

July 2018

Revenue and Transportation Interim Committee
Megan Moore, Research Analyst

HJ 22 AGRICULTURAL PROPERTY STUDY: POSSIBLE BILL IDEAS

The committee requested that staff work with the Department of Revenue on possible bill draft concepts for the House Joint Resolution No. 22 study of the classification and valuation of agricultural property.

Much of the study focused on agricultural eligibility for parcels of land that are less than 160 acres and do not automatically qualify for agricultural classification. Parcels of less than 160 acres must be devoted to agricultural use and meet a \$1,500 annual gross income requirement to qualify as agricultural property.

Recent decisions by the Montana Tax Appeal Board also led the Department of Revenue to repeal administrative rules for which there was no statutory authority. Those rules required a minimum parcel size of 1 acre to qualify for agricultural valuation and allowed agricultural valuation for up to 5 years when the income requirement was not met if a certain number of fruit trees or vines had been planted.

The following table summarizes possible bill draft ideas mentioned during public comment, suggested by committee members, and from nearby states that could address the issues discussed throughout this study.

Possible Bill Draft Concepts for HJ 22 Agricultural Property Study

Category	Concept	Source
Eligibility	Require agricultural use for a period of time before eligibility for agricultural classification	<ul style="list-style-type: none">Idaho: devoted to agriculture use during last 3 growing seasonsWashington: 3 of 5 years, including income requirement based on parcel size
Eligibility	Require parcel to be 1 acre or more to be classified as agricultural	2015-2016 RTIC HB 29
Eligibility	Remove nonqualified agricultural property designation	2015-2016 RTIC HB 75
Income	Index or change \$1,500 gross income requirement for parcels of less than 160 acres	<ul style="list-style-type: none">2015-2016 RTIC HB 28: \$3,500DORSouth Dakota: \$2,500 or gross income in 3 of last 5 years that is 10% or more of taxable value of the agricultural property (excluding improvements)
Income	Require income per acre	<ul style="list-style-type: none">Sen. Barrett: based on productive value determined by DOR

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		<ul style="list-style-type: none">• Washington: \$200 per acre (for 3 of 5 years before application) for parcels of 5 acres or more and less than 20 acres
Income	Allow agricultural classification for crops that do not produce income immediately	<ul style="list-style-type: none">• Montana orchard and vineyard owners based on previous DOR rule: allow classification for up to 5 years with 100 fruit trees or 120 vines• Washington: parcels of 5 acres or more and less than 20 acres, minimum \$100 investment per acre if harvest is expected within 7 years
Land under residence	Value 1 acre or 1/2 acre under a residence at market value (as class four property)	<ul style="list-style-type: none">• 2015-2016 RTIC HB 27• DOR• Montana statute, 1973-1995¹
Irrigation costs	Allow the \$50 per acre maximum water cost deduction from net income for all irrigated land. Taxpayer will no longer have to submit energy costs (which may only be done online.) Estimated revenue loss for 101 mills of \$291,000.	DOR and its informal agricultural working group

CONCLUSION

If the committee wishes to pursue any of the above concepts as committee bill drafts, the request must be made at the July meeting. The committee may also wish to seek public comment at the July meeting on any bill draft concepts requested since the committee will have to finalize the draft at the September meeting.

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¹ From 1985-1993 improvements on agricultural property were in a separate class, valued at market value, and taxed at 80% of the class four tax rate. Ch. 699, L. 1985.