



Legislative Fiscal Bureau

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TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 650: Definition of Agricultural Forest Land

Assembly Bill 650 would expand the definition of agricultural forest land for property tax purposes to include additional forested property. The bill was introduced on November 10, 2003, and referred to the Committee on Ways and Means. The Committee adopted Assembly Substitute Amendment 1 by a vote of 13 to 0 and recommended the bill, as amended, for passage by a vote of 10 to 3 on January 21, 2004. On January 27, 2004, the bill was referred to the Joint Committee on Finance.

CURRENT LAW

Except for land enrolled in the managed forest land, forest crop, or woodland tax programs, all privately-owned land that is "producing or capable of producing commercial forest products" was classified as productive forest land prior to the enactment of 2003 Wisconsin Act 33 (the 2003-05 biennial budget). The land was assessed at its fair market value and taxed at the same rate as other taxable property in the same taxing jurisdiction.

Act 33 created a new classification of property called "agricultural forest land" that includes land meeting three conditions:

- the land is producing or is capable of producing commercial forest products;
- the land is contiguous to a parcel that is classified entirely as agricultural land; and
- the contiguous parcels are owned by the same person.

The new classification applies to property assessed as of January 1, 2004, and, therefore, takes effect with the 2004(05) property tax year. Act 33 directs assessors to value agricultural forest land

at 50% of its fair market value. Also as the result of Act 33, assessment at 50% of fair market value is now extended to property classified as swamp land or waste land, which was renamed "undeveloped land."

The Governor partially vetoed provisions in the enrolled budget bill that would have extended the agricultural forest land classification to other property. Under the enrolled bill, forest land that is included on a parcel that is classified in part as agricultural land and forest land that is contiguous to a parcel that is classified in part as agricultural land, provided both parcels are owned by the same person, also would have been reclassified as agricultural forest land. In vetoing this provision, the Governor's veto message notes that "its focus should be on forest land owned by farmers." The veto message states, "the Legislature's definition of agricultural forest land is too broad. It neither requires that a minimum percentage of a parcel be agricultural nor requires a minimum amount of agricultural acreage. Such a broad definition could also be subject to abuse and encourage nonfarmers to convert forest lands to receive tax benefits."

Preferential treatment of forest land and undeveloped land is permitted under the uniformity clause of the Wisconsin Constitution as a result of constitutional amendments adopted in 1927 and 1974.

SUMMARY OF SUBSTITUTE AMENDMENT

ASA 1 to AB 650 would extend the definition of agricultural forest land to include land meeting either of two conditions. First, property would be included if it is located on a parcel that contains land classified as agricultural land for both the 2004 property tax year and the current property tax year. Second, property would be included if it is "located on a parcel at least 50% of which, by acreage, was converted to land that is classified as agricultural land in the property tax assessment on January 1, 2005, or thereafter." The current law requirement that the land must be producing or be capable of producing commercial forest products would apply to land under any of the three conditions. The provisions in the substitute amendment would take effect with property assessed as of January 1, 2005.

FISCAL EFFECT

By including more property in the agricultural forest land classification, which is valued at a lower level than other forest land, the substitute amendment would reduce the amount of tax base subject to the property tax. This would result in a reduction in state forestry taxes and cause locally-imposed property taxes to be shifted from owners of the affected property to the owners of other types of taxable property.

In the Department of Revenue's (DOR) fiscal estimate for AB 650, a decrease in state forestry tax collections of \$180,000 (SEG) and a property tax shift of \$17.6 million were estimated.

DOR estimated that 1.12 million acres would be reclassified as agricultural forest land from the productive forest land classification. Assuming an average fair market value of \$1,600 per acre, a statewide tax base reduction of \$896.0 million would occur.

DOR's fiscal estimate was written for the original version of AB 650, rather than for ASA 1. The estimate assumed that all woodlands on farms (except for woodlands used as pasture or enrolled in special forest tax programs) would become classified as agricultural forest lands because available data limits the ability to refine the fiscal effect to more precisely reflect the conditions in the original bill. Within that context, the original fiscal estimate can be used to indicate the effects of ASA 1, with two exceptions.

First, the original bill would have extended the agricultural forest land classification to a parcel that contains productive forest land, but no agricultural land, that is contiguous to a parcel that has been classified as agricultural land and other (farm improvements and associated land), if both are owned by the same person. Current law, which ASA 1 would retain, requires that the contiguous parcel be classified solely as agricultural land in order for the forested parcel to be treated as agricultural forest land. This would decrease the number of acres, compared to the bill, that could qualify as agricultural forest land, although the magnitude of the decrease is unknown.

Second, relative to the original bill's long-range fiscal implications, the Department indicated that an additional 5.6 million acres of productive forest land would be reclassified as agricultural forest land in future years. A provision in the original bill would extend the agricultural forest land classification to forest land that is included on or contiguous to a parcel that is classified in part as agricultural land. DOR stated that owners of forest land would likely convert part of their land to an agricultural use so that their forested acres would qualify for reduced assessments under the agricultural forest land classification. Because ASA 1 includes provisions limiting the new classification to property included on a parcel as of January 1, 2004, or to property included on a parcel where at least 50% of the acreage is classified as agricultural land on a subsequent date, the behavioral responses anticipated by DOR are less likely.

Prepared by: Rick Olin