



SF 5 – Forest Reserve Tax Exemption (LSB1050XS)
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Fiscal Note Version – New

Description

Senate File 5 repeals an existing property tax exemption available for qualified forest reservation land. Current law allows for a 100.0% tax exemption for forest land parcels of 2.0 acres or larger. The change does not impact the existing 100.0% exemption for qualified fruit tree property. The change is effective beginning assessment year (AY) 2020 (FY 2022).

Background

For AY 2018, there were approximately 793,000 acres with a combined assessed value (market or productivity value, prior to any applicable taxable value rollback) of \$704.2 million benefiting from the existing tax exemption for fruit trees and forest reservations. The statewide breakout of this acreage into fruit trees versus forest reservations is not available, but through assessment data from select counties, it is assumed that the vast majority of the exempt land qualifies as forest reservation property.

For AY 2008, exempt forest and fruit tree reservation acres totaled 658,000. Over the last ten years (AY 2008 to AY 2018), exempt forest and fruit tree reservation acreage increased by an average of 1.9% per year.

Reducing or eliminating a property tax exemption impacts State and local finances by decreasing the State appropriation for school aid and by increasing the revenue raised by local property tax levies. The State school aid appropriation reduction is equal to \$5.40 per \$1,000 of increase in value subject to property tax.

Assumptions

The fiscal impact estimate was developed by the Department of Revenue (DOR) using the most recent actual property data available. The property tax statistics used include:

- Assessment year 2018 forest and fruit tree reservation exempt acres and value. All exempt acres are assumed to be forest reservation acres.
- Fiscal year 2019 statewide average property tax rates by property class.
- Fiscal year 2020 rollback percentages by property class.

The reduced property tax associated with the existing forest and fruit tree reservation property tax exemption is estimated to be \$11.5 million for FY 2020. Of the \$11.5 million, \$2.2 million is projected to be backfilled through the State school aid General Fund appropriation and \$9.3 million represents reduced local government property tax revenue. The \$11.5 million annual property tax exemption value is assumed to increase 1.9% per year.

Fiscal Impact

For FY 2022, repealing the forest reservation property tax exemption will increase property tax revenue by an estimated \$11.9 million, reduce the State General Fund appropriation for school aid by \$2.3 million, and increase the amount of money raised by local property tax levies by \$9.6 million. The impacts are projected to increase 1.9% each succeeding fiscal year.

Sources

Iowa Department of Revenue
Iowa Department of Natural Resources

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
