Information Request

MONTANA DEPARTMENT OF REVENUE

Memorandum

To: Land Classification Working Group

From: Jared Isom, Tax Policy and Research

Date: March 5, 2024

Subject: Previous Land Classification Legislation

Notable attempts to reform land classification were made in 2017 in HB 27, 28, and 75, which all failed to pass. The Department also brought a bill forward in 2023 but could not find a sponsor. Other efforts were made in 2023 (HB 870, 906, and 912) that also failed to pass. These 2023 bills focused on parcels 160 acres and greater and did not attempt to address the definition of agriculture or agricultural land, but the discussion and debate surrounding them lead to the creation of the Land Classification Working Group. This memo briefly reviews the content and estimated fiscal impact of the 2017 bills and the Department's 2023 proposal, which all look at changing the definition of class 3 agricultural land.

HB 27, 2017

HB 27 sought to change the property tax valuation classification of up to one acre of land under a residential improvement on an agricultural class 3 property to a residential classification in class 4. Currently, land under a residence on an agricultural property is valued according to its class 3 productivity value. HB 27 would have reclassified this land into class 4 (residential property) and value it at market value. Based on the TY 2016 property tax database, it was estimated that HB 27 would change the classification of 29,680 acres with a total market value of $58.645 million (average of $1,976 per acre), and a total taxable value of $1.261 million (average of $42.5 per acre). The new total market value for these properties was estimated to be $771.136 million (average of $25,981 per acre), and the total taxable value was estimated to be $10.410 million (average of $350.76 per acre). Statewide taxable value would have increased $9.149 million. Statewide 95 general fund mills and six university mills were applied to the increase in taxable value to generate an estimated fiscal impact to the state.

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FISCAL SUMMARY

	FY 2018 Difference	FY 2019 Difference	FY 2020 Difference	FY 2021 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Revenue:				
General Fund	$874,358	$879,604	$884,882	$890,191
State Special Revenue	$55,223	$55,554	$55,887	$56,223
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Net Impact-General Fund Balance:	$874,358	$879,604	$884,882	$890,191

HB 28, 2017

HB 28 attempted to increase the minimum agricultural marketing income standard for parcels less than 160 acres from $1,500 to $3,500. This change would result in fewer taxpayers who graze cattle or raise agricultural products on smaller parcels qualifying for agricultural land classification. Information from the 2016 Montana Agricultural Statistics report was used to estimate the number of farms that would meet the new income threshold. The properties that no longer qualify as class 3 agricultural land would be valued at market value and taxed as class 4 residential property. A statewide per acre residential value was applied to these properties to estimate new market and taxable values. The total market value of these properties would have increased from $9.358 million to $3,365 million and the taxable value increase would have been from $0.482 million to $45.431 million for a statewide taxable value increase of $44.949 million. The 95 statewide and 6 university mills were applied to the difference in taxable value to estimate the fiscal impact to the state. There would also be some administrative costs.

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FISCAL SUMMARY

	FY 2018 Difference	FY 2019 Difference	FY 2020 Difference	FY 2021 Difference
Expenditures:				
General Fund	$425,726	$395,726	$0	$0
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Revenue:				
General Fund	$0	$4,321,544	$4,347,474	$4,373,558
State Special Revenue	$0	$272,940	$274,577	$276,225
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Net Impact-General Fund Balance:	($425,726)	$3,925,818	$4,347,474	$4,373,558

HB 75, 2017

HB 75 would have eliminated the class 3 non-qualified agriculture classification. Under current law, class 3 non-qualified agricultural land is assessed as grazing land based on productivity value and taxed at a rate seven times the normal class 3 rate. Under HB 75, a majority of the non-qualified agricultural land property would have been reclassified as class 4 (residential and commercial) property and assessed at market value. In TY 2016 there was 1,077,154 acres of land in the non-qualified agricultural land category. These properties had an assessed (productivity) value of $47.061 million and a taxable value of $7.117 million. It was assumed that half of these properties would have applied for agricultural status, and of those properties, half would have been granted agricultural status and taxed at the lower statutory class 3 rate of 2.16%. The remaining properties would be reclassified as class 4 property, which is valued at its market value and taxed at a statutory rate of 1.35%. To estimate non-qualified agricultural land at a market value equivalent, county average class 4 land values were applied to the reclassified non-qualified agricultural land acreage. The statewide average was $33,256 per acre. The total market value of these reclassified properties would have increased $26,838.124 million. Taxable value increase would have been $355.837 million. The 95 statewide and 6 university mills were applied to this increase to estimate the impact to the state. There would also be some administrative costs. The Department of Revenue has updated the estimates of this bill for TY 2023 using a different methodology.

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FISCAL SUMMARY

	FY 2018 Difference	FY 2019 Difference	FY 2020 Difference	FY 2021 Difference
Expenditures:				
General Fund	$0	$441,302	$401,658	$0
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$34,426,797	$34,633,358
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Net Impact-General Fund Balance:	$0	($441,302)	$34,025,139	$34,633,358

DOR proposal, 2023

Under current law, parcels 20 to less than 160 acres under one ownership are classified as non-qualified agricultural land. Land for non-qualified agricultural properties is valued at the state's average grazing productivity rate, while residential land is valued at market value. The DOR's proposed bill would have increased the minimum size for properties to receive non-qualified agricultural classification from 20 acres to 40 acres. Classification, and therefore valuation, of properties with land sizes between 20 and 40 acres would change to residential tract land. This would substantially increase the taxable value for properties that change classification. Market values were estimated for all individual properties between 20 and 40 acres currently classified as non-qualified agricultural. It was estimated there were about 17,500 properties classified as non-qualified agricultural properties between 20 and 40 acres. Under current law, the total market value for these 17,500 properties was approximately $24.36 million, and total taxable value was approximately $3.68 million for TY 2022. Under this proposed legislation, the total market value for these 17,500 properties would have been approximately $3.47 billion, and total taxable value would have been approximately $46.86 million for TY 2022. The statewide taxable value difference would be about $43.18 million. The Department of Revenue has updated the estimates of this bill for TY 2023 using a different methodology.

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FISCAL SUMMARY

	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$0	$0	$0
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Revenue:				
General Fund	$4,102,000	$4,176,000	$4,614,000	$4,697,000
State Special Revenue	$259,000	$264,000	$292,000	$297,000
Federal Special Revenue	$0	$0	$0	$0
Other	$0	$0	$0	$0
Net Impact-General Fund Balance:	$4,102,000	$4,176,000	$4,614,000	$4,697,000

If you have any additional questions, please give me a call at (406) 444-7925.