

RULE ORDER OF THE DEPARTMENT OF REVENUE

The Wisconsin Department of Revenue hereby adopts an order to create Tax 18.07(1)(b)4. and 5. and 18.07(1)(c)6.

ANALYSIS PREPARED BY THE DEPARTMENT OF REVENUE

Statutory Authority: s. 227.11(2), Stats.

Statutes interpreted: s. 70.32(2r)(c).

Pursuant to s. 70.32(2r)(c), the assessment of 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. The formula estimates the net income per acre of land in corn production based on a 5-year average corn price per bushel, cost of corn production per bushel and corn yield per acre. The net income is divided by a capitalization rate that is based on a 5-year average interest rate for a medium-sized, 1-year adjustable rate mortgage and net tax rate for the property tax levy two years prior to the assessment year.

For reasons of data availability, there is a three-year lag in determining the 5-year average. Thus, the 2003 use value is based on the 5-year average corn price, cost and yield for the 1996-2000 period, and the capitalization rate is based on the 5-year average interest rate for the 1998-2002 period. The 2004 use value is to be based on the 5-year average corn price, cost and yield for the 1997-2001 period, and the capitalization rate is to be based on the 1999-2003 period.

The data for the 1997-2001 period yields negative net income per acre due to declining corn prices and increasing costs of corn production. As a result, reliance on data for the 1997-2001 period will result in negative use values.

Under the proposed rule order, the 2004 average net income per acre of agricultural land is to be based on the following:

- the 5-year average corn yield per acre from 1996 to 2000,
- the 5-year average market corn price per bushel from 1996 to 2000, and
- the 5-year average cost of corn production per bushel from 1996 to 2000.

The rule also specifies that the 2004 use values will be based on a capitalization rate that is the sum of the following:

- the 5-year average interest rate for a medium sized, 1-year adjustable rate mortgage for farm loans for the period from 1998 to 2002, and
 - the net property tax rate for each municipality for 2001 taxes, payable 2002.
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Section 1: Tax 18.07(1)(b)4. and 5. and (1)(c)6. are created to read as follows:

18.07(1)(b)4. To avoid negative use values in 2004, the 2004 average gross income per acre for each category of agricultural land shall be calculated as described in subd. 2, except that each category's 5-year average yield per acre shall be based on yield data from 1996 to 2000, and the 5-year average market price per unit of output shall be based on market price data from 1996 to 2000.

5. To avoid negative use values in 2004, the 2004 average total cost of production per acre for each category of agricultural land shall be calculated as described in subd. 3, except that the 5-year average cost of production per acre shall be based on cost data from 1996 to 2000.

18.07(1)(c)6. To avoid negative use values in 2004, the 2004 capitalization rate for each municipality shall be calculated as described in subd. 5, except the statewide moving average rate, as described in subd. 4, shall be based on data from 1998 to 2002, and the net tax rate for each municipality shall be based on 2001 taxes, payable 2002.

FINAL REGULATORY FLEXIBILITY ANALYSIS

The proposed rule will have no adverse impact on small businesses.

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

DEPARTMENT OF REVENUE

DATE: _____

By: _____

Michael L. Morgan
Secretary of Revenue

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