



[SF 2047](#) – Wetlands Property Tax Exemption (LSB5214XS)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

[Senate File 2047](#) expands an existing property tax exemption available to owners of native prairie or protected wetland property. The Bill removes the receipt of payments by the landowner from either of two federal conservation easement programs as a disqualifying factor for the property tax exemption. The change is effective beginning assessment year 2020 and will first apply to property tax payments made in FY 2022.

The Bill makes inapplicable Iowa Code section [25B.7](#) (State funding of any new property tax credits or exemptions).

Background

Department of Revenue property tax reports indicate that 5,653 acres with a total assessed value of \$5.3 million currently benefit from the native prairie and protected wetland property tax exemption (assessment year 2019 data).

Iowa Code section [427.1\(23\)\(a\)](#) disqualifies a particular native prairie or protected wetland property from the tax exemption if “the property is used for economic gain during the assessment year in which the exemption is granted.” Easement payments from the federal government have been interpreted as economic gain; due to this interpretation, some native prairie and protected wetland properties do not receive the property tax exemption. The federal government pays property owners for an easement to guarantee properties will be maintained as native prairie and/or protected wetland property. In some instances, the federal easement results in an annual payment to the landowner, and it is this annual payment that disqualifies the property from the property tax exemption. The Bill defines “economic gain” to exclude the easement payments received under two federal programs, thus making the properties eligible for the property tax exemption.

Iowa Code section [427.1\(23\)\(b\)](#) specifies that the reduced property tax associated with this property tax exemption is to be paid by the State.

Assumptions

- According to the [U.S. Department of Agriculture Natural Resources Conservation Service](#), a total of 187,413 acres in Iowa were enrolled in the two federal easement payment programs for 2018. The number of enrolled easement acres is assumed to increase by 1.0% each year.
- The average assessed value per acre for properties currently receiving the tax exemption for native prairie and protected wetland property is \$945 per acre. That value is assumed for new acres qualifying for the exemption for all future years.
- The agriculture rollback equaled 81.4832% for assessment year 2019, and that rollback is assumed to remain constant.
- The FY 2019 statewide average property tax rate for agricultural property was \$25.05 per \$1,000 of taxed value. The school basic levy represents \$5.40 (21.6%) of the \$25.05 rate.

Through action of the school aid formula, the State General Fund appropriation for school aid will replace the property tax reduction associated with 21.6% of the property tax reduction. The remaining 78.4% of the property tax reduction will result in reduced local government revenue.

- For the first year (assessment year 2020, FY 2022), owners of 50.0% of the newly eligible acres will apply for and receive the exemption. For the second and future years, owners of 80.0% of the acres are assumed to apply for and receive the exemption.
- The Bill makes Iowa Code section [25B.7](#) inapplicable but does not make Iowa Code section [427.1](#)(23)(b) inapplicable. For calculating the fiscal impact of the Bill, it is assumed that the State will only reimburse the property tax reduction to the extent covered by the school aid formula.

Fiscal Impact

The property tax exemption expansion is projected to reduce property taxes owed by owners of native prairie and protected wetland property and, as a result, increase the State General Fund appropriation for school aid and decrease local property tax revenue. The projected amounts are presented in the following table.

Projected State General Fund and Local Property Tax Impact			
In Millions			
<u>Fiscal Impact</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024 and After</u>
Increased School Aid Appropriation	\$ 0.4	\$ 0.6	\$ 0.6
<u>Decreased Local Property Tax Revenue</u>	<u>1.4</u>	<u>2.3</u>	<u>2.4</u>
Property Tax Reduction	\$ 1.8	\$ 2.9	\$ 3.0

Sources

U.S. Department of Agriculture Natural Resources Conservation Service
 Department of Revenue
 Department of Management property tax files
 Department of Revenue partial exemption and rollback history files

 /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.
