



SF 352 – Forest Reserve Property Tax (LSB1985SV)
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 Fiscal Note Version – New

Description

Senate File 352 places new restrictions on an existing property tax exemption available for qualified forest and fruit tree reservation land. Current law allows for a 100.0% tax exemption for qualified forest land parcels of 2.0 acres or larger. This Bill raises the minimum required parcel size to 10.0 acres and reduces the property tax exemption to 75.0%. Additionally, the Bill limits the exemption to five assessment years. Under current law, the exemption duration is unlimited. The changes are effective beginning assessment year (AY) 2022 (FY 2024).

Background

For AY 2020, there are 803,000 acres with a combined assessed value (market or productivity value, prior to the applicable rollback to taxable value) of \$733.0 million benefiting from the existing tax exemption for forest and fruit tree reservations. **Figure 1** applies the most recent property tax rollback percentages (AY 2020) and most recent relevant Statewide average property tax rates by property class (FY 2021), to calculate the amount of taxable value within forest and fruit tree reservations and the total value of the property tax exemption under current law (\$15.1 million).

Figure 1
Forest and Fruit Tree Reservation Property Tax Exemption
 Dollars in Millions

| | Assessed Value | Rollback | Taxable Value | Average Tax Rate | Value of Prop. Tax Exemption |
|--------------------------|-------------------|----------|------------------|------------------------|------------------------------------|
| Agricultural | \$ 448.0 | 84.0305% | \$376.5 | \$25.03 | \$ 9.4 |
| Residential | 273.1 | 56.4094% | 154.1 | 34.44 | 5.3 |
| Commercial | 10.1 | 90.0000% | 9.1 | 37.21 | 0.3 |
| Industrial | 0.6 | 90.0000% | 0.5 | 31.24 | 0.0 |
| Multiresidential | 1.2 | 67.5000% | 0.8 | 37.84 | 0.0 |
| Total All Classes | \$ 733.0 | | \$541.0 | \$27.94 | \$ 15.1 |

When a property tax exemption is reduced or eliminated, the taxpayer owes the consolidated property tax on the taxed property value that is no longer exempt (a property tax increase), the State General Fund appropriation for schools is reduced by \$5.40 per \$1,000 of taxed valuation by action of the State school aid formula (the property owner is now paying the \$5.40 basic levy instead of the State), and local property tax revenue increases by the applicable consolidated property tax rate (in this case an average of \$27.94 per \$1,000 of taxed value). The net increase in local government income increases by the sum of the increase in property tax revenue minus the decrease in State school aid.

Assumptions

- As presented in **Figure 1**, the value of the property tax exemption for existing forest and fruit tree reserves is calculated to be \$15.1 million for FY 2022.
- For the three years between AY 2017 and AY 2020, the number of acres subject to the forest and fruit tree property tax exemption increased at an average annual rate of 0.9%. This rate of growth is assumed to continue in both the current law and proposed law projections for FY 2023 and after.
- To simplify the calculations, the rollback percentages and average property tax rates for each class of property are assumed to remain constant for all years.
- Based on a [2003 Forestry Reserve Study](#) reported by the Department of Natural Resources, 70.0% of forest reserve owners who responded to the survey indicated that they owned 10.0 acres or more of forest reserve property. Based on this survey, the value of the existing property tax exemption for FY 2024 and after is reduced to 70.0% of the current law projection to adjust for the proposed 10.0-acre minimum.
- Existing forest reserve property is assumed to continue to receive the benefit of the exemption for FY 2024 through FY 2028 (five years), while new property is assumed to receive the benefit of the exemption for five years after being added to the reserve.

Fiscal Impact

The proposed limits on the existing forest and fruit tree reserve property tax exemption are projected to reduce the State General Fund appropriation to school aid by the amounts presented in the final column of **Figure 2**. The projected appropriation reduction continues at the \$3.0 million level in years beyond FY 2029.

The projected revenue increase for local governments is also presented in **Figure 2**. The projected total impact on local government finances is the combination of the property tax increase and the school aid appropriation decrease.

| | | Exemption Value Current Law | Exemption Value Proposed Law | Increase In Property Taxes | Local Government Revenue Increase | School Aid Appropriation Decrease |
|---------|---------|--------------------------------------|---------------------------------------|-------------------------------------|--|---|
| AY 2021 | FY 2023 | \$ 15.3 | \$ 15.3 | \$ 0.0 | \$ 0.0 | \$ 0.0 |
| AY 2022 | FY 2024 | 15.4 | 8.2 | 7.2 | 5.8 | -1.4 |
| AY 2023 | FY 2025 | 15.5 | 8.3 | 7.2 | 5.8 | -1.4 |
| AY 2024 | FY 2026 | 15.7 | 8.4 | 7.2 | 5.8 | -1.4 |
| AY 2025 | FY 2027 | 15.8 | 8.6 | 7.2 | 5.8 | -1.4 |
| AY 2026 | FY 2028 | 15.9 | 8.7 | 7.2 | 5.8 | -1.4 |
| AY 2027 | FY 2029 | 16.1 | 0.4 | 15.6 | 12.6 | -3.0 |

Sources

Iowa Department of Revenue

Iowa Department of Natural Resources [Iowa Forest Reserve Law Fact Sheet](#)

(link downloads the Fact Sheet)

Department of Management (average property tax rates by property class)

/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.

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