

Fifty-eighth  
Legislative Assembly  
of North Dakota

ENGROSSED SENATE BILL NO. 2303

Introduced by

Senators Urlacher, Wardner

Representative F. Klein

1 A BILL for an Act to amend and reenact subsection 15 of section 57-02-08 of the North Dakota  
2 Century Code, relating to income limitations under the farm residence and farm buildings  
3 property tax exemptions; and to provide an effective date.

4 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

5 **SECTION 1. AMENDMENT.** Subsection 15 of section 57-02-08 of the North Dakota  
6 Century Code is amended and reenacted as follows:

- 7 15. a. All farm structures and improvements located on agricultural lands.
- 8 (1) This subsection must be construed to exempt farm buildings and  
9 improvements only, and may not be construed to exempt from taxation  
10 industrial plants, or structures of any kind not used or intended for use  
11 as a part of a farm plant, or as a farm residence.
- 12 (2) Any structure or improvement used primarily in connection with a retail  
13 or wholesale business other than farming, any structure or  
14 improvement located on platted land within the corporate limits of a city,  
15 or any structure or improvement located on railroad operating property  
16 subject to assessment under chapter 57-05 is not exempt under this  
17 subsection. For purposes of this paragraph, "business other than  
18 farming" includes processing to produce a value-added physical or  
19 chemical change in an agricultural commodity beyond the ordinary  
20 handling of that commodity by a farmer prior to sale.
- 21 (3) The following factors may not be considered in application of the  
22 exemption under this subsection:
  - 23 (a) Whether the farmer grows or purchases feed for animals raised  
24 on the farm.

- 1 (b) Whether animals being raised on the farm are owned by the  
2 farmer.  
3 (c) Whether the farm's replacement animals are produced on the  
4 farm.  
5 (d) Whether the farmer is engaged in contract feeding of animals on  
6 the farm.

7 b. It is the intent of the legislative assembly that this exemption as applied to a  
8 residence must be strictly construed and interpreted to exempt only a  
9 residence that is situated on a farm and which is occupied or used by a  
10 person who is a farmer and that the exemption may not be applied to property  
11 which is occupied or used by a person who is not a farmer. For purposes of  
12 this subdivision:

13 (1) "Farm" means a single tract or contiguous tracts of agricultural land  
14 containing a minimum of ten acres [4.05 hectares] and for which the  
15 farmer, actually farming the land or engaged in the raising of livestock  
16 or other similar operations normally associated with farming and  
17 ranching, has received annual net income from farming activities which  
18 is fifty percent or more of annual net income, including net income of a  
19 spouse if married, during any of the three preceding calendar years.

20 (2) "Farmer" means an individual who normally devotes the major portion  
21 of time to the activities of producing products of the soil, poultry,  
22 livestock, or dairy farming in such products' unmanufactured state and  
23 has received annual net income from farming activities which is fifty  
24 percent or more of annual net income, including net income of a  
25 spouse if married, during any of the three preceding calendar years.

26 "Farmer" includes a "retired farmer" who is retired because of illness or  
27 age and who at the time of retirement owned and occupied as a farmer  
28 the residence in which the person lives and for which the exemption is  
29 claimed. "Farmer" includes a "beginning farmer" who has begun  
30 occupancy and operation of a farm within the three preceding calendar  
31 years; who normally devotes the major portion of time to the activities

1 of producing products of the soil, poultry, livestock, or dairy farming in  
2 such products' unmanufactured state; and who does not have a history  
3 of farm income from farm operation for each of the three preceding  
4 calendar years.

5 (3) "Net income" means taxable income as computed for income tax purposes  
6 pursuant to chapter 57-38 adjusted:

7 (a) To include the difference between gross sales price less expenses of  
8 sale and the amount reported for sales of agricultural products for  
9 which the farmer reported a capital gain.

10 (b) To include interest expenses from farming activities which have been  
11 deducted in computing taxable income.

12 (c) To include depreciation expenses from farming activities which have  
13 been deducted in computing taxable income.

14 (d) To exclude unreimbursed travel and living expenses necessary to earn  
15 nonfarm income and which were not deducted in computing taxable  
16 income.

17 ~~(3)~~ (4) "Net income from farming activities" means taxable income from those  
18 activities as computed for income tax purposes pursuant to chapter  
19 57-38 adjusted to include the following:

20 (a) The difference between gross sales price less expenses of sale  
21 and the amount reported for sales of agricultural products for  
22 which the farmer reported a capital gain.

23 (b) Interest expenses from farming activities which have been  
24 deducted in computing taxable income.

25 (c) Depreciation expenses from farming activities which have been  
26 deducted in computing taxable income.

27 ~~(4)~~ (5) When exemption is claimed under this subdivision for a residence, the  
28 assessor may require that the occupant of the residence who it is  
29 claimed is a farmer provide to the assessor for the year or years  
30 specified by the assessor a written statement in which it is stated that  
31 fifty percent or more of the net income of that occupant, and spouse if

1 married and both spouses occupy the residence, was, or was not, net  
2 income from farming activities.

3 ~~(5)~~ (6) In addition to any of the provisions of this subsection or any other  
4 provision of law, a residence situated on agricultural land is not exempt  
5 for the year if it is occupied by an individual engaged in farming who  
6 had nonfarm net income, including that of a spouse if married, of more  
7 than forty thousand dollars during each of the three preceding calendar  
8 years. This paragraph does not apply to a retired farmer or a beginning  
9 farmer as defined in paragraph 2.

10 ~~(6)~~ (7) For purposes of this section, "livestock" includes "nontraditional  
11 livestock" as defined in section 36-01-00.1.

12 ~~(7)~~ (8) A farmer operating a bed and breakfast facility in the farm residence  
13 occupied by that farmer is entitled to the exemption under this section  
14 for that residence if the farmer and the residence would qualify for  
15 exemption under this section except for the use of the residence as a  
16 bed and breakfast facility.

17 **SECTION 2. EFFECTIVE DATE.** This Act is effective for taxable years beginning after  
18 December 31, 2002.