EXHIBIT 1
DATE 3.15.05
SB 296

Montana Department of Revenue

Dan Bucks
Director

Brian Schweitzer
Governor

SB296, as amended

Under current law, a non-contiguous parcel of land that is 20 to 160 acres in size and is under one ownership must stand on its own production merits in order to qualify as ag land. "Under one ownership" means that a unique name appears on the title to the land. The income from family operations cannot be combined with the owners' income to meet the ag income test.

This bill would change the eligible income and other criteria the department considers when determining the eligibility requirements of 20 to 160 acre tracts for agricultural land classification.

The portion of the bill amending these sections of current law only applies when these parcels don't meet the current $1500 income requirement contained in 15-7-202, MCA.

The bill expands the proof of agricultural income needed to qualify as ag land. Specifically on page 2, line 3 the bill allows that:

- If the owner is involved in agricultural production in the state and submits proof that 51% of the owners' Montana annual gross income is derived from ag production, the parcel will qualify as ag land.

The bill also allows certain other qualifications to include lands that are farmed or ranched along with a family operation. These particular parcels can qualify under the bill, even though the ownership of the land is in different names. Among those qualifying criteria are:

- The property taxes are paid by a family business entity involved in Montana ag production and 51% of the Montana gross income of the family business entity comes from agricultural production; or

- The owner is a shareholder, partner, owner or member of the family business entity involved in ag production and more than 51% of the family business entity income comes from ag production in Montana

The owner of a 20-160 acre parcel would only need to meet <u>one</u> of the three criteria listed above in order to qualify the land for agricultural classification.

Examples of scenario's affecting agricultural classification:

Example 1: John Smith owns a 40-acre parcel of land and raises hay. The land won't support the minimum requirements for ag classification ($1,500 in income from selling hay) but John produces more than 51% of his Montana personal income from the operation on his parcel. Since the majority of his income comes from an ag production, the land would qualify as agricultural land.

Example 2: The Smith Family Ranch Incorporated is involved in ag production in Montana and derives 51% of their Montana annual gross income from ag production. The Smith Family Ranch, Inc pays the property taxes on John's property. John's land would be classified as agricultural land.

Example 3: John is a shareholder in Smith Family Ranch Inc. Smith Family Ranch owns and operates a 5,000-acre cattle ranch in Montana and derives more than 51% of their Montana gross income from agricultural operations. Under the proposal, since John is a shareholder in Smith Family Ranch Inc, his land would be classified as agricultural land even though it doesn't meet the required production test.

The bill is effective for TY 2006.

Example of SB296 Impacts

Smith Family Ranch, Inc

5,000 Acres

A bona fide agricultural operation

John Smith Property

40 Acres

Under current law, the John Smith property is in a separate ownership and must meet the $1,500 income test to qualify as agricultural land. The income of the Smith Family Ranch nor the relationship between the Smith Family Ranch and Mr. Smith is considered when determining ag eligibility.

- Under SB296, if John Smith proves that the property is involved in agricultural production and submits proof that 51% of the owners' Montana annual gross income is derived from ag production, the parcel will qualify as ag land (Example 1).
- Under SB296, the relationship with the Smith Family Ranch, but not the income from the ranch, is given consideration when determining the agricultural eligibility of the John Smith property (Examples 2 and 3).
- The agricultural eligibility or status of the Smith Family Ranch, Inc is not affected by SB296.