Legislative Analysis

RETAIN TAX BENEFIT FOR AGRICULTURAL PORTION OF PROPERTY SUBDIVIDED WHEN TRANSFERED

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House Bill 4677 as introduced
Sponsor: Rep. David G. Maturen
Committee: Tax Policy
Complete to 6-16-15

SUMMARY:

House Bill 4677 amends the General Property Tax Act to allow for qualified agricultural property to be subdivided into qualified agricultural and non-agricultural property when transferred. The change would continue to allow the agricultural portion of the property to retain its current taxable value, while the remainder would be adjusted ("pop up") to the state equalized value. Current law does not specifically allow this.

Under the General Property Tax Act, when real property is transferred the taxable value is adjusted to its state equalized value, causing the taxable value to "pop-up" to what it would have been if the growth had not been capped by the restrictions in Section 27a(2). A number of transfers of real property are exempt from this adjustment, under Section 27a(7). This includes qualified agricultural property, as long as the buyer intends to continue to use all of the property in that manner.

Under current law, there is no specific provision that allows for splitting the property into an agricultural piece and a non-agricultural piece when it is transferred. According to State Tax Commission guidelines, if a buyer wanted to continue the agricultural use of a portion of the property and develop another portion for commercial use, the entire parcel will be subject to the taxable value pop-up. In a case like this, House Bill 4677 would limit the pop-up in taxable value to the commercial portion of the parcel only.

FISCAL IMPACT:

As written, the bill would have an indeterminate impact on local and state property tax revenues. By adjusting the provisions of Section 27a(7)(n) of the General Property Tax Act, there will be some forgone property tax revenue relative to current law, since only a portion of the qualified agricultural property will get a pop-up in value, rather than 100% of the entire parcel. If this change in the law encourages the development of agricultural land, local units could see their aggregate taxable values increase. This could result in a small increase in local and state property tax revenues. The mix of these two effects depends on local millage rates, property values, and the behavior of buyers and sellers, none of which can be determined in advance; therefore, the aggregate effect cannot be estimated at this time.

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