

# Clearinghouse Rule 96-079

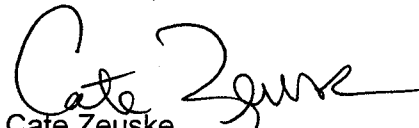
## CERTIFICATE OF RULE ADOPTION

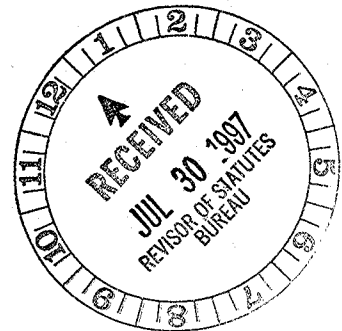
STATE OF WISCONSIN            )  
  ) SS  
DEPARTMENT OF REVENUE        )

I, Cate Zeuske, Secretary of the Department of Revenue and custodian of the official records, certify that the annexed rules, relating to the assessment of agricultural property as affected by 1995 Wisconsin Act 27, were duly approved and adopted by this department on July 28, 1997.

I further certify that this copy has been compared by me with the original on file in this department and that it is a true copy of the original, and of the whole of the original.

IN TESTIMONY WHEREOF, I have hereunto  
set my hand at 125 South Webster Street  
in the city of Madison, the 29 day  
of July, 1997.

  
Cate Zeuske  
Secretary of Revenue



CZ:BK:skr  
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96-079  
10-1-97

## ORDER OF THE DEPARTMENT OF REVENUE

The Wisconsin Department of Revenue adopts an order to amend Chapter Tax 18 implementing ss. 70.05(5), 70.32(2), 70.32(2r), and 70.57(3), Stats., as affected by 1995 Wisconsin Act 27.

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### ANALYSIS BY THE WISCONSIN DEPARTMENT OF REVENUE

Statutory Authority: ss. 70.32(2)(c)1 and 70.32(2r)(b), Stats., and 1995 Wisconsin Act 27, s. 9148(1x)

Statutes Interpreted: ss. 70.05(5), 70.32(2), 70.32(2r)(b) and (c), 70.57(3), Stats., and 1995 Wisconsin Act 27, s. 9148(1x)

The rule provides definitions needed to implement use value assessment of agricultural land. The rule requires the assessor to record the category of agricultural land, by acreage, for each legal description that contains a parcel of agricultural land. Categories of agricultural land include first grade tillable cropland, second grade tillable cropland, third grade tillable cropland, pasture, and specialty land.

Beginning in 1997 and each year thereafter, the farmland advisory council and the department of revenue shall determine the net rental income per acre by category of agricultural land for each municipality by subtracting average total production cost per acre from gross income per acre. Use value per acre for each category of agricultural land in each municipality shall be calculated by dividing the net rental income per acre by the capitalization rate for that municipality. 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, to be used for assessing agricultural land. The use value per acre for each category of agricultural land in each municipality shall be published annually in the Wisconsin Property Assessment Manual.

The assessor shall determine the use value of each parcel of agricultural land based on the use values per acre provided by the department, adjusted by the assessor to reflect more accurately the use value of that parcel of agricultural land. In addition, 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.

The rule provides for transition from the current, frozen assessments of agricultural land to assessments based on use value. Each year from 1998 to 2007, the assessed value of each parcel of agricultural land will be adjusted by an amount based on the number of years the parcel has been assessed under Subchapter II of this rule and the difference between the 1996 assessment and the then-current use value. In 2008 and thereafter, the assessed value of each parcel of agricultural land is its use value. Property classified as Other is assessed under s. 70.32(1), Stats.

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SECTION 1. Chapter TAX 18 (title), TAX 18.01, and TAX 18.02 are amended to read:

CHAPTER TAX 18

ASSESSMENT OF AGRICULTURAL PROPERTY

SUBCHAPTER I

ASSESSMENT OF AGRICULTURAL PROPERTY IN 1996 AND IN 1997

- 18.01 Purpose
- 18.02 Definitions
- 18.03 Assessment of Agricultural Property in 1996 and in 1997

TAX 18.01 PURPOSE

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

TAX 18.02 (intro.) DEFINITIONS. In this ~~chapter~~ subchapter:

SECTION 2. Subchapter II of chapter TAX 18 is created to read:

SUBCHAPTER II

ASSESSMENT OF AGRICULTURAL PROPERTY IN 1998 AND THEREAFTER

- TAX 18.04 Purpose
- TAX 18.05 Definitions
- TAX 18.06 Land Classified Agricultural; Categories of Agricultural Land
- TAX 18.07 Use-Value
- TAX 18.08 Assessment of Agricultural Land
- TAX 18.09 Assessment of Other Property

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.

TAX 18.05 DEFINITIONS. In this subchapter:

- (1) "Agricultural use" means any of the following:
  - (a) Activities included in major group 01 -- agricultural production-crops, set forth in the standard industrial classification manual, 1987 edition, published by the executive office of the president, U.S. office of management and budget.
  - (b) Activities included in major group 02 -- agricultural production-livestock and animal specialties, set forth in the standard industrial classification manual, 1987

edition, published by the executive office of the president, U.S. office of management and budget.

Note: Major group 01 -- agricultural production-crops and major group 02 -- agricultural production-livestock and animal specialties, set forth in the standard industrial classification manual, 1987 edition, 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 eligible for enrollment in any of the following federal agriculture programs: the conservation reserve program 1991-1995 under 7 C.F.R. 1410; the conservation reserve program 1986-1990 under 7 C.F.R. 704; the feed grain program under 7 C.F.R. 1413; the water bank program under 7 C.F.R. 752; the agricultural conservation program under 7 C.F.R. 701; or the dairy price support program under 7 C.F.R. 1430 and 282.
- (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.

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.

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 1997 and in each year thereafter, net rental income per acre for each category of agricultural land in each municipality 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 and in each year thereafter, 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 yield per acre, adjusted for the typical productivity of that category, by the 5-year average market price per unit of output.

Yield per acre shall be based on the federal soil conservation service's soil productivity indices and market price data shall be obtained from the Wisconsin department of agriculture, trade and consumer protection. If the federal soil conservation service and the Wisconsin department of agriculture, trade and consumer protection are unable to provide, or to provide timely, soil productivity indices and market price data, respectively, comparable data shall be obtained from other generally acceptable sources.

3. Beginning in 1997 and in each year thereafter, average total cost of production per acre for each category of agricultural land shall be 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. Property taxes are not a farm expense for purposes of calculating average total cost of production per acre.

(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 calculated by adding the statewide 5-year moving average rate for the year prior to the assessment year to the net tax rate of that municipality for the property tax levy 2 years prior to the assessment year.
- (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, adjusted by the assessor to reflect more accurately the use value of that parcel of agricultural land.
- (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.

#### TAX 18.08 ASSESSMENT OF AGRICULTURAL LAND

- (1) Beginning in 1998, the assessment of each parcel of agricultural land shall be determined as follows:

- (a) Subtract the use value of the parcel as determined under s. TAX 18.07(3)(b) from its 1996 assessment.
- (b) Multiply 0.1 by the number of years that the parcel has been assessed under this subchapter, including the current year.
- (c) Multiply the amount under par. (a) by the decimal under par. (b).
- (d) Subtract the amount under par. (c) from the parcel's 1996 assessment.

Note: If the use value of a parcel of agricultural land in any year exceeds the 1996 assessment of that parcel, the assessment for that year will be higher than the 1996 assessment.

- (2) Land classified agricultural after 1998 shall be assessed using the parcel's 1996 assessment in the formula under sub. (1). The number of years factor under sub. (1)(b) will be lower for parcels classified agricultural after 1998 than for parcels classified agricultural in 1998.
- (3) In 2008 and thereafter, the assessment of each parcel of agricultural land shall be its use-value, as determined under s. TAX 18.07(3)(b).

**TAX 18.09 ASSESSMENT OF OTHER PROPERTY**

An assessor shall assess property classified as other according to s. 70.32(1), Stats.

**FINAL REGULATORY FLEXIBILITY ANALYSIS**

This rule order is not expected to directly affect small business and, therefore, under s. 227.114(8)(b), Stats., a regulatory flexibility analysis is not required.

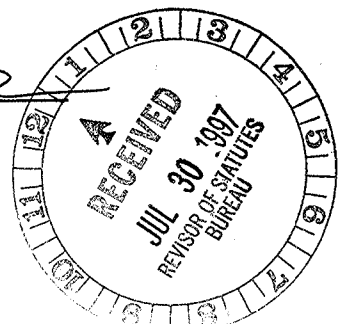
The Attorney General and the Revisor of Statutes have approved the use of standards by reference in s. TAX 18.05.

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**

Dated: July 29, 1997

By: Cate Zeuske  
Cate Zeuske  
Secretary of Revenue



LRB or Bill No./Adm. Rule No

TAX 18, Subchapters I & II

Amendment No. if Applicable

FISCAL ESTIMATE  
DOA-2048 N(R10/94)

- ORIGINAL       UPDATED  
 CORRECTED       SUPPLEMENTAL

Subject

Assessment of Agricultural Property

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 special districts  
 School Districts  WTCS Districts

Fund Sources Affected

- GPR  FED  PRO  PRS  SEG  SEG-S

Affected Ch. 20 Appropriations

20.835(2)(dm), (2)(q) and (3)(q)

Assumptions Used in Arriving at Fiscal Estimate

Prior to 1996, agricultural land was assessed at market value. Under current law, the 1996 and 1997 assessments of agricultural land are frozen at the 1995 level of assessment and, beginning in 1998, assessments of agricultural land based on value in agricultural use will be phased in. In 2008 and thereafter, agricultural land will be assessed at use value.

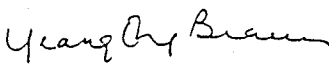
The proposed rule divides TAX 18 into subchapters: Subchapter I covers 1996 and 1997 assessments of agricultural land, while Subchapter II relates to assessment of agricultural land for 1998 and thereafter.

Under Subchapter II of the proposed rule, the Department of Revenue will provide local assessors with recommended use values for different categories of agricultural land. Based on these values, adjusted for local conditions, assessors shall determine the use value of agricultural land. The assessed value of a parcel of agricultural land is determined according to a statutory formula, based on the 1995 assessment for that parcel and its use value in the current year.

Since the taxable value of agricultural land is likely to be lower under use value assessment than under market value assessment, property taxes will be shifted from agricultural land to other classes of property, state equalization aids will be reallocated and state forestry taxes will be lower. The property tax shift will affect state

(continued on page two)

Long-Range Fiscal Implications

Agency/Prepared by: (Name & Phone No.) Wisconsin Department of Revenue Blair P. Kruger, (608) 266-1310	Authorized Signature/Telephone No. Yeang-Eng Braun (608) 266-2700 	Date 4/25/96
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costs for tax credit programs and state tax revenues. In addition, the state and municipalities will incur costs to implement the new assessment system.

### **Local Fiscal Effect**

Property Tax Shifts. The equalized value of agricultural land is about \$9 billion. Assuming its use value is about \$6 billion, assessments of agricultural land will decline by about \$3 billion over the period 1998 to 2007 or by \$300 million per year. Assuming a statewide tax rate of \$23 per \$1,000 of value, an amount of property taxes that increases by \$6.9 million ( $\$300 \text{ million} \times 0.023$ ) per year will be shifted from agricultural land to other classes of property each year from 1998 to 2007.

Administrative Costs. Property assessors will incur costs to implement the new assessment system for agricultural land. Also, the number of objections filed with Boards of Review may increase as the new system is implemented. The implementation costs of assessors and boards of review required under the new system cannot be reliably estimated.

### **State Fiscal Effect**

Revenue and Expenditure Effects. The property tax shift from agricultural land to other classes of property would also affect state revenues and expenditures. The major effects are:

1. Farmland Preservation Credits will decline since claimants' property taxes will be lower and household incomes will be higher than under prior law.
2. The Farmland Tax Relief Credit of 10% on up to \$10,000 in property tax paid on agricultural land will decline as property taxes on agricultural land decline. The decline in the Farmland Tax Relief Credit will increase the amount available for the lottery credit.
3. The State Forestry Tax, levied at \$0.20 per \$1,000, will be lower due to the reductions in the assessed value of agricultural land.

Administrative Costs. The Department of Revenue will have to determine agricultural land rents and capitalization rates to calculate use values of agricultural land in each municipality each year. In addition, the Department will have to update equalization databases for property reclassifications and for changes in acreages. The Department will also have to change a number of property tax reporting forms and systems and revise the *Wisconsin Property Assessment Manual* to incorporate the substance of this rule.

4EB  
4/25/96

**FISCAL ESTIMATE WORKSHEET**  
Detailed Estimate of Annual Fiscal Effect  
DOA-2047(R10/94)

ORIGINAL     UPDATED  
 CORRECTED     SUPPLEMENTAL

LRB or Bill No /Adm Rule No	Amendment No
TAX 18, Subchapters I & II	

Subject

Assessment of Agricultural Property

I. One-Time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	Annualized Fiscal Impact on State Funds from:	
A. State Costs by Category	Increased Costs	Decreased Costs
State Operations - Salaries and Fringe	\$	\$ -
(FTE Position Changes)	( FTE)	(- FTE)
State Operations-Other Costs	see text	-
Local Assistance		-
Aids to Individuals or Organizations    Farmland Preservation Farmland Tax Relief		- see text
<b>TOTAL State Costs by Category</b>	\$ see text	\$ - see text
B. State Costs by Source of Funds	Increased Costs	Decreased Costs
GPR	\$ see text	\$ - see text
FED		-
PRO/PRS		-
SEG/SEG-S		- see text
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev	Decreased Rev
GPR Taxes	\$ see text	\$ -
GPR Earned		-
FED		-
PRO/PRS		-
SEG/SEG-S                      State Forestry Tax		- see text
<b>TOTAL State Revenues</b>	\$ see text	\$ - see text

NET ANNUALIZED FISCAL IMPACT

	STATE	LOCAL
NET CHANGE IN COSTS	\$ see text of fiscal note	\$ see text of fiscal note
NET CHANGE IN REVENUES	\$ see text of fiscal note	\$ see text of fiscal note

Agency/Prepared by: (Name & Phone No.) Wisconsin Department of Revenue Blair P. Kruger, (608) 266-1310	Authorized Signature/Telephone No. Yeang-Eng Braun <i>Yeang Eng Braun</i> (608) 266-2700	Date 4/25/96
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**TAX 18, Subchapters I & II**  
 Amendment No. if Applicable

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**Long-Range Fiscal Implications**

Agency/Prepared by: (Name & Phone No.)

Wisconsin Department of Revenue

Blair P. Kruger, (608) 266-1310

Authorized Signature/Telephone No.

Yeang-Eng Braun  
 (608) 266-2700

*Yeang Eng Braun*

Date

4/25/96

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State Operations-Other Costs	see text	-
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FED		-
PRO/PRS		-
SEG/SEG-S                      State Forestry Tax		- see text
<b>TOTAL State Revenues</b>	\$ see text	\$ - see text

**NET ANNUALIZED FISCAL IMPACT**

	STATE	LOCAL
NET CHANGE IN COSTS	\$ see text of fiscal note	\$ see text of fiscal note
NET CHANGE IN REVENUES	\$ see text of fiscal note	\$ see text of fiscal note

Agency/Prepared by: (Name & Phone No.) Wisconsin Department of Revenue Blair P. Kruger, (608) 266-1310	Authorized Signature/Telephone No. Yeang-Eng Braun (608) 266-2700 <i>Yeang Eng Braun</i>	Date 4/25/96
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State of Wisconsin • DEPARTMENT OF REVENUE

125 SOUTH WEBSTER STREET • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX 608-266-5718 • <http://www.dor.state.wi.us>

Tommy G. Thompson  
Governor

Cate Zeuske  
Secretary of Revenue

July 25, 1997

The Honorable Douglas LaFollette  
Secretary of State  
30 West Mifflin Street  
Madison, WI 53702

Dear Secretary LaFollette:

Enclosed are a Certificate of Rule Adoption and an Order of the Department of Revenue adopting Clearinghouse Rule 96-079, relating to assessment of agricultural property as affected by 1995 Wisconsin Act 27.

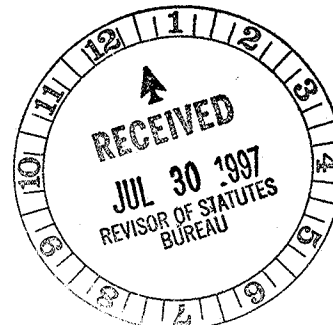
These materials are filed with you pursuant to s. 227.20, Stats.

Sincerely,

Cate Zeuske  
Secretary of Revenue

CZ:BK:skr  
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Enclosures





**State of Wisconsin • DEPARTMENT OF REVENUE**

125 SOUTH WEBSTER STREET • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX 608-266-5718 • <http://www.dor.state.wi.us>

*Tommy G. Thompson*  
Governor

*Cate Zeuske*  
Secretary of Revenue

July 25, 1997

Mr. Gary L. Poulson  
Deputy Revisor of Statutes  
131 West Wilson Street, Suite 800  
Madison, WI 53703-3233

Dear Mr. Poulson:

Enclosed are a Certificate of Rule Adoption and an Order of the Department of Revenue adopting Clearinghouse Rule 96-079 relating to assessment of agricultural property as affected by 1995 Wisconsin Act 27.

These materials are filed with you pursuant to s. 227.20(1), Stats.

Also enclosed are an uncertified paper copy of the Order and a copy on computer disk (Microsoft Word) of the Order.

Sincerely,

Cate Zeuske  
Secretary of Revenue

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Enclosures

