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HOUSE BILL NO. 906

INTRODUCED BY C. KNUDSEN, T. FRANCE, L. JONES, B. BARKER

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING LAWS RELATED TO AGRICULTURAL PROPERTY TAXATION; ~~PROVIDING THAT THE OWNER OF A PARCEL OF 160 ACRES OR MORE MUST BE ELIGIBLE FOR FARM SERVICE AGENCY PAYMENTS TO QUALIFY FOR AGRICULTURAL PROPERTY CLASSIFICATION; PROVIDING FOR THE CREATION OF THE LAND CLASSIFICATION ADVISORY COMMITTEE; PROVIDING FOR FULL REVIEW AND RECOMMENDATION OF CHANGES TO LAND CLASSIFICATION METHODOLOGY AND VALUATIONS; PROVIDING REPORTING REQUIREMENTS; PROVIDING AN APPROPRIATION; AMENDING SECTION ~~15-7-202~~ 15-7-201, MCA; AND PROVIDING AN APPLICABILITY EFFECTIVE DATE AND A TERMINATION DATE."~~

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

(Refer to Introduced Bill)

Strike everything after the enacting clause and insert:

Section 1. Section 15-7-201, MCA, is amended to read:

"15-7-201. Legislative intent -- value of agricultural property. (1) Because the market value of many agricultural properties is based on speculative purchases that do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

(2) Agricultural land must be classified according to its use, which classifications include but are not limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land must be subclassified by productive capacity. Productive capacity is determined based on yield.

(4) In computing the agricultural land valuation schedules to take effect on the date when each revaluation cycle takes effect pursuant to 15-7-111, the department of revenue shall determine the productive

1 capacity value of all agricultural lands using the formula $V = I/R$ where:

2 (a) V is the per-acre productive capacity value of agricultural land in each subclass;

3 (b) I is the per-acre net income of agricultural land in each subclass and is to be determined as

4 provided in subsection (5); and

5 (c) R is the capitalization rate and, unless the advisory committee recommends a different rate and

6 the department adopts the recommended capitalization rate by rule, is equal to 6.4%. This capitalization rate

7 must remain in effect until the next revaluation cycle.

8 (5) (a) Net income must be determined separately for each subclass.

9 (b) (i) Net income must be based on commodity price data, which may include grazing fees, crop

10 and livestock share arrangements, cost of production data, and water cost data for the base period using the

11 best available data.

12 (ii) Commodity price data and cost of production data for the base period must be obtained from

13 the Montana Agricultural Statistics, the Montana crop and livestock reporting service, and other sources of

14 publicly available information if considered appropriate by the advisory committee.

15 (iii) Crop share and livestock share arrangements are based on typical agricultural business

16 practices and average landowner costs.

17 (iv) Allowable water costs are \$50 for each acre of irrigated land.

18 (c) The base crop for valuation of irrigated land is alfalfa hay adjusted to 80% of the sales price,

19 and the base crop for valuation of nonirrigated land is spring wheat. The base unit for valuation of grazing lands

20 is animal unit months, defined as the average monthly requirement of pasture forage to support a 1,200-pound

21 cow with a calf or its equivalent.

22 (d) Unless the advisory committee recommends a different base period and the department adopts

23 the recommended base period by rule, the base period used to determine net income must be the most recent

24 10 years for which data is available prior to the date the revaluation cycle ends. Unless the advisory committee

25 recommends a different averaging method and the department adopts the recommended averaging method by

26 rule, data referred to in subsection (5)(b) must be averaged, but the average must exclude the lowest and

27 highest yearly data in the period.

28 (6) The department shall compile data and develop valuation manuals adopted by rule to

1 implement the valuation method established by subsections (4) and (5).

2 (7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and
3 agricultural economics. The advisory committee shall include one member of the Montana state university-
4 Bozeman, college of agriculture, staff. The advisory committee shall:

5 (a) compile and review data required by subsections (4) and (5);

6 (b) recommend to the department any adjustments to data or to landowners' share percentages if
7 required by changes in government agricultural programs, market conditions, or prevailing agricultural
8 practices;

9 (c) recommend appropriate base periods and averaging methods to the department;

10 (d) evaluate the appropriateness of the capitalization rate and recommend a rate to the
11 department;

12 (e) verify for each class and subclass of land that the income determined in subsection (5)
13 reasonably approximates that which the average Montana farmer or rancher could have attained;

14 (f) recommend agricultural land valuation schedules to the department. With respect to irrigated
15 land, the recommended value of irrigated land may not be below the value that the land would have if it were
16 not irrigated.

17 (g) provide methods for adjusting agricultural land productivity values when more site-specific data
18 is available and pertinent; and

19 (h) recommend to the department definitions for "site-specific" and "pertinent".

20 (8) There is a land classification advisory committee consisting of:

21 (a) the director of the department or the deputy director of the department, who shall serve as
22 chairperson;

23 (b) one representative appointed by the speaker of the house of representatives, in consultation
24 with the director of the department;

25 (c) one senator appointed by the president of the senate, in consultation with the director of the
26 department;

27 (d) one representative appointed by the minority leader of the house of representatives, in
28 consultation with the director of the department;

1 (e) one senator appointed by the minority leader of the senate, in consultation with the director of
2 the department; and

3 (f) two members of the agricultural advisory committee provided for in subsection (7), appointed
4 by the director of revenue;

5 (9) The land classification advisory committee shall:

6 (a) review how to identify, quantify, and objectively classify property that is used primarily for
7 recreation or other nonproductive uses;

8 (b) consider the impact of any policy changes on current property owners with land that qualifies
9 as agricultural land pursuant to 15-7-202;

10 (c) consider the feasibility of implementation for the department of any recommended changes,
11 including updating the ability of the department to allow the state's income tax system to communicate with the
12 the state's property tax system;

13 (d) provide for meaningful public comment and participation from all interested parties; and

14 (e) report biennially on committee activity to the revenue interim committee provided for in 5-5-227.

15 (10) The members of the land classification advisory committee must be appointed and the
16 committee must be convened no later than July 15, 2023. For the period of July 1, 2023, through December 31,
17 2024, the committee shall work with the department to fulfill the requirements of the committee as outlined in
18 subsection (9) and bring forward updates to the revenue interim committee and any recommended changes to
19 the 2025 legislature. The updates must include any recommended changes to statutes, rules, or guidance that
20 are necessary to implement the intent of the legislature that the agricultural tax classification is intended for
21 those involved in bona fide agricultural production.

22 (11) The department shall report no later than July 31, 2024, in accordance with 5-11-210, to the
23 revenue interim committee on the process the land classification advisory committee undertook, what findings
24 were made, any recommended changes to statute, rule, or guidance by the committee, and any
25 recommendations or observations of the department."

27 NEW SECTION. Section 2. Appropriation. There is appropriated \$90,000 from the general fund to
28 the department of revenue for the biennium beginning July 1, 2023, to implement [section 1(8) through (11)].

1 Any funds not used for the activities of the land classification advisory committee at the end of the biennium
2 revert to the general fund.

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4 NEW SECTION. **Section 3. Effective date.** [This act] is effective July 1, 2023.

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6 NEW SECTION. **Section 4. Termination.** [This act] terminates June 30, 2025.

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- END -

AMENDED