

Saving Iowa's Ag Land Tax Dollars for Conservation

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A report from

The Iowa Policy Project

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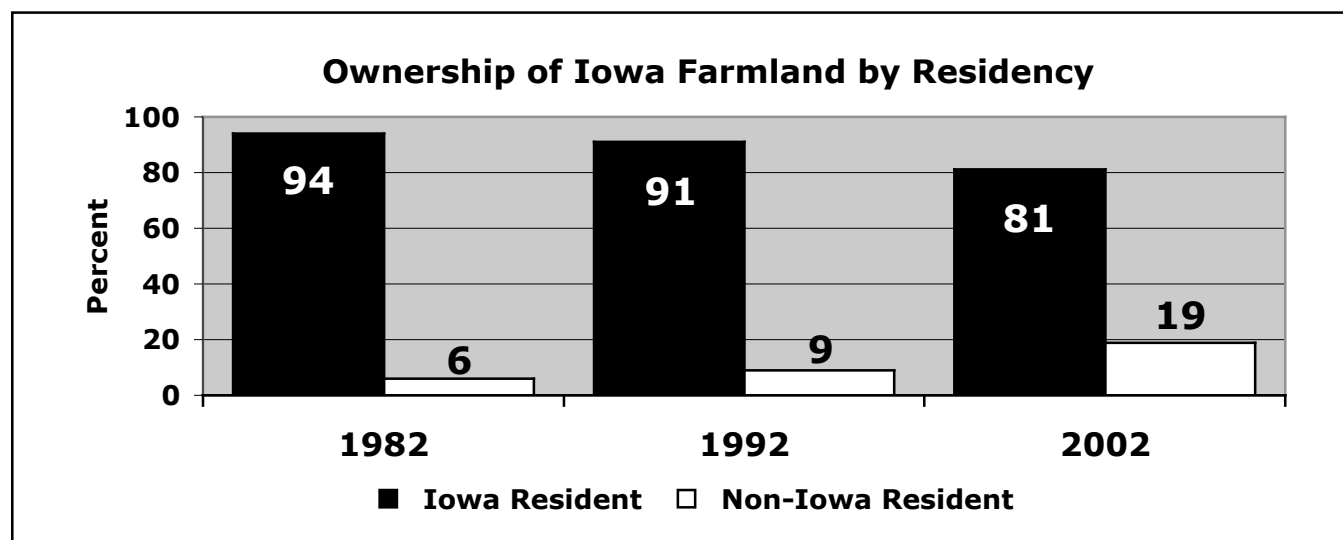
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Trends in Iowa Farmland Ownership

In 2002 nearly one-fifth of Iowa's farmland was owned by people not living in Iowa. This increased from just 6 percent nonresident ownership in 1982. Michael Duffy, Iowa State Extension economist and author of *Farmland Ownership and Tenure in Iowa 1982-2002: A Twenty Year Perspective*, believes these out-of-state landowners primarily fall into two groups: those who view farmland as a good investment or a means of diversifying their portfolio, and the children of Iowa farmers. Mr. Duffy's premise is that the second cohort, those who inherit farmland, comprises the largest proportion of out-of-state landowners. Although they no longer live in Iowa, the descendants of Iowa farmers have a variety of motives for retaining ownership. The decreasing number of sole-proprietor farmland owners and increasing incidence of farmland being held in common or in trust illustrates the way that farmland is now often transferred to individual or multiple offspring.

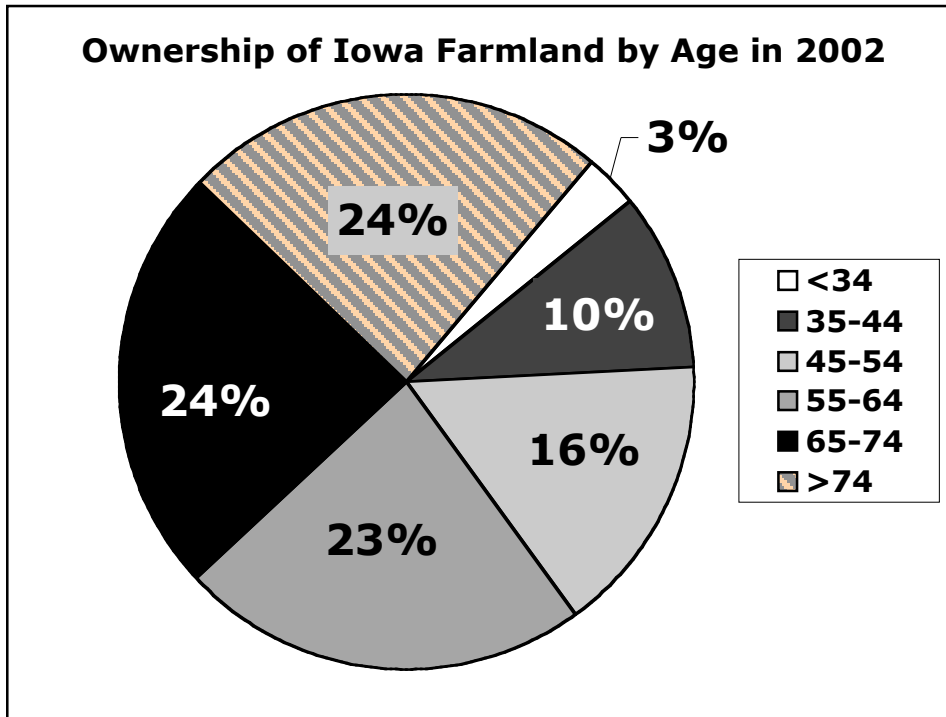


It is expected that the trend of farmland moving out of the hands of Iowans will continue to increase. Almost half (48 percent) of Iowa farmland is owned by people over 65 years old. Additionally, 24 percent of the farmland is owned by people over 74 years of age. As the average U.S. life expectancy is 77, it is predicted that nearly a quarter of Iowa farmland will change ownership in coming years. Further, nearly 75 percent of the land is anticipated to be transferred (bequeathed, given, sold, or placed in a trust/entrusted) to family members, some of whom likely no longer live in Iowa.

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The Agricultural Land Property Tax Credit

These figures suggest out-of-state residents will increasingly own more Iowa farmland. With the movement of farmland out of the hands of Iowans, more of the state's general fund dollars in the form of the agricultural land property tax credit will be given to these nonresidents. The agricultural land property tax credit was established in 1939 to help offset farmers' higher property tax burden. Any agricultural landowner with 10 or more acres used for agricultural or



horticultural purposes is eligible for this tax credit. Landowners do not need to file a claim as the credit is determined and subtracted by the county auditor before the final tax bill is sent to the landowner. Collectively, the agricultural land property tax credit cost the State of Iowa \$34.6 million in 2004.

Some out-of-state farmland owners (usually legally) do not file Iowa income taxes. Out-of-state farmland owners may legally not file Iowa income taxes if their

entire Iowa income, including the income from their farmland, is \$9,000 or less annually. This may occur when the farmland is used for recreation or the land is split among several siblings so that the income requirements for each one of them is below the taxable threshold.

In either case, some out-of-state farmland owners are not likely filing Iowa income taxes and yet are receiving a property tax credit. No data are available to identify the number of people or dollars in question. In fact, data on the number of people receiving the agricultural land tax credit are not available at the state level, let alone a reliable statistic on the number of those who are out-of-state landowners. The Iowa Department of Revenue is initiating audits to identify whether Iowa farmland owners are filing income taxes, but no data is yet available.¹

Without data on how many nonfiling out-of-state farmland owners receive the agricultural land property tax credit, it can still be assumed that this does at least occasionally occur and may increasingly occur in the future with the movement of more farmland into the hands of

¹ Such audits will include: identifying whether shareholders in S corporations or partnerships (many farm corporations are set up as S corporations or partnerships) are filing Iowa taxes; matching information from the declaration of values which is issued when property is sold in Iowa and data about payments made to nonresidents from the sale of agricultural commodities and products to individual Iowa income tax returns; and the Department of Revenue is attempting to obtain information from the U.S. Department of Agriculture regarding government payments to farm operations in Iowa and match this data to tax return information.

nonresidents. It seems that Iowa's agricultural land property tax credit should be amended to rectify tax revenue being taken from the general fund and provided as property tax subsidies for people who do not pay Iowa income or sales taxes.

Proposals to Change the Agricultural Land Property Tax Credit

Recently, there have been several suggestions to make changes to the agricultural land property tax credit. For example, in his 2004 Condition of the State address, Governor Tom Vilsack called for a broad reform that would prohibit anyone not actively engaged in farming from receiving the agricultural land property tax credit. Additionally, in his fiscal year 2006 budget, Governor Vilsack proposed to go further and entirely eliminate the agricultural land property tax credit and double the family farm credit.

In October 2004 the Iowa State Association of Counties and the Iowa League of Cities released their Property Tax Reform Proposal. Their proposal is similar to Governor Vilsack's budget proposal. They suggested, "The agricultural land credit will be eliminated, and the associated funding should be transferred to increase the family farm credit. The family farm credit will be changed to a direct payment from the state to the taxpayer, in the form of either a property tax reimbursement or a refundable income tax credit."²

Other possibilities for amending the agricultural land property tax credit exist. One would be to change the credit to an income tax credit. This would assure that only those who file Iowa income taxes would receive the agricultural land credit. Another possibility – provided it is constitutional – would be to make farmland owners who do not file Iowa income taxes ineligible for the agricultural land property tax credit. Eligibility for the credit would be restored if Iowa income taxes were filed. This requirement would provide an incentive for people to file income taxes who otherwise might not, and as such could increase state revenue.

Use of Savings for Conservation

Whatever the method of amending the agricultural land tax credit, dollars would become available to be used for other purposes. One purpose in particular that would coincide with the support for agriculture intended by the agricultural land property tax credit would be to transfer this money to the counties' conservation boards. Boards could use this money to fund collaborative conservation education programs with local school districts and county soil and water conservation districts.

This would provide school and conservation budgets with much needed supplemental funds for educating the next generation of landowners about Iowa soil, water, air, wildlife and energy conservation. It is particularly important as conservation education has been neglected in recent years due to local budget cuts and greater emphasis on standardized tests in the K-12 system. If just 1 percent of the agricultural land property tax credit were transferred to county conservation boards, the state's current \$350,000 spending on conservation education would double. A 3 percent shift would transfer over \$1 million into supplemental conservation education equal to \$10,000 for each county.

² The family farm credit, established in 1990, provides a property tax credit to landowners actively engaged in farming on a tract of 10 contiguous acres or more. Actively engaged means the designated person, may be the owner or a family member of the owner, is involved in the production of crops or livestock on a regular, continuous and substantial basis.

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The Iowa Policy Project

Founded in 2000, The Iowa Policy Project is a non-profit, non-partisan research organization based in Mount Vernon, with its principal office in Iowa City. IPP reports cover a wide range of topics of concern to the citizens of Iowa. These reports are made available to the public on the web at www.iowapolicyproject.org <<http://www.iowapolicyproject.org>>. Some also are offered at the website of the Iowa Fiscal Partnership, www.iowafiscal.org <<http://www.iowafiscal.org>>.

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