

## MGA Review Discussion Paper

# Farm Property Assessment and Taxation

*This technical document is part of a series of draft discussion papers created by Municipal Affairs staff and stakeholders to prepare for the Municipal Government Act Review. It does not reflect existing or potential Government of Alberta policy directions. This document is the result of a careful review of what is currently included in the Municipal Government Act (MGA) and regulations, definitions of terms and processes, changes requested by stakeholders over the last 18 years, some highlights from other jurisdictions, and identification of potential topics for discussion during the MGA Review. This information will be used to prepare consultation materials as the MGA Review proceeds.*

*These discussion papers have been reviewed and approved by the MGA Stakeholder Advisory Committee, comprised of representatives from major stakeholder organizations: Alberta Association of Municipal and Counties, Alberta Association of Urban Municipalities, Alberta Rural Municipal Administrators Association, Alberta Chambers of Commerce, City of Calgary, City of Edmonton, and Local Government Association of Alberta.*

*The Government of Alberta is asking all Albertans to directly contribute to the MGA Review during online consultation in late 2013 and consultation sessions throughout Alberta in early 2014. This technical document is not intended for gathering stakeholder feedback, but to generate thought and discussion to prepare for the upcoming consultation. Public engagement materials will be available in early 2014. To learn more about how you can join the discussion on how we can build better communities, please visit [mqareview.alberta.ca/get-involved](http://mqareview.alberta.ca/get-involved).*

## Preamble

The *Municipal Government Act (MGA)* provides the legislative framework to guide the operations of municipalities in Alberta. The current *MGA* empowers municipalities with the authority and flexibility to provide services in the best interests of the community. The *MGA* Review will proceed along three major themes: *governance and administration*; *assessment and taxation*; and *planning and development*.

This paper is one of 12 discussion papers exploring aspects related to the *assessment and taxation* theme. Property tax valuation systems should be designed to maximize equity among property taxpayers and visibility or openness, while minimizing administrative complexity and confusion<sup>1</sup>. Alberta's property assessment and taxation framework must be considered with the following principles in mind:

- Clarity
- Fairness
- Efficiency
- Predictability
- Stability
- Transparency

This paper focuses on market value assessment and administration as outlined in the *MGA* and its attendant regulations. Below is a list of the 12 papers that relate to the *assessment and taxation* theme.

- Market Value Assessment and Administration
- Linear Property Assessment
- Machinery and Equipment Assessment
- Farm Property Assessment
- Railway Property Assessment
- Airport Property Assessment
- Supplementary and Progressive Assessment
- Equalized Assessment
- Taxation
- Exemptions and Other Special Tax Treatment
- Assessment Complaints and Appeals
- Municipal Revenue Sources

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<sup>1</sup> International Association of Assessing Officers (IAAO). *Standard on Property Tax Policy*. Kansas City: IAAO, 2010.

## Farm Property Assessment<sup>2</sup>



The *MGA* sets out two methods, or standards, for the assessment of property in Alberta: the market value based standard (a methodology based on the market value of a property) and the regulated procedure based standard (a methodology that uses assessment rates and procedures as prescribed under regulation to calculate the assessed value of a property). Farm property is one type of property assessed through the use of the regulated procedure based standard.<sup>3</sup>

In the legislation, farm property has three elements for assessment purposes:

- the farm buildings;
- the farm residence(s); and
- the land that is used for farming operations (see definitions below).

Actual farm use is important in the application of assessment rules for farm property. A parcel of land must be used for purposes that meet the definition of ‘farming operations’ in the *MGA* and regulations in order to be assessed on the basis of its agricultural use value.<sup>4</sup> Farming operations are defined as the raising, production and sale of agricultural products. Any portion of the parcel not meeting this definition is required to be assessed at market value. For example, if a property owner uses the major portion of a property for farming, but runs a welding shop on a small piece of the parcel, the smaller site would be assessed at market value as a commercial operation.

There are four classes of farmland, each with a base assessment rate:

- dryland arable;
- dryland pasture;
- irrigated arable; and
- woodlots.

These base assessment rates are modified based on factors relating to agricultural production, such as region, soil depth and surface quality, and are further modified based on how distant the farm is from a town that provides services.

This paper explores the valuation process for land used for farming, the existing definition of farming operations, the assessment of intensive farming operations, and the assessment of farm residences.

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<sup>2</sup> With excerpts from the Final Report of the 2002 MLA Farm Property Assessment Review Committee.

<sup>3</sup> Other regulated property assessment categories (i.e., machinery and equipment, linear, and railway property assessment) are addressed in separate *MGA* Review discussion papers.

<sup>4</sup> When a parcel of land is assessed on the basis of its agricultural use value, the value is based on the land’s potential use for farming operations (In other words, if the land is used for pasture, but is capable of producing typical crops, the land would be assessed at its potential to produce typical crops).

Definitions<sup>5</sup>:

Farm building – means any improvement other than a residence, to the extent it is used for farming operations.

Farm land – means land used for farming operations.

Farming operations – means the raising, production and sale of agricultural products and includes:

- (i) horticulture, aviculture, apiculture and aquaculture,
- (ii) the production of horses, cattle, bison, sheep, swine, goats, fur-bearing animals raised in captivity, domestic cervids within the meaning of the Livestock Industry Diversification Act, and domestic camelids, and
- (iii) the planting, growing and sale of sod.

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<sup>5</sup> Definitions are found in the *MGA* and the *Matters Relating to Assessment and Taxation Regulation*.

## Discussion Points

Below are some discussion topics and questions identified through a review of requested amendments, cross-jurisdictional research and issues raised by stakeholders.

### 1. Assessment of Farm Land

#### *Background*

Farm land is assessed on the basis of regulated factors that reflect its potential productive value – in other words, the land’s potential worth or capability to raise or produce agricultural commodities. This productivity-based approach to the assessment of farm land presupposes that a unit of land, if used only for agriculture, is generally not capable of yielding as high a financial return as it would if the land were used for other purposes such as commercial enterprises.

Municipal assessors use a comprehensive set of rating schedules (set by Municipal Affairs) to determine farm land assessments. These schedules were developed in the 1970s, and were based on the typical agricultural productivity of those times. The current rating system, including the assessment rates, has not been updated since the 1980s and does not necessarily reflect technological, economic and market-related changes that have occurred in the agricultural industry. In the meantime, the assessments of commercial and residential properties have adjusted along with changes in the marketplace. Marketplace factors that can affect the value of a farm property include diversification and regional advantages or disadvantages related to the location of the farm property (such as relative access to urban services centres or irrigation). Alberta Agriculture Rural Development maintains a database of agricultural land values and transfers based on actual real estate sales.

#### *Cross-jurisdictional Research*

- All provinces assess farm land using regulated rates.

#### *Stakeholder and Legislative Amendment Requests*

- Some municipal stakeholders have requested that the Province update the productivity rating system in Alberta using market value farmer to farmer sales so the value of the farm land is more fully captured and taxed.
- The final report of the 2002 MLA Farm Property Assessment Review Committee<sup>6</sup> included a recommendation to review and update the productivity rating system for farm land and establish appropriate intervals for future reviews to keep up-to-date with future changes in agricultural practices and economic realities.

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<sup>6</sup> The recommendations were not adopted at the time; largely because it was determined that major changes in the farm property assessment system were not appropriate during a period in which the agricultural industry was facing serious challenges arising from the BSE (mad cow disease) crisis.

## 2. Definition of Farming Operations

### *Background*

Under the current legislation, “farming operations” are defined as the raising, production and sale of agricultural products. This definition has not been comprehensively reviewed since the 1980s and does not necessarily reflect technological, economic and market-related changes that have occurred in the agricultural industry. As the agricultural industry continues to diversify, making use of advanced technologies, catering to specialized niche markets, and setting up operations that add value to primary commodities, it is becoming increasingly difficult for municipal assessors to determine what qualifies as a “farming operation” for assessment purposes, and what is actually a processing or manufacturing operation that uses farm products and is assessable as machinery and equipment. This difficulty in determining what qualifies as a farming operation can also lead to a lack of predictability in assessment, and thereby tax revenue, for municipalities and property owners.

### *Stakeholder and Legislative Amendment Requests*

- Some municipal stakeholders have requested a review of the existing definitions, which have not been reviewed since the MGA came into force in 1995.
- The final report of the 2002 MLA Farm Property Assessment Review Committee included a recommendation to review the definition of farming operations for currency and relevancy.

## 3. Intensive Farming Operations

### *Background*

There have been significant changes to the agricultural industry in Alberta since the MGA was last updated, including growth in cattle feedlots, intensive poultry and hog enterprises (also known as confined feeding operations), greenhouses and mushroom barn operations. These high-density agricultural enterprises typically operate on small areas of farm land that are building-intensive in nature. However, farm buildings are fully exempt from assessment in rural areas, and are assessed at a reduced level of 50 per cent in urban areas and specialized municipalities, thereby receiving an automatic tax benefit. Because of the current focus on land, and not buildings, under the current farm property assessment regime, there are wide variations in the levels of property tax being paid by farmers with similar incomes but different types of farm enterprises.

### *Stakeholder and Legislative Amendment Requests*

- Some municipal stakeholders are concerned that intensive farming operations pay proportionately less tax as compared to traditional farming operations, but cause a greater degree of road damage with the use of more heavy equipment and higher truck volume.
- The final report of the 2002 MLA Farm Property Assessment Review Committee included a recommendation to review disparities between intensive (high density) and extensive (low-density) farming operations.

#### 4. Assessment of Farm Residences

##### *Background*

The sites on which farm residences are situated are assessed at market value, rather than farm land rates. Under the current legislation, farm residential sites are considered for assessment purposes to be three acres in size and are assessed as a separate parcel of land.

In rural municipalities, farm residences are exempt in whole or in part from assessment for property tax purposes. The amount by which a residence is exempt is based on the assessed value of the agricultural land that the property owner owns or leases from the Crown or a municipality, to a maximum assessment exemption amount of \$61,540. If there is more than one residence on the owner's farm land, each additional home may receive an assessment exemption of up to \$30,770. This policy applies to property taxes for both education and municipal purposes; as a result, farm residences in rural municipalities pay less property tax than non-farm residences of similar value.

##### *Cross-jurisdictional Research*

- Many provinces have special property tax considerations for farm residences for assessment and taxation purposes.
  - In Ontario, farm residences are assessed at the actual cost of the property, minus any depreciation amount.
  - In Quebec, farm residences are exempt from assessment and taxation.
- In British Columbia, farm residences are fully assessed and taxed for municipal and educational purposes.

##### *Stakeholder and Legislative Amendment Requests*

- Owners of urban residences and country-residential acreages are concerned about the fairness of the farm residence exemption policy and have requested a similar exemption.
- Farmers support the exemption on farm residences and consider it to be important to the viability of the farming operation.

The final report of the 2002 MLA Farm Property Assessment Review Committee indicated that municipal and agricultural stakeholders would be willing to see farm residences fully assessed and taxed—on the condition that farm land is no longer taxed for education purposes.

## Discussion Questions



1. Is the assessment and taxation process for farm property fair and equitable for municipalities and property owners? Why or why not?
2. Should farm property receive special assessment and taxation treatment? Why or why not?
3. Should the current productivity rating system be used for the assessment of farmland? Why or why not?
  - a. What factors should the assessment value of farm land be based on?
  - b. What is an appropriate interval to review and update farm land rates of assessment?
4. Does the existing definition for farming operations reflect current farming practices, and does it include and exclude the right properties? Why or why not?
5. Should intensive farming operations be assessed differently than the more traditional types of farming operations? Why or why not?
6. Are the current assessment exemptions for farm residences relevant (i.e., \$61,540 reduction in assessment for the first residence and \$30,770 for every residence thereafter)? Why or why not?