Millions of dollars in property tax breaks intended to preserve farmland are going instead to companies that bulldoze farms to build housing subdivisions, malls and industrial parks, an Associated Press investigation has found.

It's happening from coast to coast, costing local governments badly needed revenue or forcing them to increase the taxes of other property owners. The breaks can be enormous. Without them, land owners would typically pay two to 400 times more in property taxes.

In most states, the tax breaks date back to the 1950s and '60s, when lawmakers became alarmed at the rate at which farmland was disappearing under concrete and asphalt.

But loopholes in the laws are producing unintended, though perfectly legal, consequences.

Here's what's happening: A developer buys land with the intention of building on it. During the years when he readies the property for construction - preparing architectural plans, acquiring financing and
permits, even building roads and laying water pipe - he runs some cows or cuts some hay. Then he claims the tax break. Because of the loopholes, often even a pretense of farming can be enough to qualify.

Some examples:

* In Boone County, Arlinghaus Builders leases 1,000 acres it plans to develop to farmers who grow hay and tobacco on it. That qualifies the land for the agricultural tax break, reducing the property tax bill from $53,070 to $5,100.

* In Iowa, real estate developer Knapp Properties Inc. owns 239 acres near the Des Moines Airport. The land, close by a Wingate Hotel and a Federal Reserve check-processing plant, is subdivided for commercial development and is for sale at a total price of $7 million. But because Knapp allows local farmers to plant corn and soybeans on it, the company paid $14,345 in property taxes last year instead of $320,514.

* In Denver, Delmer Zweygardt is building a subdivision called Deer Creek Farms. As the houses started going up, he grazed a few cows on the edge of the property. City officials pointed out that zoning laws don't allow cows in a subdivision, but the state Board of Assessment ruled that the presence of cows was enough to qualify Zweygardt for the tax break anyway. This reduced his total tax bill on 48 house lots from $22,000 a year to $60 until the subdivision was nearly completed in 2002, leaving no room for cows.

Such cases are commonplace. The AP found scores of them throughout the country - some with "Soon To Be the Home Of" signs heralding future malls, industrial parks or housing developments on property receiving tax breaks intended to encourage land preservation.

In Polk County, Iowa, which includes the city of Des Moines, about 10 percent of those claiming farmland tax breaks are actually identified on the tax rolls as developers.

The idea behind the law
Every state offers some type of tax incentive to protect land from development. In some states, only working farms are eligible. In others, the breaks apply to agricultural land whether it is being farmed or not, and some also include timberland.

"The whole idea was to encourage people to keep their land in agricultural use," said Talbot D'Alemberte, who sponsored the law as a member of the Florida state legislature in 1972.

One factor driving development was property taxes, legislators throughout the country thought. Encroaching development increases land values, causing property taxes to rise. This, in turn, increases pressure on cash-strapped owners to sell to developers.

States tried to relieve that pressure by taxing threatened land according to what it is used for rather than what it could sell for.

Although the tax breaks have been a welcome relief for working farmers, they have done little to slow the pace of development, according to numerous studies by think tanks and universities.

Of course, many property owners who receive the tax breaks have no intention of developing their land. President Bush, for example, receives the agricultural tax break for his 1,582-acre ranch in Crawford, Texas, saving $23,679 last year on what would otherwise have been a $44,617 tax bill.

However, property tax laws are so vague that it is easy for others to take advantage.

Elbert County, Colo., agricultural appraiser Jane Penley, said, "I have people who have 60 acres and who put one cow on it and get the tax break." Elsewhere in the state, parking lots have qualified after a few cows were brought in to graze on grassy strips between parking lanes, assessors said.
The developer's point of view

Developers are unapologetic. "The way they tax is what you use it for," said Bob Schroder, vice president of Arlinghaus. "It's not who owns it or what you might do with it someday. It's what you do with it now."

As it builds subdivisions, Arlinghaus leases portions of the land to farmers until it's ready to build on that portion.

"We have two or three farmers who call from time to time and say can I cut your tobacco or hay," Schroder said.

In order to qualify for the tax break the land must be at least 10 acres and "a majority of the land must be being farmed," said Kellie Bowles, chief deputy for the Boone County Property Valuation Administrator.

Every tax dollar lost through loopholes must be made up somehow - either in reduced services or in higher taxes for other property owners. The amount lost nationwide cannot be estimated, in part because property taxes are assessed by thousands of local jurisdictions. But even solid estimates for individual counties are unavailable.

What is clear is that the total cost of land preservation tax breaks - regardless of their merits - is enormous.

Need for change

Joshua Duke, a University of Delaware agriculture expert, said there has been a lot of talk about reforming laws governing land-preservation tax breaks, but that not much happens.

Few members of the public seem to realize how little the tax breaks do to slow development, how much they cost, or how widely they are misused, many assessors and land experts said.
Meanwhile, those who benefit from the tax breaks are a large and vocal constituency. In Iowa, they showed up en masse last year to block the reappointment of a tax assessor who was trying to get tough on agricultural exemptions.

"Change this law?" said John Zimple of Arkansas' Assessment Coordination Department in Little Rock. "There probably would be a civil war."

Associated Press reporter Mike Schneider in Florida contributed.