

# Tract Land vs. Nonqualified Agricultural Land Classification and Valuation

Land Classification Working Group  
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## History and Background

In 1993, HB 643 was introduced to remove the income requirement for classification of agricultural land and make this classification strictly based on use. In its first version, HB 643 also provided land 20-160 acres not being used in an agricultural manner would be valued using a market or cost approach.

When this bill passed it required parcels of land 20 to less than 160 acres that didn't meet the requirements of agricultural classification be classified as nonqualified agricultural land with a taxable percentage multiplier of seven. The landowner had to verify to the department that the land was used in an agricultural manner.

Several bills have been considered in the legislature since the inception of nonqualified agricultural land in 1993. Those which passed have resulted in removing the requirements for agricultural use, location outside of a platted subdivision and use based on covenants and restrictions on the land.

## Classification and Valuation

The department implements the current law by classifying contiguous land 20 acres to less than 160 acres, under one ownership, that doesn't meet the requirements for agricultural classification as nonqualified agricultural land. This includes land that doesn't meet the agricultural land use requirement, the income requirement, other eligibility requirements, or doesn't have an application filed for agricultural classification.

Nonqualified agricultural land is valued as if it was grazing land but uses the statewide average productivity. In other words, no matter where the property is located it is given the same value per acre. The formula is:  $\text{Value} = ((\text{productivity in aum per acre} \times \text{price per aum}) \times \text{net income}) \div \text{capitalization rate}$ . For 2023, the populated formula is:  $\text{Value} = ((.20 \times \$23.50) \times .75) \div .064 = \$55.08/\text{acre}$ . The per acre value is then multiplied by the parcel acres to determine the land value.

The tax rate, also known as the fractional assessment, is seven times the agricultural tax rate, currently  $2.16\% \times 7$  for a rate of  $15.12\%$ . This is applied to the nonqualified agricultural land value to determine the taxable value. The current taxable value per acre is:  $\text{Taxable Value} = \$55.08 \times .1512 = \$8.33$ .

The department classifies one-acre of land under a residence on a nonqualified agricultural parcel as a homesite. This homesite is valued as Class 4 property at a market value. While the remainder acres are at a static value statewide, the homesite value is dependent on the market area of its location. If there is a homesite on the parcel, there is a definite tax benefit for the parcel to be in qualified agricultural classification.

## Perceived Inequities

Property owners perceive inequities due to the nonqualified agricultural land classification which include the nondescriptive name of the classification, lack of a use test for classification, large property value variations of parcels with minimal size differences and discrepancies in the classification of remainder acres on forest parcels.

Currently, this classification does not require agricultural use, however, many are using the land in an agricultural manner and are confused as to why the department “says” their land is nonqualified. Because the nonqualified subclassification does not have a use requirement, it is confusing to have it called nonqualified agricultural land. On the other hand, some property has a lower taxable value when classified as nonqualified agricultural than it does as agricultural, typically this is found in irrigated land. These taxpayers do not file an application and receive a lower taxable value than other properties that are classified as irrigated land.

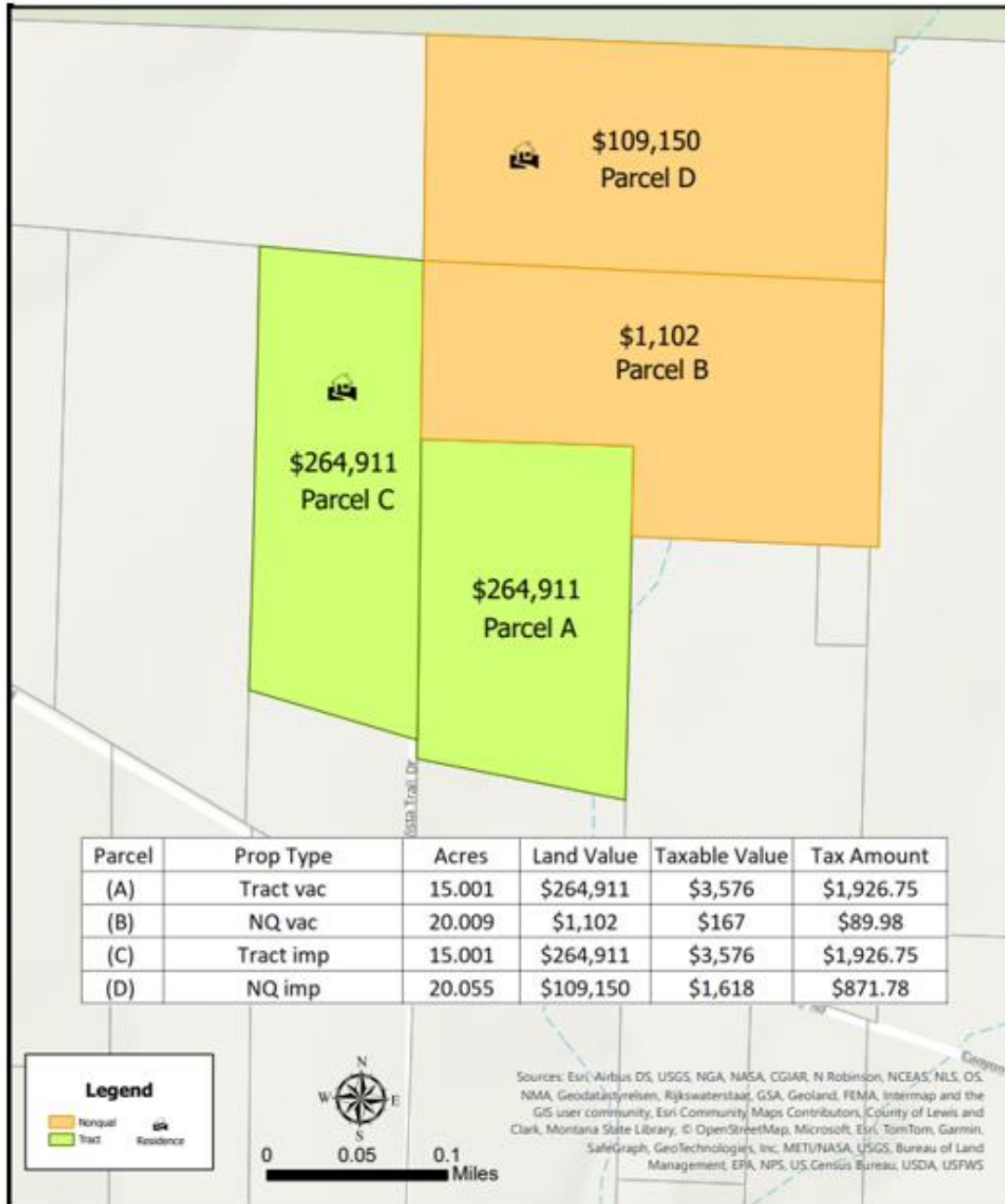
Since the nonqualified agricultural land classification is based on size of an ownership, inequities are found when parcels with minimal size differences have different classifications. Parcels just under 20 acres that don’t meet the agricultural requirements are valued using market value, but 20-acre parcels receive an agricultural value.

Another inequity is created because the nonqualified classification is based on the size of the parcel, regardless of the uses within the parcel. Forest land classification is based on the acres that meet the forest land criteria which results in parcels having forest land classification and remainder acres that classified as something other than forest. If the parcel is between 20 and less than 160 acres, the remainder acres are classified as nonqualified agricultural land while if the parcel is less than 20 acres the remainder acres are generally classified as tract land. This is another example of the nonqualified valuation versus the market valuation for the remainder acres.

# Map Examples of Inequities

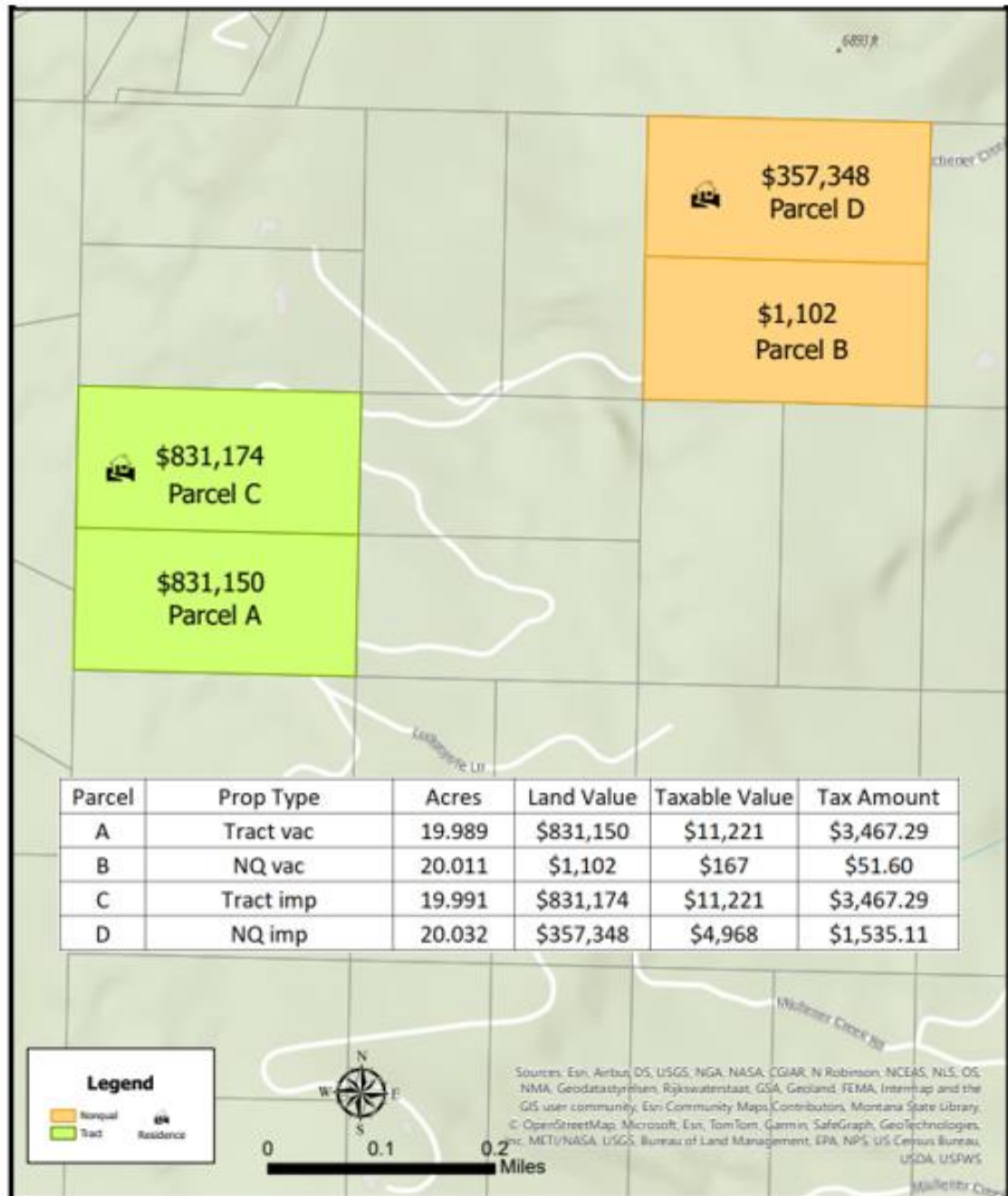


## 1. Comparing Land Values of Nonqualified Agricultural and Tract Parcels in Lewis & Clark County



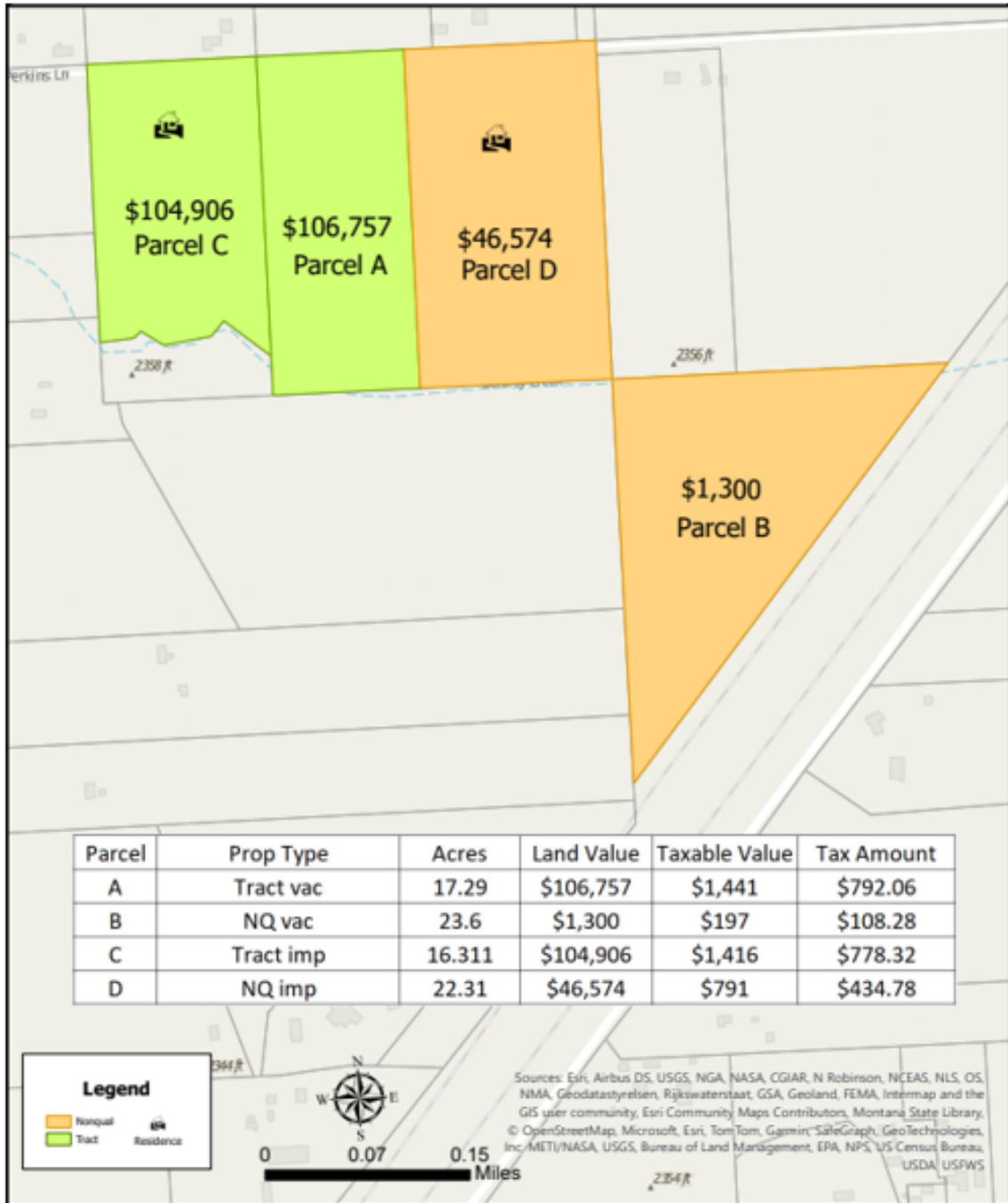


## 2. Comparing Land Values of Nonqualified Agricultural and Tract Parcels in Gallatin County



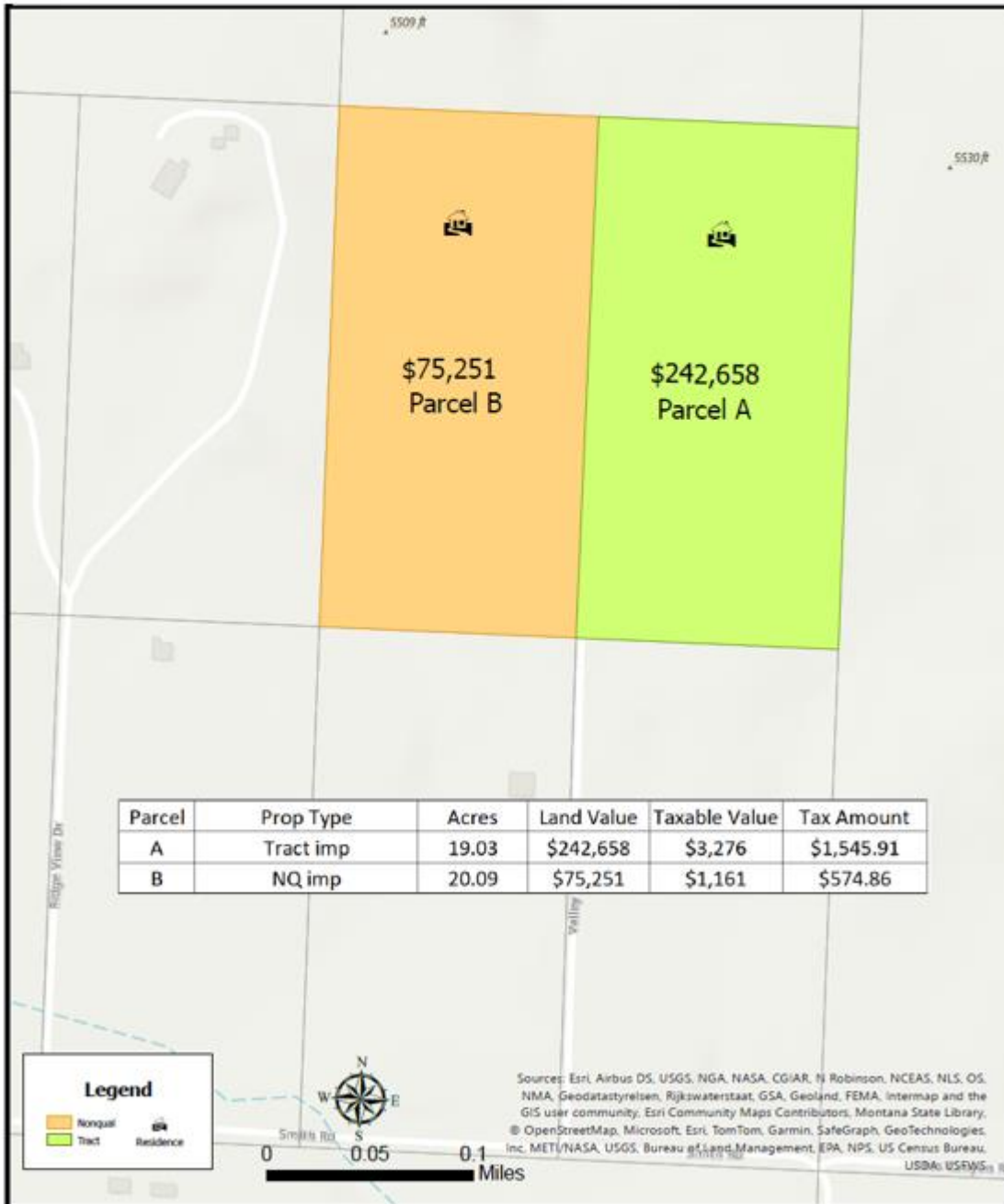


### 3. Comparing Land Values of Nonqualified Agricultural and Tract Parcels in Custer County



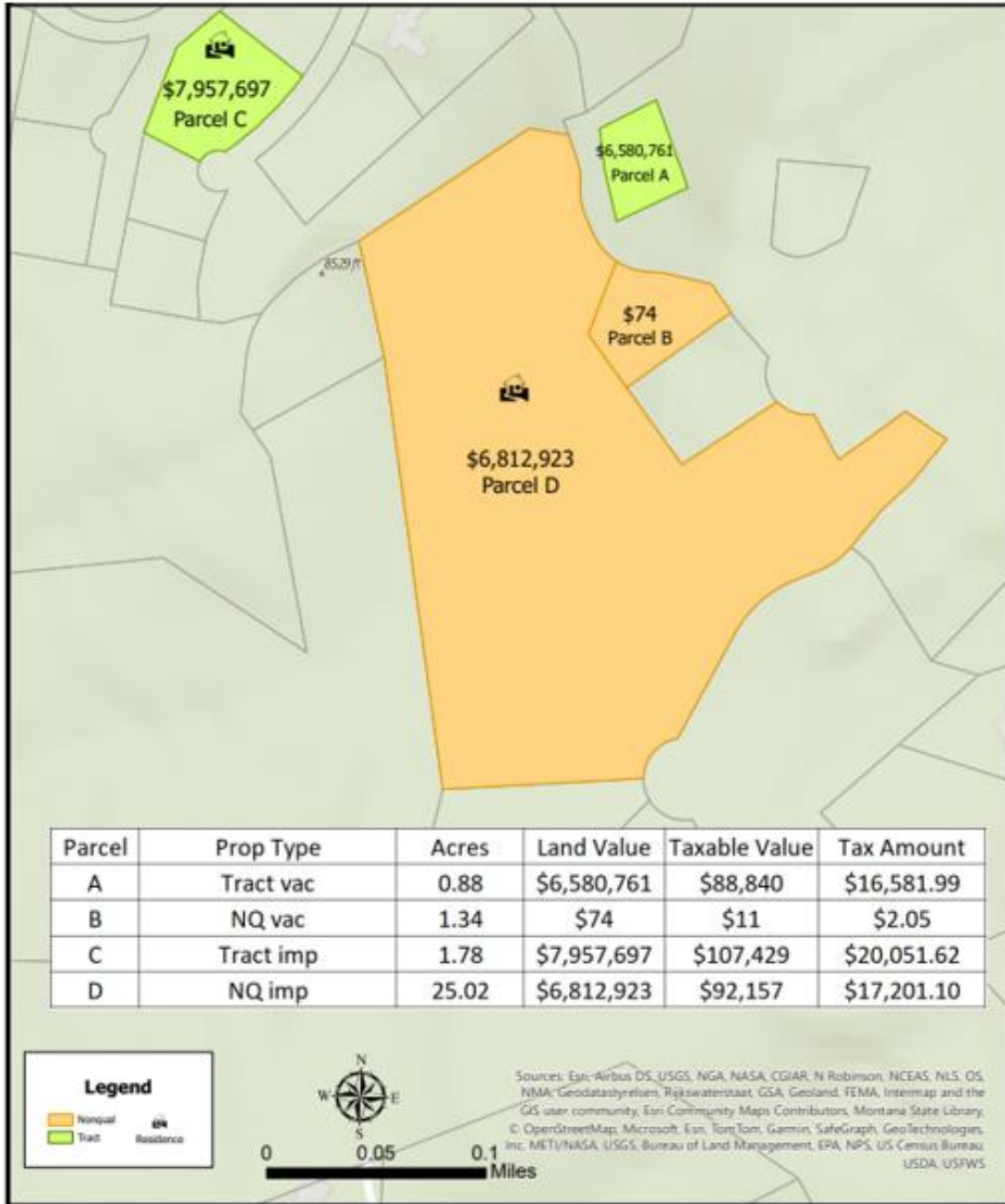


## 4. Comparing Land Values of Nonqualified Agricultural and Tract Parcels in Beaverhead County





## 5. Comparing Land Values of Nonqualified Agricultural and Tract Parcels in Madison County





## Other Perceived Inequities

One of the basic steps in the appraisal process is determining the highest and best use of the property. This is essential for the application of a market or income value as the appraiser determines the most economical use of the property in terms of an investor's anticipated returns. The four tests in the determination of highest and best use are legally permissible, physically possible, economically feasible, and maximally productive. Montana Code Annotated states all lands must be classified according to their use or uses, 15-7-103(2), MCA and all agricultural lands must be classified and appraised as agricultural lands without regard to the best and highest value use of adjacent or neighboring lands, 15-7-103(5), MCA.

Nonqualified agricultural land classification does not have requirements to meet the highest and best use tests as the only restrictions are size of the ownership and not qualifying for agricultural classification. The consideration of highest and best use is specifically excluded in appraisal of agricultural land in Montana due to the above statute. Since nonqualified agricultural land is included with agricultural land in Class 3 property may be one of the reasons that the highest and best use is not part of the nonqualified land appraisal.

This is a concern as the existence of covenants, deed restrictions or other limiting conditions are not given consideration in the classification of nonqualified or qualified agricultural land.

Another issue in the implementation of nonqualified agricultural land classification is the concept of contiguous ownership. Qualified agricultural land must meet specific requirements based on the number of contiguous acres under one ownership. For nonqualified agricultural land, this requirement basis isn't stated in law, however since its inception in 1993, the department has classified contiguous parcels, under one ownership that total 20 to less than 160 acres but don't meet criteria for agricultural classification, as nonqualified agricultural land. The department does not combine acreage of noncontiguous parcels to meet the required acreage criteria of nonqualified agricultural land.

## Conclusion

In conclusion, the current classification and valuation system for nonqualified agricultural land in Montana has led to perceived inequities among property owners. The lack of a use test for classification, large property value variations, and discrepancies in classification criteria have raised concerns about fairness and consistency. Additionally, the absence of considerations for highest and best use and limitations on contiguous ownership have further compounded these issues.