



## Fiscal Estimate Narratives

DOR 11/12/01

LRB Number <b>01-3861/1</b>	Introduction Number <b>SB-304</b>	Estimate Type <b>Original</b>
<b>Subject</b> Definition of agricultural land, for property tax purposes, and penalty for converting agricultural land		

### Assumptions Used in Arriving at Fiscal Estimate

The bill changes the definition of agricultural land for property tax purposes and changes the penalty imposed for converting agricultural land to other uses.

**Definition of Agricultural Land.** Under current law, agricultural land is defined to be land devoted to agricultural use as defined by administrative rule. Chapter Tax 18 defines "land devoted primarily to agricultural use" as 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. Under the bill, "agricultural land" is defined to be land that is devoted primarily to agricultural use, as defined by rule, if the land is a farm and the owner or lessee of the land files a form certifying that the land is a farm. A "farm" is defined under the bill to be a business that is engaged in animal or crop production that either generated at least \$6,000 in gross receipts from animal or crop production in the preceding year or is likely to generate at least \$6,000 in gross receipts in the following year. The owner or lessee must file a form by March 1 with the local assessor that certifies that he or she is the owner or lessee of the property and that the farm generated at least \$6,000 in the previous year or is likely to generate at least \$6,000 in the following year. Once a property owner has filed the form, no subsequent filings are required except when the owner has acquired or leased additional land to be used as part of the farm.

**Penalty for Converting Agricultural Land.** Under current law, a penalty is imposed when agricultural land is converted to a nonagricultural use; the penalty equals the difference between the property taxes that would have been levied on the land if the land had been assessed at full market value and the property taxes levied on the land for the last two years that the land had been valued under use value assessment. The penalty is administered by the taxation district and is distributed to all taxing jurisdictions in proportion to the taxes levied by the taxing jurisdictions during the two years that the land had been under use value.

Under the bill, the penalty for converting agricultural land is calculated by multiplying the number of acres converted by the difference between the county average fair market value of an acre of agricultural land sold in the year before the conversion and the county average equalized value of an acre of agricultural land in the year before the conversion. This amount is multiplied by 5% if more than 30 acres is converted from agricultural use; 7.5% if the converted land is between 10 and 30 acres, and 10% if the converted land is less than 10 acres. No penalty is imposed if the penalty is less than \$25 for each acre of converted land.

The penalty is administered by the county treasurer and is shared equally between the county and the taxation district in which the land is located. The taxation district must share its portion with an adjoining taxation district if the property has been annexed from the adjoining taxation district in either of the two years preceding the distribution of the penalty.

The bill requires sellers of agricultural land to notify the buyer that the land has been assessed as agricultural land and whether the seller has been assessed a penalty or granted a deferral of payment of a penalty for converting the land. The bill also requires the county register of deeds to inform the county treasurer of all sales of agricultural land in the county. The bill requires the Department of Revenue to determine the average equalized value of an acre of agricultural land in each county in the previous year and the average fair market value of an acre of agricultural land sold in each county in the previous year based on sales of agricultural land that are 38 acres or more to buyers who intend to use the land as agricultural land.

**Local Fiscal Effect.** Based on department data, the 2001 statewide average market value of agricultural land based on 2000 sales is \$1,433 per acre and the average 2001 equalized value of agricultural land is \$406 per acre. The 2002 statewide average per acre penalty for converting agricultural land to other uses under the bill is estimated to be \$51.35 [(\$1,433 - \$406) x .05] for conversions of more than 30 acres, \$77.03 [(\$1,433-\$406) x .075] for conversions of land between 10 and 30 acres, and \$102.70 [(\$1,433 - \$406) x .10] for conversions less than 10 acres.

The 2002 penalty under current law would be calculated by determining the difference between the taxes that would have been paid in 2000 and 2001 on the converted land under full market value and the taxes under use value. The 2000 statewide market value of agricultural land was \$1,240 per acre and the 2000 statewide equalized value of agricultural land was \$401 per acre. Using the 2000/01 statewide net average tax rate for agricultural land for both 2000 and 2001, the 2002 statewide average penalty under current law would be \$38.55 per acre  $[(\$1,433-\$406) \times .02066] + [(\$1,240-\$401) \times .02066]$ . Thus, the bill would increase the 2002 per acre penalty between \$12.80 [\$51.35 - \$38.55] and \$64.15 [\$102.70 - \$38.55] depending on the number of acres being converted. Approximately 57,000 acres of agricultural land was sold in 2000 and converted to other uses. Assuming the same number of acres are sold and converted to other uses every year, the bill would result in a statewide annual increase in the penalty between \$729,000 [\$12.80 x 57,000 acres] and \$3.7 million [\$64.15 x 57,000 acres].

The bill changes the distribution of penalty monies such that the school districts, technical colleges and special districts would no longer receive revenue from penalty monies. The monies would be distributed equally between the county and municipality where the converted land is located. It is estimated that school revenues would decline annually by \$974,000 statewide and technical college revenues would decline annually by \$155,000 as a result of the bill. Under the bill, county revenues would increase statewide between \$1 million and \$2.9 million depending on the number of acres converted, and municipal revenues would increase statewide between \$930,000 and \$2.4 million depending on the number of acres converted.

The bill would shift the cost of administering the penalty from municipalities to counties.

It is estimated that 1% to 2% of total acres currently classified as agriculture would not meet the definition of agricultural land under the bill to the extent that the land would not be part of a farm that generates \$6,000 gross proceeds. The 2000/01 total number of agricultural acres was approximately 12.8 million. Thus, it is estimated that approximately 192,000 (12.8 million x .015) acres would be reclassified as swamp and waste, forest or residential as a result of the bill. To the extent that the assessed value of these properties would increase relative to the assessment under use value, the bill would result in a shift of property taxes from other property taxpayers to these properties.

**State Fiscal Effect.** State forestation tax revenue would decline by an estimated \$19,000 annually as penalty monies would no longer be distributed to the state forestation fund.

The bill would increase the department's costs related to developing prescribed forms, calculating and reporting county average market and equalized values for agricultural land, and amending the administrative rule related to use value assessments and the Wisconsin Property Assessment Manual. These costs could be absorbed within existing resources.

### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

LRB Number <b>01-3861/1</b>		Introduction Number <b>SB-304</b>	
<b>Subject</b>			
Definition of agricultural land, for property tax purposes, and penalty for converting agricultural land			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>		<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			-19,000
<b>TOTAL State Revenues</b>		<b>\$</b>	<b>\$-19,000</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
NET CHANGE IN COSTS		\$See text of fiscal note.	\$See text of fiscal note.
NET CHANGE IN REVENUE		\$-19,000	\$See text of fiscal note.
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	
DOR/ Rebecca Boldt (608) 266-6785		Brian Pahnke (608) 266-2700	
		<b>Date</b>	
		11/12/01	