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SFA BILL ANALYSIS

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Senate Bill 1246 (Substitute S-3 as reported by the Committee of the Whole)
Sponsor: Senator George A. McManus, Jr.
Committee: Farming, Agribusiness and Food Systems

CONTENT

The bill would create the "Agricultural Property Recapture Act" to provide for the levy of a recapture tax on qualified agricultural property that was converted from agricultural property by a change in use; and dedicate proceeds of the tax to the Agricultural Preservation Fund (proposed in Senate Bill 1247). Beginning January 1, 2003, a recapture tax would be imposed on the owner of property that was qualified agricultural property on that date, or subsequently became qualified agricultural property, and that was "converted by a change in use"; i.e., due to a change in use, the property was no longer qualified agricultural property and its exemption from school operating taxes was subject to rescission under the General Property Tax Act, and/or before a transfer of the property the purchaser filed a notice of intent to rescind the qualified agricultural property exemption.

The recapture tax would be the "benefit received on that property", that is, the sum of the number of mills levied in a local taxing unit on a parcel of qualified agricultural property in each year the property was assessed on its agricultural use value, not to exceed the seven years preceding the property's conversion by a change in use, multiplied by the difference in each year between the "true cash taxable value" of the property and the property's "taxable value determined under section 27e of the General Property Tax Act". "True cash taxable value" would be the taxable value the property would have had as determined under Section 27a of that Act in each year the property was assessed based upon agricultural use value. (Section 27a provides that the taxable value of property is the lesser of its current State equalized value or its taxable value subject to the assessment cap, which limits increases each year to the lesser of 5% or the rate of inflation.) "Taxable value determined under section 27e of the General Property Tax Act" would be, as proposed in Senate Bill 1245 (S-2), the lowest of the following: 1) the property's current agricultural use value; 2) the taxable value the property would have had if its taxable value had been determined subject to the assessment cap; or 3) the property's taxable value in the preceding year, minus any losses, multiplied by 1.05 or the rate of inflation, plus additions.

The bill is tie-barred to Senate Bill 1245 and to Senate Bill 1247, and could not take effect unless the voters approved Senate Joint Resolution M (which proposes a constitutional amendment to provide for the assessment of agricultural property based on the lesser of its market value or agricultural use value, without regard to the property's highest and best use.)

Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would generate new tax revenue totaling an estimated $1.0 million in 2003. By 2009, when the accumulated difference between the use and taxable value would be based for the first time on the maximum allowed seven years prior to the change in use, this tax would generate an estimated $7.1 million. The amount of revenue this new tax ultimately generated would depend on how effective it would be at discouraging people and businesses from buying farmland and converting it to nonfarm uses. The above estimates are based on the estimated current rate at which farmland is being converted to nonfarm uses.

Date Completed: 5-31-00

Fiscal Analyst: J. Wortley