

HOUSE BILL NO. 637

INTRODUCED BY MANUEL

IN THE HOUSE

February 4, 1983	Introduced and referred to Committee on Taxation.
February 16, 1983	Committee recommend bill do pass. Report adopted.  Bill printed and placed on members' desks.
February 18, 1983	Second reading, do pass.
February 21, 1983	Considered correctly engrossed.
February 22, 1983	Third reading, passed. Transmitted to Senate.

IN THE SENATE

March 1, 1983	Introduced and referred to Committee on Taxation.
April 11, 1983	Committee recommend bill be concurred in as amended. Report adopted.
April 12, 1983	Second reading, concurred in.
April 13, 1983	Third reading, concurred in. Ayes, 46; Noes, 0.

IN THE HOUSE

April 13, 1983	Returned to House with amendments.
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April 14, 1983

Second reading, amendments  
concurred in.

Third reading, amendments  
concurred in.

Sent to enrolling.

Reported correctly  
enrolled.

1 House BILL NO. 637  
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3  
4 A BILL FOR AN ACT ENTITLED: "AN ACT SPECIFYING THAT THE  
5 DEPARTMENT OF REVENUE MUST USE A CAPITALIZED NET INCOME  
6 METHODOLOGY IN VALUATION OF AGRICULTURAL LAND; PROVIDING AN  
7 EXCEPTION FOR IRRIGATED LAND; REQUIRING THE DEPARTMENT TO  
8 ADOPT RULES; AMENDING SECTION 15-7-201, MCA; AND PROVIDING A  
9 DELAYED EFFECTIVE DATE."

10  
11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:  
12 Section 1. Section 15-7-201, MCA, is amended to read:  
13 "15-7-201. Legislative intent ~~as--to~~ --value of  
14 agricultural property. ~~(1)~~ Since the market value of many  
15 farm agricultural properties is based upon speculative  
16 purchases which do not reflect the productive capability of  
17 farms agricultural land, it is the legislative intent that  
18 bona fide farm agricultural properties shall be classified  
19 and assessed at a value that is exclusive of values  
20 attributed to urban influences or speculative purposes.

21 (2) In determining the classification and assessed  
22 value of agricultural land, the department of revenue shall  
23 use an assessment methodology based upon a capitalized net  
24 income approach, except that irrigated land must be assessed  
25 solely upon its capitalized net income value for hay

1 production.  
2 ~~(3) The department shall adopt rules that specify a~~  
3 ~~methodology to be used in the calculation of assessed value~~  
4 ~~for agricultural land based on capitalized net income."~~  
5 NEW SECTION. Section 2. Delayed effective date. (1)  
6 Section 1, except the addition of subsection (3) to  
7 15-7-201, is effective January 1, 1986.  
8 (2) Subsection (3) of 15-7-201 is effective October 1,  
9 1983, and rules adopted under 15-7-201(3) must be made  
10 effective January 1, 1986.

-End-

STATE OF MONTANA

REQUEST NO. 336-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 7, 19 83, there is hereby submitted a Fiscal Note for House Bill 637 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

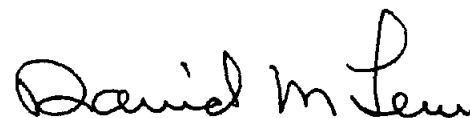
DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 637 specifies that the Department of Revenue must use a capitalized net income methodology in valuation of agricultural land; provides an exception for irrigated land; requires the department to adopt rules; and provides a delayed effective date.

FISCAL IMPACT:

The department is attempting to use the capitalized net income approach to value agricultural land for the next reappraisal cycle. It appears from the work completed thus far that the proposal will have a revenue impact. Limiting the assessed value of irrigated land to its income producing ability in hay production will result in lower values relative to its value when other crops are considered. This limitation will result in a loss of property tax revenues in tax years after 1985.

FISCAL NOTE 12:I/1



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-9-83

Approved by committee  
on Taxation

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2 (3) The department shall adopt rules that specify a  
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7 15-7-201, is effective January 1, 1986.  
8 (2) Subsection (3) of 15-7-201 is effective October 1,  
9 1983, and rules adopted under 15-7-201(3) must be made  
10 effective January 1, 1986.

-End-

SECOND READING

410 637

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10 effective January 1, 1986.

-End-

SENATE STANDING COMMITTEE REPORT  
(Taxation)

That House Bill No. 637 be amended as follows:

1. Title, line 5.

Following: "USE A"

Strike: "CAPITALIZED NET INCOME"

Insert: "CERTAIN"

2. Title, line 6.

Strike: "METHODOLOGY"

Insert: "METHOD"

3. Title, line 6 through line 8.

Following: "LAND;" on line 6

Strike: remainder of line 6 through "RULES;" on line 8.

4. Page 1, line 21 through page 2, line 4.

Strike: subsections (2) and (3) in their entirety

Insert: "(2) Agricultural land shall be classified according to its use, which classifications shall include but not be limited to irrigated use, nonirrigated use, and grazing use.

(3) Within each class, land shall be assessed at a value that is fairly based on its ability to produce, taking into consideration the classification system in existence on [effective date of this act], provided, however, the department may consolidate tillable irrigated land classes. With relation to irrigated land, water costs shall be taken into consideration, except at no time may the resulting value of irrigated land be reduced below the value such land would have if it were not irrigated.

(4) Capital costs such as improved water distribution, fertilizer, and land shaping that increase productivity shall not be used in determining assessed values."

5. Page 2, line 6 through line 7.

Strike: ", except the addition of subsection (3) to 15-7-201,"

6. Page 2, line 8.

Strike: subsection (2) in its entirety

## HOUSE BILL NO. 637

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A BILL FOR AN ACT ENTITLED: "AN ACT SPECIFYING THAT THE DEPARTMENT OF REVENUE MUST USE A CAPITALIZED-NET-INCOME METHODOLOGY CERTAIN METHOD IN VALUATION OF AGRICULTURAL LAND; PROVIDING--AN-EXCEPTION-FOR-IRRIGATED-LAND-REQUIRING THE-DEPARTMENT-TO-ADOPT-RULES; AMENDING SECTION 15-7-201, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE."

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

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

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

~~It is in determining the classification and assessed value of agricultural land the department of revenue shall use an assessment methodology based upon a capitalized net income approach except that irrigated land must be assessed solely upon its capitalized net income value for hay~~

production.

~~It is the department's intent to adopt rules that specify a methodology to be used in the calculation of assessed value for agricultural land based on capitalized net income.~~

(2) AGRICULTURAL LAND SHALL BE CLASSIFIED ACCORDING TO ITS USE, WHICH CLASSIFICATIONS SHALL INCLUDE BUT NOT BE LIMITED TO IRRIGATED USE, NONIRRIGATED USE, AND GRAZING USE.

(3) WITHIN EACH CLASS, LAND SHALL BE ASSESSED AT A VALUE THAT IS FAIRLY BASED ON ITS ABILITY TO PRODUCE, TAKING INTO CONSIDERATION THE CLASSIFICATION SYSTEM IN EXISTENCE ON EFFECTIVE DATE OF THIS ACT; PROVIDED, HOWEVER, THE DEPARTMENT MAY CONSOLIDATE ILLABLE IRRIGATED LAND CLASSES WITH RELATION TO IRRIGATED LAND, WATER COSTS SHALL BE TAKEN INTO CONSIDERATION, EXCEPT AT NO TIME MAY THE RESULTING VALUE OF IRRIGATED LAND BE REDUCED BELOW THE VALUE SUCH LAND WOULD HAVE IF IT WERE NOT IRRIGATED.

(4) CAPITAL COSTS SUCH AS IMPROVED WATER DISTRIBUTION, FERTILIZER, AND LAND SHAPING THAT INCREASE PRODUCTIVITY SHALL NOT BE USED IN DETERMINING ASSESSED VALUES."

NEW SECTION. Section 2. Delayed effective date. (1) Section 15-7-201, except the addition of subsection (3) to 15-7-201, is effective January 1, 1986.

(2) Subsection (3) of 15-7-201 is effective October 1, 1983, and rates adopted under 15-7-201(3) must be made effective January 1, 1986.

-End-

-2-

HB 637

REFERENCE BILL