



[HF 2672](#) – Forest Reserve Program, County Participation (LSB5595HV)
Staff Contact: Michael Peters (515.281.6934) michael.peters@legis.iowa.gov
Fiscal Note Version – New

Description

[House File 2672](#) authorizes county boards of supervisors to determine whether a board's respective county permits forest and fruit-tree reservation tax exemptions. The Bill removes all designations of areas within a county as a forest or fruit-tree reservation on January 1 of the assessment year following the passage of a local ordinance to discontinue this exemption and allows for a board to discontinue any current exemptions. The Bill also allows a board to reinstate the exemption by ordinance after a prior property exemption holder reapplies for a continued exemption.

The Bill also increases the forest reservation's minimum acre requirement from two acres to five acres in a continuous area.

Background

Current Iowa Code chapter [427C](#) defines forest and fruit-tree reservations, and Iowa Code section [441.22](#) establishes the property tax exemption. Under current law, forest reservations are fully exempt from property tax and fruit-tree reservations are exempt for eight years after planting.

A property tax preference for forest and fruit-tree property was first enacted in 1906 Iowa Acts, chapter [52](#) (Encourage the Planting of Forest and Fruit Trees Act). Qualified property was not fully exempt under the 1906 legislation, but instead limited to a taxable valuation of \$1.00 per acre. The qualifications for an area to be considered a forest or fruit-tree reservation are essentially the same today as originally enacted in 1906.

Since 1906, several changes to the preferential taxation of forest and fruit-tree reservations have been enacted:

- 1933 Iowa Acts, chapter [121](#) (Assessed and Taxable Value the Same Act) — Assessed value of forest and fruit-tree reservations was raised to \$4.00 per acre.
- 1974 Iowa Acts, chapter [1231](#) (Valuation of Property Act) — Assessed value of forest and fruit-tree reservations was raised to \$14.82 per acre.
- 1982 Iowa Acts, chapter [1247](#) (Natural Resources Exemption and Assessment Act) — Rural forest reserve property was made fully exempt from property tax, while urban forest reserve property was to be assessed at market value. Fruit-tree reservations were assessed at \$20.00 per acre.
- 1984 Iowa Acts, chapter [1222](#) (Fruit-Tree and Forest Reservations Act) — Forest and fruit-tree reservation property was made fully exempt from property tax. The fruit-tree eight-year limit after planting remains.

The current annual value of the tax exemption to landowners is estimated to average \$15.26 per acre statewide, although there is likely a significant variation in this amount among benefiting properties.

Assumptions

- A total of 829,600 acres with a combined assessed value of \$659.8 million will benefit from the forest and fruit-tree property tax exemption for assessment year (AY) 2022 (FY 2024).
- A total of 832,340 acres with a combined assessed value of \$829.6 million will benefit from the forest and fruit-tree property tax exemption for AY 2023 (FY 2025). The number of acres in the program increased at an average annual rate of 1.0%, while exempt value increased at an average annual rate of 23.7% when compared to the prior year.
- It is assumed for purposes of this analysis that the impacted parcels would remain constant.
- Department of Revenue records showing exempt forest and fruit-tree value and the number of acres by property class for each county, along with the rural average FY 2024 property tax rate by property class and county and AY 2023 rollback percentages by property class, were utilized to determine the FY 2024 value of the current property tax exemption in terms of the reduction in property taxes owed by landowners. The FY 2024 property tax reduction totals \$12.7 million statewide. The school aid basic property tax levy (\$5.40 per \$1,000 of taxed value) backfilled \$2.7 million of the tax reduction, and the remainder (\$10.0 million) represents reduced local government property tax revenue.

Fiscal Impact

The fiscal impact is unknown; however, removing the existing forest and fruit-tree property tax exemptions could generate additional property tax dollars. If all exemptions were discontinued due to this Bill, up to \$12.7 million of additional local tax revenue could be generated in FY 2027. A breakdown of potential revenue changes includes:

- A \$2.7 million decrease in the State appropriation for school aid.
- A \$10.0 million increase in local property tax revenue.

Sources

Department of Management
Department of Natural Resources
Department of Revenue
Legislative Services Agency analysis

/s/ Jennifer Acton

March 25, 2023

Doc ID 1448302

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.

www.legis.iowa.gov