

# Use Value Assessment for Wisconsin Farmland

By Laura K. Paine<sup>1</sup> and Mark J. Kopecky<sup>2</sup>

February 2003

## Background

Use value taxation of farmland seeks to accurately reflect the value of land for its current use—agriculture. Over 40 states have laws providing for preferential assessment of agricultural land for property tax purposes. Wisconsin is one of the last agricultural states to adopt such a policy and, as in most other states, the policy will require some modification over the next few years before it functions smoothly.

Wisconsin's constitution was changed in 1974 to allow for the preferential assessment of agricultural and conservation land for property tax purposes, but it took 20 years for a law on this contentious issue to be passed by the legislature. The state's 1995 Budget Act changed the standard for assessing agricultural land from **market value** to **use value**. Under use value assessment, farmland is assessed on its ability to produce farm income instead of its potential value for development.

Initial plans called for the use value law to be phased in over 10 years. Property assessments on farmland for 1996 and 1997 were frozen at the 1995 value. In 1998, 10% of the assessed value was derived from the use value guidelines, and 90% from the frozen assessed value. In 1999, 20% was from use value, and 80% was from the 1995 frozen value. In October of 1999, the state's Farmland Advisory Council directed the Wisconsin Department of Revenue (DOR) to forego the remainder of the phase-in period and fully implement use value assessment of agricultural land for the January 1, 2000 assessments.

Use values for most farmland are grouped into four categories based on relative soil productivity within the county. Actual values assigned to farmland in these categories are determined by the Department of Revenue each year for every municipality in the state. The DOR uses a complex formula to calculate average values for each municipality. To simplify, use value assessments are calculated according to this equation:

$$\text{Use Value} = \frac{\text{Adjusted net farm income potential from growing corn (per acre)}}{\text{Farm mortgage interest rate} + \text{municipal property tax rate}}$$

From this equation, we can see that as farm income potential goes up, so does use value. As farm mortgage interest rates and/or municipal property tax rates go up, use value goes **down**. Because this basic formula tends to overestimate values for northern areas, adjustment factors are applied to the formula for counties in central and northern Wisconsin.

## Agricultural Land Classification

Only land that is actually used for agricultural use is eligible for use value assessment. Agricultural land includes land that produces a crop (including Christmas trees or ginseng), supports livestock, or is eligible for enrollment in specific federal agricultural programs.

Land associated with the farmstead, road rights-of-way, ungrazed woodland and swampland, etc. is excluded from use value assessment. Land and buildings in the farmstead area are assessed at full market value, as are woodlands, swamp, and any fields or pasture areas not actually used for cropland or pasture. In many counties, town roads are owned to the center of the road by adjacent landowners. This land is currently assessed at the market value for swamp or waste land.

Most agricultural land falls into four categories: Grade 1, 2, or 3 tillable, or non-tillable pasture (land used for cranberry beds or aquaculture ponds is in a separate category called "specialty land"). Land grades are based on the NRCS Soil Survey and reflect the relative productivity of land within the county. Soil survey information for your county is available from your local Natural Resources Conservation Service office or county land conservation department. The guidelines from the Wisconsin Department of Revenue defining each of these grades are as follows:

### **1<sup>st</sup> Grade Tillable**

This category includes lands that are *tilled or otherwise planted* and used for farm purposes. Grade 1 soils consist of those soil series and types shown on the county soil survey as possessing the best production capabilities with suitable slope and erosion ratings. *It can include land planted in tame hay which is pastured, harvested for use on the farm or for sale, and land enrolled in federal programs such as CRP.*

### **2<sup>nd</sup> Grade Tillable**

This category includes those lands used for farm purposes that are *tilled or otherwise planted* and made up of the soil series and types shown on the county soil survey as having a lesser production capability than 1<sup>st</sup> grade soils. It also includes land consisting of those soil types with the best production capability but whose poorer slopes and erosion ratings exclude them from being classes as 1<sup>st</sup> grade. *Based on the predominant soil types found under irrigation across the state, all irrigated lands should be placed in this category unless the soil type is more appropriately categorized as 1<sup>st</sup> or 3<sup>rd</sup> grade tillable.*

### **3<sup>rd</sup> Grade Tillable**

This category includes those lands used for farm purposes that are *tilled or otherwise planted* and made up of the soil series and types with the poorest productivity rating or those soils of higher productivity with the poorest slope and erosion ratings that prevent them from being classed in a higher grade. Marsh or other wild land that has never been cultivated, but from which grass is cut each production season for use on the farm or for sale, is included in this category. Land entered into federal conservation programs is typically marginal (third grade tillable) cropland. The Department of Revenue provides a list of eligible Government programs (available at <http://www.dor.state.wi.us/html/govpub.html#property>).

### **Pasture**

This category includes land devoted to an agricultural use, specifically the keeping, grazing or feeding of livestock for the sale of livestock or livestock products. Most pasture land has poor soil characteristics (productivity/slope/erosion/drainage/rockiness) that prevent its use as tillable cropland.

The fact that pasture land has some trees or brush upon it does not affect the classification. Recreational horse pastures are not classified as pasture, or even as agricultural land. Raising horses is not considered agricultural production unless the horses are raised specifically for sale. The assessment guide instructs assessors to give recreational pastures for horses full market value.

Land must meet several conditions to qualify as pasture. Most importantly, pasture must be put to an “agricultural use” meeting the definition in Chapter Tax 18. Pasture land includes open pasture, wooded pasture, wetland pasture, and all cut-over land that is *primarily used for keeping, grazing, or feeding livestock* and meets **all** of the following conditions:

- The land has either a) never been successfully plowed or, b) has been plowed but is now abandoned due to poor soil characteristics.
- The land is fenced to adequately prevent animals from straying.
- The land must be *devoted primarily to* and be *predominantly used* as pasture.
- The land must be substantially grazed by livestock.

### **Rotationally Grazed Pastures**

One common use value question concerns the assessment of rotationally grazed pastures that exist on formerly cultivated land. Through the year 2000, such pastures were placed in the pasture category and given the lowest assessment rate. In response to concerns raised by assessors, the DOR revised its assessment guidelines in 2001 and now will place rotationally grazed pastures on cropland in the appropriate tillable grade based on soil productivity. Permanent pastures (untillable, grazed land) that have been converted to rotational grazing are still eligible for the pasture classification.

### **Checking Your Assessment**

As use value assessment is implemented, farmers should check their property assessments carefully to make sure agricultural land is being classified and assessed correctly. To determine how your land is classified, you can consult your assessor or go to an ‘open book’ session in your municipality. If you find a discrepancy, talk with your municipality’s assessor first. If this doesn’t solve the problem, the next step is to attend the annual Board of Review meeting and present your case. The last option is to appeal your assessment directly to Circuit Court or the Department of Revenue. For specific information on appealing your property assessment, the DOR publishes the *Property Assessment Appeal Guide For Wisconsin Real Property Owners* (available through the sources listed below). Remember that the burden to prove your case rests with you, the landowner, and waiting until you get your property tax bill is too late to fix the problem.

### **Penalty for Converting Farmland to Nonfarm Uses**

If agricultural land is converted to another use, the county where the land is located will administer a penalty on the property tax. The DOR will determine the penalty within each county based on the difference between the average per-acre fair market value of agricultural land sold in the county in the previous year and the average per-acre equalized value of agricultural land in the county in the previous year. The base penalty value is multiplied by 5% if the conversion is of more than 30 acres, 7.5% for 10 to 30

acres, and 10% for less than 10 acres. If the penalty is less than \$25 per acre, it will be waived.

Per-acre penalty figures for each county are available on the DOR web site. For answers to frequently asked questions on use value penalties, you can check the web site at <http://www.dor.state.wi.us/faqs/usevalue.html>.

### **For More Information**

Guideline use values for each grade of agricultural land in each municipality are available from the Wisconsin Department of Revenue. The Department of Revenue publishes the annual Guideline Use Values and an *Agricultural Assessment Guide for Wisconsin Property Owners*. Both are available via the Internet at <http://www.dor.state.wi.us/html/govpub.html#property> or you can receive them by calling the Department of Revenue's Bureau of Assessment Practices at (608) 266-7750.

*Acknowledgement: Special thanks to Mr. Scott Shields, Bureau of Assessment Practices, Wisconsin Department of Revenue, for reviewing this paper.*

<sup>1</sup>Laura Paine is Crops and Soils Agent for Columbia County and Assistant Professor, Department of Agriculture and Agribusiness, University of Wisconsin-Cooperative Extension.

<sup>2</sup>Mark Kopecky is Agriculture and Natural Resources Agent in Price County and Professor, Department of Agriculture and Agribusiness, University of Wisconsin-Cooperative Extension.