WISCONSIN POLICY FORUM

REASSESSING USE VALUE

Under state law, Wisconsin farmland is supposed to be assessed based on the value of what it can produce, with state officials calculating the hypothetical income generated by an acre of land each year. However, state administrative rules instead have resulted in these parcels being taxed at roughly one-quarter of the value of what they can produce through farming. While beneficial to owners of farmland and perhaps justifiable in some respects, the state's current approach also affects other property owners.

Like many states, Wisconsin assesses the value of farmland – and taxes it – based on the income a farmer can receive by growing crops on it.

Though commonly used across the country for agricultural land, this form of "use-value assessment" differs from the method typically used by assessors to value residential and commercial properties, which looks at what such parcels would fetch if sold. Compared to market rate values, use-value results in a lower assessed value and tax relief to farmers. Supporters argue it helps to preserve farmland from development, though evidence on this front is mixed.

However, a little-known change implemented by state officials has further reduced the assessed value of farmland, lowering property taxes even more for those landowners and increasing them for other property owners. This gap has become particularly notable at a time when the values of Wisconsin property assessed at market rates have grown rapidly.

In 2023, an acre of Wisconsin cropland had a market value of $6,710, according to the U.S. Department of Agriculture. An acre of pasture was valued at $3,150 (see Figure 1). Meanwhile, the state Department of Revenue (DOR) calculated the average value of cropland at $933 an acre for 2023 based on the income that farmers earn from growing corn. That calculation would result in an average assessment that is 86.1% less than the market value, a substantial tax benefit already. Using the same method, DOR estimated the productive value of pasture land at $280 per acre, about 91.1% below market value.

Under the DOR's final assessment method, however, an acre of cropland was valued at $242, 96.4% less than the market rate. Pasture land was valued at $73 per acre, or nearly 98% less.

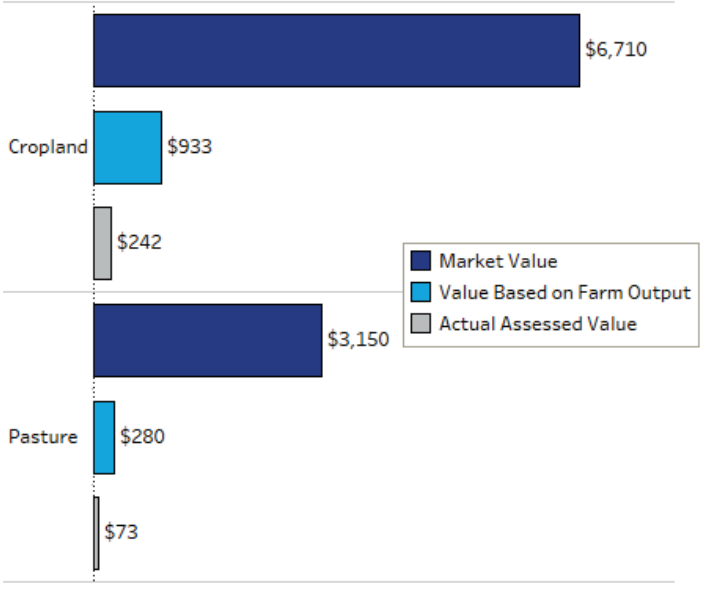
This brief examines how Wisconsin's use-value law is written and implemented. We use DOR calculations to show the gap between the potential value of cropland based on farming income and its actual assessed value under the current state method. We also look at the implications of this gap and compare Wisconsin's approach to those of other Midwestern states.

HOW USE-VALUE ASSESSMENT WORKS

Assessing farmland based on its potential agricultural output instead of its market value substantially lowers assessed values and tax burdens for farmland owners.

Fig. 1: Assessed and Market Values Differ for Farmland

Average 2023 value of an acre of Wisconsin farmland based on different methods of estimating that value



Sources: Wisconsin Department of Revenue and U.S. Department of Agriculture

That's because values based on agricultural production typically fall well below what an acre of land could command on the open market. Methods for calculating assessed values for farmland matter for all property owners because these values are used by local governments to calculate property taxes; tax bills for individual properties are based not only on their assessed value, but also on the values of other properties within a given jurisdiction.

Because the Wisconsin Constitution requires treating all property the same regardless of type, allowing use-value assessment required a constitutional amendment. This change to the state's charter was made in 1974, but Wisconsin didn't actually change state law until 1995, responding to a wave of farm foreclosures in the 1980s and development pressures on farmland. That change specified that use-value assessment only applies to land currently used for farming, so market values are used to assess other land owned by producers along with their farm buildings and homes.

Wisconsin law states that agricultural land shall be taxed based on the income that could be generated from renting the property. To define the process, the Legislature created a Farmland Advisory Council. This body includes experts in taxation, local government finance, and agriculture, and the council determines the rules for calculating use value and meets annually to finalize the values per acre.

The formula, outlined in state administrative code, is based on how much corn could be grown on an acre of cropland and the five-year average price for a bushel of corn, and also incorporates interest rates and local property taxes to arrive at an estimate of net income. Farmland is classified into pasture and three grades of cropland, with grade one being the most productive and valuable based on the farm income it can generate.

Yet this formula for valuing land based on its agricultural production ultimately plays a limited role in assessing farmland in Wisconsin. That's because of a series of changes that culminated in a 2006 adjustment to state rules that tied the annual change in farmland values to the change in statewide equalized values for all property except farmland and newly constructed buildings and structures.

Fiscal Bureau indicates the changes starting in 2004 were intended to prevent farmland values from declining. First, assessed values for cropland were frozen at 2003 levels to prevent them from falling to negative per-acre values, due to depressed corn prices and increased farming costs in the early 2000s. The 2006 change was meant to prevent dramatic future changes from the frozen 2003 values, but in the years since it has served to hold down the assessed value of farmland.

A supporter of the current approach might argue it helps prevent large swings in farmland values due to changes in often volatile corn prices and avoids a repeat of negative per-acre land values. However, the state formula for calculating the production value of farmland already smooths fluctuations in corn prices to some degree by using a five-year average price for that crop. There would also be other options to prevent negative land values, including establishing a maximum annual decrease in values, or creating a minimum per-acre value.

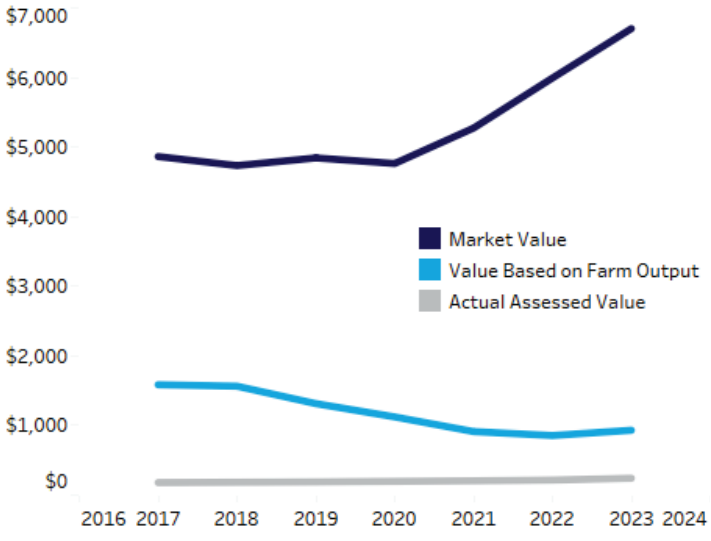
VALUE ESTIMATES DIVERGE

Over time, the 2006 change has resulted in a massive gap between the values calculated using the two methods. In 2023, the estimated value of cropland and pasture based on its income potential was roughly four times the final assessed value per acre.

In fact, assessed values for cropland or pasture are no long as directly related to potential income from farming

Figure 2: Market and Assesssed Values Diverge

Average of an acre of WI cropland by year based on different methods of estimating value



Source: Wisconsin Department of Revenue and U.S. Department of Agriculture

as specified in state law. Instead, they are tied more closely to changes in overall state property values.

Figure 2 on page 2 looks as various methods of valuing cropland and shows how the gap between actual assessed values and values based on farm income has closed since 2018. Cropland values in 2024, however, will diverge again, with average assessed values at $270 per acre and output-based values calculated at $1,149.

Meanwhile, the overall impact of use-value assessment is increasing. As market-rate land values have skyrocketed, assessed values for farmland have not kept pace, making the total value of the tax benefit the highest on record even after adjusting for inflation.

IMPACT ON OTHER TAXPAYERS

Use-value assessment does not directly lower the total taxes collected by a local government, but instead shifts the responsibility to pay the levy from farmers to other taxpayers. It also shifts responsibilities among farmers to those who own less land and more assets taxed at full value such as buildings. Assessed values are used to allocate a portion of a jurisdiction's total levy to a taxpayer's bill, with higher-value properties paying more. When the property value of farmland is lower, owners of other types of properties such as homes and businesses must make up the difference.

This transfer of the tax burden can have notable impacts within the types of local government such as towns, counties, and school districts that can have large tracts of farmland. In rural towns, a limited number of homes and even fewer businesses also may shoulder more of the cost of town services.

Some counties, like Dane, have large agricultural areas surrounding cities and villages, where residential and commercial taxpayers end up paying for a larger share of county and technical college services. School districts like Hartford Union High present a similar case, with the district's roughly 225 square miles consisting of largely agricultural land surrounding smaller urbanized areas that end up paying for a greater share of school district costs.

Because the main form of state aid to schools is allocated in part based on property values, lower values in rural areas also result in at least some shift of state aid away from urban areas.

Some might argue that the cost of many government services, such as schools and public health and safety, depends on population, not geographic area, and that therefore it's reasonable to create a system that does not assign tax burdens as heavily based on the acreage that a taxpayer owns. However, there are still government costs associated with using farmland, such as transportation networks, policing, and emergency services, and the current approach may amount to a greater benefit than what the Legislature intended.

Use-value assessment was designed to provide property tax relief to those who primarily earn their income from farming. However, it also lowers taxes for developers and other landowners who purchase cropland and then lease it to farmers until it is eventually developed.

This sizable tax reduction may also increase the value of farmland by lowering the cost of holding these lands. Higher land values in turn might make it more challenging for new farmers to enter the profession.

Some states have policies to prevent non-farmers from taking advantage of this sort of tax break. However, Wisconsin law does not have these provisions beyond a requirement that land must be primarily devoted to agriculture, as determined by local property assessors. However, a charge does apply when converting agricultural land to other uses.

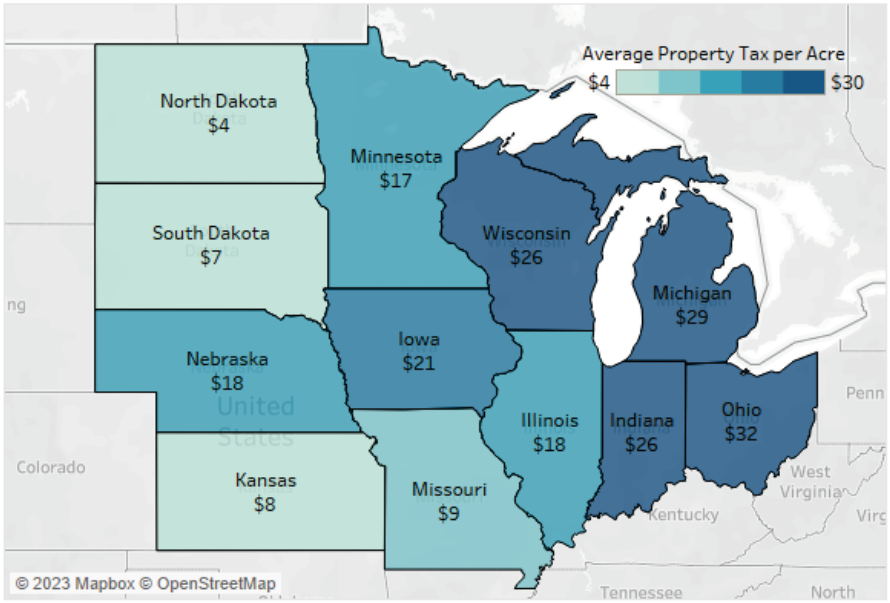
OTHER STATES

Most states nationally and in the Midwest tie the assessed value of cropland to the potential income from farming the land. With the exception of Michigan, Midwest states calculate this potential income using commodity prices. Some states like Minnesota have minimum acreage requirements such as 20 acres to qualify. Other states such as Iowa and Nebraska require proof of farm income generated from the property. For more on this topic, the Lincoln Institute of Land Policy published a detailed report on farmland assessment nationally in 2015.

Figure 3 on the next page shows Wisconsin's average property taxes on farm assets are higher than those of most Midwest states. Some of this difference, however, may relate to how farm buildings and other improvements are taxed, as well as land not classified as cropland or pasture such as certain types of forestlands. In addition, that per acre property tax is determined by many factors, including the cost of

Fig. 3: Property Taxes on Wisconsin Farms Compared to Midwest States

Total 2017 property taxes on all farm assets reported as farm expense divided by farm acres



Source: U.S. Department of Agriculture Census of Agriculture 2017

government services in each state and the presence of other local revenue sources such as sales taxes. In other words, the chart shows only the property taxes paid by farmers but not the total taxes paid or what services they are paid to cover.

CONCLUSION

The state's current approach to valuing farmland amounts to a sort of double discount: the first is well understood and the second is unknown even to some experts. This approach is notable, especially in the context of the current housing affordability challenges facing many Wisconsin communities, since it puts more of the cost of government services onto residential and commercial property owners. The current approach may also distort to some extent both market values for agricultural land and state aid to school districts.

At the same time, there are likely also some benefits from the current approach. By lowering property taxes on producers, for example, use-value assessment in Wisconsin and nationally may contribute to maintaining an affordable and dependable food supply.

Ultimately, many state residents value Wisconsin's agricultural legacy and identity and may see use-value assessment as a longstanding tool to help preserve it. That may be particularly true given Wisconsin's heavy reliance on property taxes to fund local services, and the burden that policy choice places on farming, a land-intensive occupation. It's also important to note that the state's property tax bills per acre are more than most neighboring states.

However, the state has employed for years and across several administrations a method for valuing farmland that is difficult to understand and may not be consistent with state statutes. Policymakers may wish to thoughtfully consider whether this approach is meeting their goals and doing so in a transparent fashion.