

# Tax Relief

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amendment in the 1973 primary election. If HB 1056 isn't signed into law this year, it's very likely that more counties will be signing up for Act 515.

Briefly, Act 515 requires a farmer to sign a covenant with the county, agreeing to keep his land in agriculture for 10 years. In return for signing the covenant, the farmer receives a tax break. Shirk presented a purely hypothetical example of the tax break that might be granted to a farmer. "Say your old assessment was \$300 an acre and your tax rate was 40 mills. Your new assessment might be \$1000, your millage might be 25 and your tax would be \$25. Under Act 515, you might get that assessment lowered to \$600 which, with your 25 mill tax rate, would mean a tax bill of \$15 an acre, or a \$10 saving."

The philosophy behind preferential tax treatment for farmland is that farmers in developing areas are penalized by higher taxes when their property values go up. Although the property may increase in value, it doesn't actually mean more money in the farmers' pockets, because they can still only realize as much farm income as the land is

capable of producing. Laws such as Act 515 allow municipalities to tax farmland on the basis of its value as farmland, rather than on its potential value as a development site.

In return for this tax break, the farmer must agree to keep his land in agriculture. If he should decide to sell his land for development or other non-agricultural use, he can do so but he must pay a penalty. The penalty is equal to the amount of the taxes not paid while under the covenant, plus 5 percent interest compounded annually. Although the life of the covenant is 10 years, the penalty will never exceed the amount of taxes saved in the five years previous to the sale, plus interest.

"A lot of farmers have said they aren't going to sign up because they don't like the idea of having to pay a penalty," Shirk told the audience. "But they've got nothing to lose by signing up. If they don't sign up, they'll pay the higher tax rate, anyway. If you sell your land before the fifth year, you just pay the taxes you would have paid anyway, plus interest. If you sell after the sixth year, you still only pay the difference for five years, plus interest, which means



Associate Chester County Agent Glenn Shirk made Act 515 tax relief provisions clear to a crowd of about 200 on Tuesday night at the Owen J. Roberts High School.

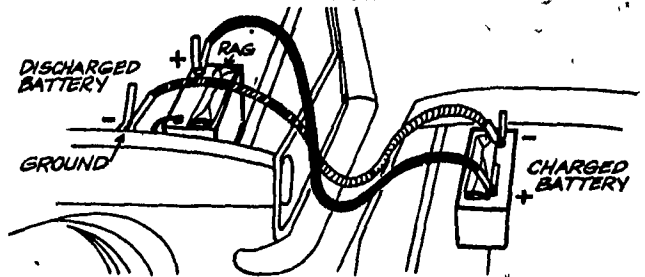
you had a lower tax bill for one year. And anything over six years means an even bigger savings. Selling after 10 years, for example, would mean that you had a five-year tax break."

Shirk pointed out that the tax break could be an important management tool. "If you'd pay \$2000 under regular tax rates, and \$1000 under the Act 515 rate, you'd have an extra \$1000 a year to work with.

"And if you do sell," Shirk continued, "the extra taxes and the interest you pay are completely deductible. If you sold the farm to another farmer, you wouldn't have to pay any tax penalty at all. I think it's important to think about these penalties in a rational way, because they aren't that severe. The idea of a penalty gets a lot of people upset, but I think they'd feel better if they'd reason it out a little more."

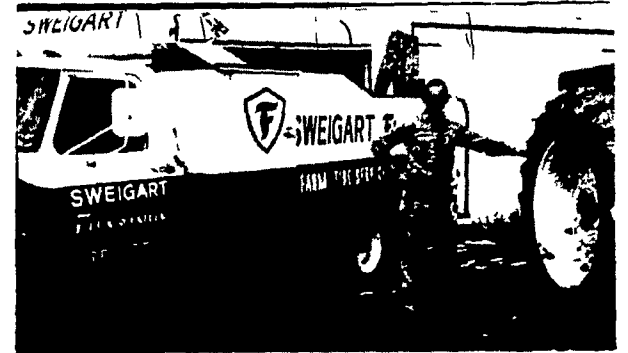
One important feature of Act 515, Shirk noted, is that any parcel of land may be excluded from the covenant. For example, if a farmer is planning to build a retirement home or a house for a married child, he can exclude enough land for a building lot. He'll pay a higher tax on that small portion of the land, but when the use of that portion of land changes, he won't be liable for a penalty on his entire

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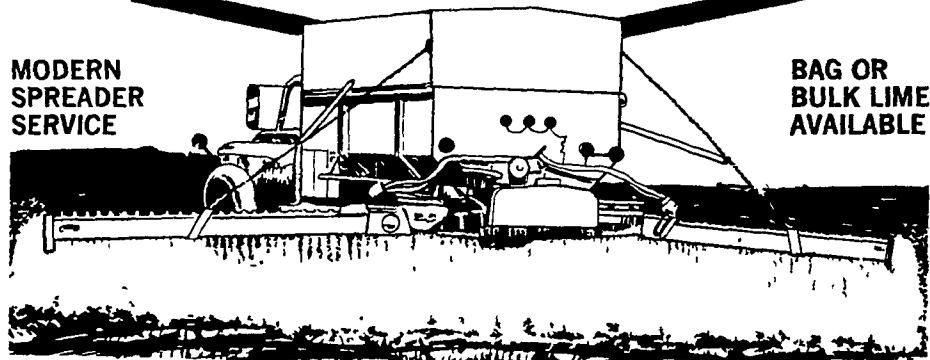
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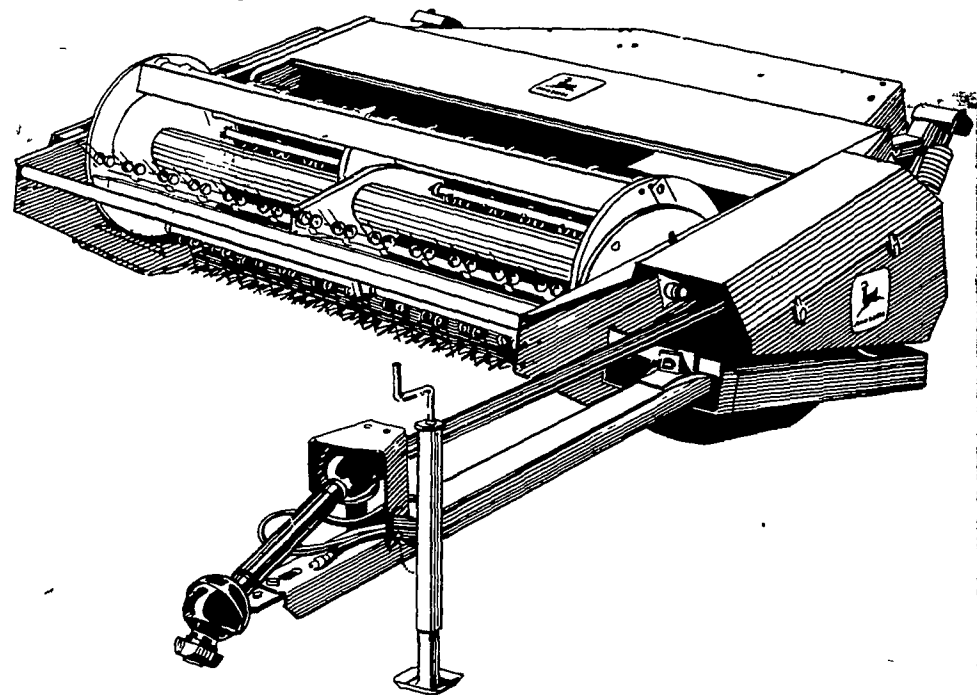
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