

Background on Property Tax and Use-Value Assessment in Wisconsin

Introduction

Property tax is the largest source of combined state and local tax revenue in Wisconsin. Prior to 1900, the property tax was the state government's largest tax. As the state's economy has diversified, state government has come to rely on other tax sources and has established various aid programs to reduce local reliance on the property tax.

Wisconsin has a number of taxing authorities, such as local governments like towns and municipalities, county governments and school districts through referendums, technical colleges and special purpose districts. There are 190 cities, 415 villages and 1,245 towns in Wisconsin. They are sometimes called "general purpose governments" because they provide a variety of public services, including police and fire protection, sanitation, transportation and recreation. Municipalities rely on a more diverse array of revenue sources than other local governments to fund these services. However, the property tax represents the most significant tax available to municipalities and, on average, it represents 30% of all municipal revenue. Other taxes that municipalities may impose include the room tax, motor vehicle registration fee ("wheel tax"), mobile home fees, premier resort area tax and special assessments.

Like municipalities, the state's 72 counties perform a variety of services that may be characterized as "general purpose." However, 35.5% of all county expenditures are dedicated to health and human service functions. In addition to the property tax, counties may impose a "wheel tax" and sales and use taxes, which represent a large majority of other county taxes.

In 2014-15, the state contained 424 elementary and secondary school districts. Unlike municipalities and counties, these districts perform a single function -- education. Prior to 1996-97, the property tax was the most significant revenue source of school districts and comprised almost half of all school district revenues. There are 16 technical college districts in the state. They provide post-secondary education through courses leading to associate degrees and vocational diplomas, college parallel courses, and continuing education courses. Property tax accounts for 26% of technical colleges revenue.

Beyond just town, municipal and county governments, Wisconsin law also allows the formation of special purpose districts that possess specific taxing authority. As with general units of government, these special purpose districts can levy only those taxes that are authorized by the Legislature, and for the most part, taxing authority is restricted to the property tax and related taxes. Wisconsin has 734 entities that are included in the Census as special district governments. These tend to serve a specific purpose: the majority are sewerage, lake, sanitary or drainage districts. Housing authorities account for another substantial portion of Wisconsin's special district governments. There were 167 housing authorities throughout the state in 2012, down from a peak of 200 in 1987. These governmental entities, according to the Wisconsin Association of Housing Authorities, "foster and promote low-rent public housing and other housing programs for low- and moderate-income families, including elderly and handicapped."

Outside of housing authorities and districts created to manage Wisconsin's waters, special district governments are few and far between. A recent addition to the state's roster of special districts is community-based long-term care districts. These districts provide services to the elderly and disabled at a regional level under the premise that the management of these services over broad geographical areas can produce economies of scale and better services for consumers.

There are four district exceptions to the Wisconsin law that are authorized to tax beyond the authorized property tax. The four exceptions are: (1) a local exposition center district, which, if it meets certain requirements, is allowed to impose a room tax, a food and beverage sales tax and a car rental tax; (2) a local professional baseball park district for the construction and operation of a new baseball stadium for the Milwaukee Brewers, which is allowed to impose 0.1% sales and use taxes to pay the debt service costs on District-issued revenue bonds and facility operation expenses; (3) a local professional football stadium district for the construction and maintenance of a renovated football stadium for the Green Bay Packers, which is allowed to impose 0.5% sales and use taxes to pay the debt service on District-issued revenue bonds and to pay specific District administrative and facility maintenance expenses; and (4) a premier resort area, which can impose either a 0.5% (general case) or a 1.25% (special case) sales tax on sales by tourism-related retailers within the area. For the Premier Resort Area, the municipality must be specifically granted permission through authorizing legislation passed by the Legislature and signed by the Governor.

The assessor of each taxation district determines the assessed value of all taxable property, with the exception of manufacturing property. An assessment is the value an assessor places on your property. This value determines what portion of the local property tax levy is covered by your property.

Background Information

In 1974, Wisconsin's legislature amended the state constitution's Rule of Uniform Taxation to allow for differential assessment of farmland. The measure was enacted into the Wisconsin Constitution after being passed at public referendum. This change never came into play until more than 20 years later in 1995.

1995 Act 27 provided for use-value assessment of agricultural land. Act 27 directed the Wisconsin Department of Revenue (DOR) to develop property tax formulas taxing this land at the value of its use, or the income it could generate if farmed, instead of its market value. Use-value is specific to land only. Use-value requires that the assessed value of farmland is based on the income that could be generated from its rental for agricultural use. Income and rental from farming are a function of agricultural capability. Since any land can theoretically be used for agricultural purposes, state laws and administrative rules limit the benefit of use-value assessment to land that is devoted primarily to a qualifying agricultural use.

The Farmland Advisory Council oversees agriculture use-value. The Wisconsin Department of Revenue (DOR) Secretary chairs the ten-member council. These members represent agricultural, financial, academic, assessment, environmental and governmental interests.

The law was intended to keep land in production agriculture rather than be developed. In the mid-90s, high property values, leading to high property taxes, existed relative to low farm income. This scenario was forcing many farmers to sell land to developers, especially in growing suburban areas surrounding cities. Across Wisconsin, the effective annual property tax rate stands at 1.53%, the eighth highest among states. For context, homeowners in the U.S. pay an average of 1.03% of their housing value in property taxes a year.

Wisconsin Farm Bureau Federation Policy

- Taxation (23) 12-13: *Assessment* – We support use value assessment of agricultural land. We support land dedicated to conservation practices (i.e. wind breaks, buffer strips, etc.) or programs be assessed as farmland under use value. We support the 50 percent prorated assessment of undeveloped land and agricultural forestland.
- Taxation (23) 16: *We oppose county or regional assessors.*
- Taxation (23) 55-56: *Local Fees* – We oppose counties implementing a general tax or fee on farmers or farmland to pay for CLCD programs or other county programs.
- Taxation (24) 3-5: *Property Taxes* – We support two-thirds state funding for local school costs. We support the present system of semi-annual or annual payment of property taxes. We support a tax exemption on all machinery and equipment on farms.
- Taxation (24) 36-39: *Tax Exempt Real Estate* – We support requiring all tax-exempt real estate at least make a payment for municipal services (i.e. police, fire, etc.). We support full and equitable payment of the local property tax for property owned by the state and federal government, non-profit organizations, federal trust lands and other revenue producing property.

Discussion Questions

- Does WFBF current policy cover possible changes or updates proposed by the Wisconsin state legislature?
- Are the current WFBF state policies still relevant to Wisconsin law?
- In what ways could Use-value be updated in Wisconsin state law?
- Should there be changes to the Farmland Advisory Council?
- Agriculturally productive land continues to be converted away from farmland, is use-value achieving its goal of keeping land in production agriculture or should a new method be adopted?

- Does use-value put an undue burden on rural units of government because of the lack of property taxes collected?
- Should the legislature invest more in the shared revenue formula to compensate rural local governments for use-value?