the construction on the property.

**Example:** Under a conditional use permit, an owner opens a 15-acre sand and gravel quarry on a 40-acre legal description in October 1996. Although the 15 acres were in agricultural use during 1996, extraction of sand and gravel is incompatible with agricultural use. Therefore, the 15 acres are not devoted primarily to agricultural use and are not classified agricultural in 1997.

(2) "Other" means agricultural buildings and improvements and the land necessary for their location and convenience.

**Example:** A legal description of 40 acres is located in a village and includes a house and other agricultural buildings and improvements on 2 acres of land, 18 acres of forest, and 20 acres in corn. Although all 40 acres were classified agricultural in 1995, only the 20 acres of cropland are devoted primarily to agricultural use and are classified agricultural in 1996 and 1997; the house, agricultural buildings and improvements and 2 acres are classified "Other", and 18 acres are classified productive forest.

(3) "Parcel of agricultural land" means land devoted primarily to agricultural use within a single legal description.

**Note:** The definition of "parcel of agricultural land" used here implements the intent of the legislature in only freezing the assessment of agricultural land. If a "parcel of agricultural land" were defined as the complete legal description of a tract which was predominantly agricultural, the assessment of non-agricultural land within the legal description would be frozen. Similarly, the assessment of agricultural land within a legal description which was not predominantly agricultural would not be frozen.

**Example:** A farmer sells 5 acres of a 40-acre legal description in February 1996 and the 5 acres are recorded as a separate legal description. The farmer rents back the 5 acres and continues working the entire 40 acres. The 5 acres are a parcel of agricultural land. Had residential construction begun on the 5-acre legal description by January 1, 1997, it would not be a parcel of agricultural land.

**Example:** A residence and a 1-acre vegetable garden are located on a 2-acre legal description that was classified residential in 1995. Although the owner produces veg-

etables and may sell some at a farmer's market, the 2-acres do not constitute a parcel of agricultural land.

**History:** Cr. Register, August, 1996, No. 488, eff. 9-1-96; am. (intro.), Register, September, 1997, No. 501, eff. 10-1-97.

**Tax 18.03 Assessment of agricultural property in 1996 and in 1997.** (1) For assessments as of January 1, 1996 and January 1, 1997, the assessed value of each parcel of agricultural land is the assessed value of that parcel as of January 1, 1995.

(2) For assessments as of January 1, 1996 and January 1, 1997, property classified Other is assessed according to s. 70.32 (1), Stats.

**Example:** Thirty-seven acres of a 40-acre legal description are devoted primarily to agricultural use and are assessed as provided in sub. (1). The remaining 3 acres are needed for the location and convenience of a residence, barn, farm buildings, and well. The 3 acres, residence, buildings and facilities are assessed according to s. 70.32(1), Stats., on January 1, 1996 since they are classified "Other".

**History:** Cr. Register, August, 1996, No. 488, eff. 9-1-96.

**Subchapter II — Assessment of Agricultural Property in 1998 and Thereafter**

**Tax 18.04 Purpose.** The purpose of this subchapter is to provide definitions and procedures for the department and municipal assessors to classify certain real property as agricultural or other, and to value such property for property tax purposes, beginning in 1998.

**History:** Cr. Register, September, 1997, No. 501, eff. 10-1-97.

**Tax 18.05 Definitions.** In this subchapter:

(1) "Agricultural use" means any of the following:

(a) Activities included in subsector 111 Crop Production, set forth in the North American Industry Classification System (NAICS), United States, 1997, published by the executive office of the president, U.S. office of management and budget. "Agricultural use" does not include growing short rotation woody trees with a growing and harvesting cycle of 10 years or less for pulp or tree stock under NAICS industry 111421.

(b) Activities included in subsector 112 Animal Production, set forth in the North American Industry Classification System, United States, 1997, published by the executive office of the president, U.S. office of management and budget.

**Note:** Subsector 111 Crop Production and subsector 112 Animal Production, set forth in the North American Industry Classification System, United States, 1997, published by the executive office of the president, U.S. office of management and budget, are reproduced in full in the Wisconsin property assessment manual under s. 73.03(2a), Stats. In addition, copies are on file with the department, the secretary of state, and the revisor of statutes.

(c) Growing Christmas trees or ginseng.

(d) Land enrolled in any of the following federal agriculture programs: the conservation reserve program under 7 CFR 1410; the conservation reserve program 1986-1990 under 7 CFR 704; the water bank program under 7 CFR 752; the agricultural conservation program under 7 CFR 701; or, provided that the land was in agricultural use under par. (a), (b) or (c) at the time of enrollment, the environmental quality incentives program under 7 CFR 1466 or the conservation contract program under 7 CFR 1951, Subpt. S, Exh. H.

(e) Land that is subject to an easement under any of the following programs provided that the land was in agricultural use under par. (a), (b) or (c) at the time the easement was acquired: the stream bank protection program under s. 23.094, Stats.; the conservation reserve enhancement program under s. 93.70, Stats.; or the non-point source water pollution abatement program under s. 281.65, Stats.

**Note:** The versions of pars. (a), (b), (d) and (e) are effective for the assessments as of January 1, 2001.

(2) "Council" means the farmland advisory council under s. 73.03 (49), Stats.

(3) "Department" means the department of revenue.

(4) "Land devoted primarily to agricultural use" means land in an agricultural use for the production season of the prior year, and not in a use that is incompatible with agricultural use on January 1 of the assessment year.

(5) "Other" means agricultural buildings and improvements and the land necessary for their location and convenience.

(6) "Parcel of agricultural land" means land, contained within a single legal description, that is devoted primarily to agricultural use.

**History:** Cr. Register, September, 1997, No. 501, eff. 10-1-97; am. (1) (a), (b) and (d), cr. (1) (e), Register, July, 2000, No. 535, eff. 1-1-01.

**Tax 18.06 Land classified agricultural; categories of agricultural land.** (1) An assessor shall classify as agricultural land devoted primarily to agricultural use. Land devoted primarily to agricultural use shall typically bear physical evidence of agricultural use, such as furrows, crops, fencing or livestock, appropriate to the production season. If physical evidence of agricultural use is not sufficient to determine agricultural use, the assessor may request of the owner or agent of the owner such information as is necessary to determine if the land is devoted primarily to agricultural use.

(2) For each legal description of property that includes a parcel of agricultural land, the assessor shall indicate on the property record card, by acreage, the category of agricultural land. Categories of agricultural land are the following:

- (a) First grade tillable cropland.
- (b) Second grade tillable cropland.
- (c) Third grade tillable cropland.
- (d) Pasture.
- (e) Specialty land.

**History:** Cr. Register, September, 1997, No. 501, eff. 10-1-97.

**Tax 18.07 Use-value.** (1) (a) Beginning in 1997 and each year thereafter, the council shall adopt and the department shall publish in the Wisconsin property assessment manual a use value per acre for each category of agricultural land, except specialty land, in each municipality. Use value per acre of specialty land shall be adopted and published for the municipalities in which specialty land is located. Use value per acre for each category of agricultural land in each municipality shall be calculated by dividing the net rental income per acre for that category of agricultural land in that municipality calculated under par. (b) by the capitalization rate for that municipality calculated under par. (c).

(b) *Net rental income per acre.* 1. Beginning in 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 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 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 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 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. 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 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 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.

(c) *Capitalization rate.* Beginning in 1997 and each year thereafter, the capitalization rate for each municipality shall be determined as follows:

1. The department shall survey each federal land credit association (FLCA) and each agricultural credit association (ACA) in Wisconsin to obtain the interest rate charged by that association for a medium-sized, 1-year adjustable rate mortgage (ARM), as of January 1 of the year prior to the assessment year. In addition, the survey shall obtain each association's stock purchase requirement, if any, for such a mortgage. The 1997 survey shall include each association's 1-year ARM rate and the stock purchase requirement for a medium-sized loan, as of January 1 for the years 1993 to 1997.

**Note:** If an FLCA and an ACA merge, the combined association's interest rate and stock purchase requirement shall be obtained.

**Note:** Each FLCA and each ACA divides loans into 3 to 5 tiers based on loan size and sets a 1-year ARM rate for each tier. Although the dollar amount of a medium-sized loan may vary among FLCAs and ACAs, each FLCA and each ACA offers medium-sized or middle tier loans at a specific 1-year ARM rate as of January 1.

2. The effective 1-year ARM rate of each FLCA and ACA for each year shall be calculated by dividing that association's 1-year ARM rate by one minus that association's stock purchase requirement as of January 1 of the same year, expressed as a percentage of the loan.

**Example:** If an FLCA or an ACA has a 2% stock purchase requirement, a borrower receives \$98,000 of a \$100,000 loan. If the 1-year ARM rate is 9%, the effective rate of the loan is 9.18% [ $9 / (1-.02)$ ].

3. The statewide average effective rate for each year shall be calculated by averaging the effective 1-year ARM rates under subd. 2.

4. The statewide average effective rate for the year prior to the assessment year shall be averaged with the statewide average effective rates for the 4 prior years to obtain a statewide 5-year moving average rate.

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

(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).

(2) Not later than January 1, 1998, and each January 1 thereafter, the department shall provide assessors with the use value per acre for each category of agricultural land in each municipality, calculated under sub. (1). The use value per acre for each category of agricultural land in each municipality shall be published annually in the Wisconsin property assessment manual.

(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.

(b) The assessor shall equate the use value of each parcel of agricultural land to the general level of assessment in the taxation district in which that parcel of agricultural land is located.

**History:** Cr. Register, September, 1997, No. 501, eff. 10-1-97; emerg. cr. (1) (b) 4., 5., and (c) 6., eff. 10-3-03; CR 03-104: cr. (1) (b) 4., 5., and (c) 6. Register April 2004 No. 580, eff. 5-1-04; emerg. cr. (1) (b) 6., 7. and (c) 7. eff. 12-29-04; CR 05-035: cr. (1) (b) 6., 7., and (c) 7. Register August 2005 No. 596, eff. 9-1-05; CR 05-063: am. (1) (b) 1. to 3., (c) 5., and (3) (a), r. (1) (b) 4. to 7., (c) 6. and 7., cr. (1) (d) 1. and 2. Register October 2005 No. 598, eff. 11-1-05.

**Tax 18.08 Assessment of agricultural land.** Beginning with the assessments as of January 1, 2000, the assessment of each parcel of agricultural land shall be its use-value, as determined under s. Tax 18.07 (3) (b).

**History:** Cr. Register, September, 1997, No. 501, eff. 10-1-97; emerg. r. and recr. eff. 11-30-99; r. and recr. Register, July, 2000, No. 535, eff. 8-1-00.

**Tax 18.09 Assessment of other property.** An assessor shall assess property classified as other according to s. 70.32 (1), Stats.

**History:** Cr. Register, September, 1997, No. 501, eff. 10-1-97.