

Introduced by

Legislative Council

(Taxation Committee)

1 A BILL for an Act to amend and reenact section 57-02-27.2 of the North Dakota Century Code,
2 relating to inclusion of a production cost factor in the formula for valuation and assessment of
3 agricultural land for property tax purposes; and to provide an effective date.

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

5 **SECTION 1. AMENDMENT.** Section 57-02-27.2 of the 1997 Supplement to the North
6 Dakota Century Code is amended and reenacted as follows:

7 **57-02-27.2. Valuation and assessment of agricultural lands.**

- 8 1. "True and full value" of agricultural lands must be their agricultural value for the
9 purposes of sections 57-02-27, 57-02-27.1, 57-02-27.2, and 57-55-04. Agricultural
10 value is defined as the "capitalized average annual gross return". The "annual
11 gross return" must be determined from crop share rent, cash rent, or a combination
12 thereof reduced by estimated property taxes and crop marketing expenses
13 incurred by farmland owners renting their lands on a cash or crop share basis.
- 14 2. For purposes of this section, "annual gross return" for cropland used for growing
15 crops other than sugar beets and potatoes means thirty percent of annual gross
16 income produced, "annual gross return" for cropland used for growing sugar beets
17 and potatoes means twenty percent of annual gross income produced, and
18 "annual gross return" for land used for grazing farm animals means twenty-five
19 percent of an amount determined by the agricultural economics department of
20 North Dakota state university to represent the annual gross income potential of the
21 land based upon the animal unit carrying capacity of the land.
- 22 3. The "average annual gross return" for each county must be determined as follows:
- 23 4. a. ~~For taxable year 1998, total the annual gross returns for the most recent eight~~
24 ~~years immediately preceding the current year for which data is available and~~

1 ~~discard the highest and lowest annual gross returns of the eight.~~ For taxable
2 year 1999, total the annual gross returns for the nine years immediately
3 preceding the current year for which data is available and discard the highest
4 and lowest annual gross returns of the nine. For taxable year 2000 and
5 thereafter, total the annual gross returns for the ten years immediately
6 preceding the current year for which data is available and discard the highest
7 and lowest annual gross returns of the ten.

8 b. The agricultural economics department of North Dakota state university shall
9 establish a base year index of prices paid by farmers using annual statistics
10 on that topic compiled by the national agricultural statistics service for the
11 seven-year period ending in 1995, discarding the highest and lowest years'
12 indexes, and averaging the remaining five years' indexes. For taxable year
13 1999, the agricultural economics department shall gather the national
14 agricultural statistics service annual index of prices paid by farmers for the
15 nine years ending with the most recent year used under subdivision a, discard
16 the highest and lowest years' indexes, average the remaining seven years'
17 indexes, and divide the resulting amount by the base year index of prices paid
18 by farmers. For taxable year 2000 and thereafter, the agricultural economics
19 department shall gather the national agricultural statistics service annual
20 index of prices paid by farmers for the ten years ending with the most recent
21 year used under subdivision a, discard the highest and lowest years' indexes,
22 average the remaining eight years' indexes, and divide the resulting amount
23 by the base year index of prices paid by farmers. This amount must be
24 divided into the amount determined under subdivision a.

25 ~~2.~~ c. For taxable year 1998, divide the figure arrived at in ~~subsection 4~~
26 subdivision b by six. For taxable year 1999, divide the figure arrived at in
27 ~~subsection 4~~ subdivision b by seven. For taxable year 2000 and thereafter,
28 divide the figure arrived at in ~~subsection 4~~ subdivision b by eight.

29 4. To find the "capitalized average annual gross return", the average annual gross
30 return must be capitalized by a rate that is a ten-year average of the gross federal
31 land bank mortgage rate of interest for North Dakota. The ten-year average must

1 be computed from the twelve years ending with the most recent year used in
2 ~~subsection 4~~ under subdivision a of subsection 3, discarding the highest and
3 lowest years, and the gross federal land bank mortgage rate of interest for each
4 year must be determined in the manner provided in section 20.2032A-4(e)(1) of
5 the United States treasury department regulations for valuing farm real property for
6 federal estate tax purposes, except that the interest rate may not be adjusted as
7 provided in paragraph (e)(2) of section 20.2032A-4.

8 5. The agricultural economics department of North Dakota state university shall
9 compute annually an estimate of the average agricultural value per acre [.40
10 hectare] of agricultural lands on a statewide and on a countywide basis; ~~it~~ shall
11 compute the average agricultural value per acre [.40 hectare] for cropland and
12 noncropland, which is agricultural land; for each county; ~~it~~ and shall provide the tax
13 commissioner with this information by December first of each year. Fifty percent of
14 the annual gross income from irrigated cropland must be considered additional
15 expense of production and may not be included in computation of the average
16 agricultural value per acre [.40 hectare] for cropland for the county as determined
17 by the agricultural economics department. Before January first of each year, the
18 tax commissioner shall provide to each county director of tax equalization these
19 estimates of agricultural value for each county.

20 6. Before February first of each year, the county director of tax equalization in each
21 county shall provide to all assessors within the county an estimate of the average
22 agricultural value of agricultural lands within each assessment district. The
23 estimate must be based upon the average agricultural value for the county
24 adjusted by the relative values of lands within each assessment district compared
25 to the county average. In determining the relative value of lands for each
26 assessment district compared to the county average, the county director of tax
27 equalization, wherever possible, shall use soil type and soil classification data from
28 detailed and general soil surveys. Where such data cannot be used, the county
29 director of tax equalization shall use whatever previous assessment data is best
30 suited to the purpose.

1 7. Each local assessor shall determine the relative value of each assessment parcel
2 within the assessor's jurisdiction and shall determine the agricultural value of each
3 assessment parcel by adjusting the agricultural value estimate for the assessment
4 district by the relative value of the parcel. Each parcel must then be assessed
5 according to section 57-02-27. If either a local assessor or a township board of
6 equalization develops an agricultural value for the lands in its assessment district
7 differing substantially from the estimate provided by the county director of tax
8 equalization, written evidence to support the change must be provided to the
9 county director of tax equalization.

10 **SECTION 2. EFFECTIVE DATE.** This Act is effective for taxable years beginning after
11 December 31, 1998.