POLICY OPTIONS *with* Alberta farmland

By Jeff Nutting, AACI, P.App, AMAA.
Jeff has been involved in the appraisal profession for over 20 years and is currently a lecturer at Grande Prairie Regional College in Alberta.

CURRENT POLICIES

Alberta is now in difficult economic circumstances due to a downturn in world oil prices. Coupled with a change in Alberta's government, this has resulted in reviews of the public sector and its financing. In 2016, Alberta Municipal Affairs reviewed its *Municipal Government Act*, which, in part, outlines the assessment procedures and standards for farm properties.

Currently, Alberta municipalities are governed by the *Municipal Government Act*. The assessment of property by municipalities is outlined in Part 9. Assessments on all property other than linear property are prepared by municipalities. Assessors under MGA 297(1) must put assessed properties into classes, one of which, Class 3, is farmland. Farmland is defined as land used for farming operations as defined in the regulations. As well, farm buildings are exempted from assessment under 298 (1) (y). Under 322 (1), the Minister may make regulations defining farming operations and farm buildings and the extent to which farm buildings may be assessed. Under 322.1 (1), the Minister gives guidelines on assessment for Alberta farmland. Under 354 (1), the tax rate on an assessment is set by the municipality. This tax rate may differ for different assessment classes.

Under another regulation, Matters Relating to Assessment and Taxation Regulation, a farm building in Alberta is defined as an improvement other than a residence to the extent it is used for farming operations. Farming operations are defined as the raising, production and sale of agricultural products.

This includes the production of swine, cattle and bison, as well as sod farms. A regulated property includes land in which the valuation standard is agricultural use value. If a parcel is used for farming operations, then the valuation standard is to be agricultural use value. This agricultural use value is determined by the *Alberta Farm Land Assessment Minister's Guidelines*. If assessed, a farm building or land being farmed, for example in a city or town, must be assessed in terms of its value for farming operations.

In Alberta, most farm residences and improvements are exempted in whole or in part. Farm assessments are determined by local assessors. The valuation date is set at July 1 in the preceding year. Farmland in Alberta is assessed according to its ability to produce income from the raising of livestock or the growing of crops according to the *Guide to Property Assessment and Taxation in Alberta.*

The *Alberta Farm Land Assessment Minister's Guidelines* indicate how farmland is to be assessed in specific terms, resulting in an agricultural use value. According to Municipal Affairs, farmland rates were last reviewed and updated in 1994.

Farmland assessment is done in four steps. Using Schedule A, an initial value is given to an agricultural parcel. This gives base year values at $350 per acre for dry arable land or dry pasture land, $450 per acre for irrigated arable land, and $135 per acre for woodlot lands. This is multiplied by an Assessment Year Modifier, which is in Schedule B. For all types of land, since before 1995, this has remained at the Number 1.00, or, if irrigated arable, at 1.03. This gives the valuation of optimum farmlands.

Next, a final factor rating is applied, as per Schedule C. The factors to be used in this are in Schedule 7 of the 1984 *Alberta Assessment Manual*. In Schedule 7, adjustments are done for such factors as types of soil, including their depth, subsoils, texture rating and topography rating. Schedule 7 also includes adjustments for stoniness of lands, isolation and severance of lands, tree cover, draws and alkali, erosion, flooding, frost hazard, climatic rating, and lands cultivated in bush areas. For pasture lands, adjustments are done for the carrying capacity of the lands. Hay lands are adjusted by zone and plant association. Schedule 7 adjustments result in downward adjustments for various agricultural concerns which are less than optimum. The number of acres in the parcel in each of the land type categories is multiplied by the factor derived, then you add all the categories in the parcel to get the agricultural use value of the parcel.

Finally, using Schedule D, a rating factor is applied for the distance a parcel is from a farm service centre. The adjustment factors run from 1.4 for very large cities to 1.03 for villages in a fairly large area. As well, factors are applied to reflect road access.

ALBERTA REVIEWS OF ASSESSMENT

Over the years, there have been calls to reform or improve farm assessing. In 1998, Alberta legislators (MLAs) reviewed farm assessment in the province. Their report called for a fair and equitable relationship between the assessment of regulated and non-regulated properties. The report called for a better definition of a farming operation. Only properties that met this more restrictive definition would be assessed as farmland. The report asked that woodlots be considered as farming operations and that agricultural use value be updated to ensure it meets current conditions in the marketplace. A concern was that farmland assessment is mostly based on the production of field crops. Intensive farming, e.g., poultry or confined livestock, with a lower land base but more improvements, may result in different property taxes being paid, even if the operations have the same profitability or capital invested. The report recommended that municipalities, if they choose, be allowed to continue the business tax on farming operations. The report also recommended that municipalities be allowed to apply differential tax rates on farm property depending on the type of agricultural operation.

By February of 2002, a final report was drafted by the MLAs. It recommended that the productivity rating system for farmland assessment be updated. In particular, the base rates used to determine productive value needed to be updated with the use of regional modifiers to reflect regional differences in Alberta farmland. It was suggested that a long-term plan could be developed to review and adjust the farmland productivity ratings at appropriate intervals. The report stated that existing farmland assessments were unresponsive to marketplace factors. As well, it recommended property tax relief for conservation lands. To account for building-intensive as opposed to land-intensive operations, it recommended the adoption of a footprint concept. Farm buildings in the approach that are used for intensive operations would be assessed and not exempted. The report recommended that no business taxes be applied to farming operations, but that differential sub classes for tax rates could be applied to different classes of farmland.

As well, in 1998, the Environmental Law Centre commented on the MLA Farm Assessment Review Committee. The Centre recommended that legislation allow for conservation or natural areas usage without the owners being penalized in market value assessment. An example of this would be where lands had a much higher value if they were developed. Using market value assessing would mean being taxed on the development potential of a parcel of land. Thus, owners would have an incentive to develop the land and not leave it in a natural state. The Centre also asked that legislation be developed to limit an assessor's power to treat portions of a parcel with market value assessment. For example, a portion of a parcel in agricultural production would currently get the advantages of agricultural use value, while the remainder may be treated at market value if it was left in a natural state. Thus, it called for natural conservation areas with differential areas to be treated fully under the agricultural use valuation standard. This would encourage the preservation of natural conservation areas, as it does agricultural uses.

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The paper indicated that conservation land could be defined as farm property, if it was not used for farming and, for two years preceding the applicable reference year, was left in an undeveloped and natural state. The Centre recommended that a claw back of tax revenue could be applied to developers who do a change of use on such conservation lands. As well, by using preferred conservation assessments, municipalities could influence landowners to retain natural areas. As an alternate method, conservation lands could be valued at market value, but then given a preferred lower mill rate. This system could also have a claw back of revenue if later development occurred. Or conservation lands could be valued using a new conservation assessment standard. Of the three methods, the paper indicated that using the agricultural use value is the preferred simple and effective way to deal with conservation lands. The report again recommended a legislated claw back of speculators who used conservation lands assessment to get a preferred, below market-regulated assessment.

In 2010, the Alberta Urban Municipalities Association (AUMA) made recommendations to the Task Force on Property Assessment. This did not include any recommendations for farmland assessment. Although it called for market value assessment, it excluded farmland under clause 17. In 2012, in a convention policy paper entitled *Changes to Property Assessment and Taxation*, the AUMA called for the assessing of farm buildings and operations at market value. Specifically, it called for the assessment of farmland and farm residences at market value.

In June 2014, the AUMA made a submission to Alberta MGA's review process. It indicated that Alberta municipalities were struggling to finance the cost of infrastructure that was needed due to the growth of the province. To get additional municipal finances, it indicated a need to broaden the municipal tax base. The submission recommended that the assessment and taxation system be reformed to make it open, transparent and equitable. It called for a market value assessment on all forms of property to ensure equity. It called for tax exemptions to be reviewed to ensure that they realize their intended outcomes. The AUMA also called for the regional sharing of linear property taxes.

In 2016, Alberta Municipal Affairs posted its proposed modernized *Municipal Government Act*. The Department indicated that the linear assessment system would stay in place. In order to ensure stability, the new Act will continue to assess farmland using agricultural productivity rates. It is proposed that farm residences will continue to receive a partial exemption.

FARMLAND ASSESSMENT COMPARED TO FARMLAND SALES

In order to analyze the effectiveness of the current farmland assessment system in Alberta, farmland sales with their assessments were examined in the County of Grande Prairie in the northwest of Alberta. Farmland assessment values were divided by their sales prices in order to see if the prevailing Alberta farm value estimate reflects actual farmland sales. The sales took place on land-only farm properties that sold within the County of Grande Prairie from 2011 to 2012. The lands sold had no buildings on them and, in some cases, were not fully cultivated. We can divide the indices up into two groups – one of urban adjacent sales and one of mostly agricultural value sales that were outside the urban centre of Grande Prairie.

The first group of sales were over 150 acres in area and were close to the City of Grande Prairie. These sales were at a price level consistent with lands that have value due to their development potential for residential or commercial purposes. Sales prices ranged from approximately $6,000-$10,000 per acre. These development land sales had a mean assessment to sale price ratio of .026, i.e., mostly under 3% of the sale price.

The second group of 26 transactions have mostly agricultural value, although, in some cases, potential uses as rural residential properties. These are located in different areas of the County of Grande Prairie with differential distances from the City of Grande Prairie. The parcels were from 130-160 acres in size. Sale prices ranged from approximately $600-$3,000 per acre. These had a mean assessment to sale price ratio of .0905, i.e., less than 10% of their sale prices.

A simple regression was run on these 26 transactions to see if the sale price could be forecast using the assessment. The model used an excel program that gave a formula of y = $109,343 + 6.0087 (Assessment). This model gave an F of 12.47, with an R2 of .34. This low R2 indicates that the model may not have validity. On the other hand, the t and F tests indicated that the model had validity with p values less than .01. Thus, it is indeterminate if the assessment could be used to project the sale price of the agricultural lands. This may indicate that the existing model of assessment in Alberta is not very accurate in its reflection of farm value in land or that significant variables are not reflected in the current assessment model, such as the non-agricultural usage of some of the lands.

PROBLEMS WITH THE EXISTING ALBERTA ASSESSMENT SYSTEM WITH POLICY RESOLUTION

The County of Grande Prairie analysis assessments of farmlands were found to be below 10% of actual sales prices from 2011-2012. This was true not only on the urban fringe sales, but also on the second group of sales of farmland where it was thought the majority of value reflected farm usage. This would suggest that that the existing Alberta farmland assessment model is out of date and results in assessments well below actual farm use market value.

In a review of Alberta Municipal Affairs farmland rates, it appears that they were last updated in 1994. In 1996, all classes of agricultural real estate in the County of Grande Prairie transferred for $625 per acre, according to Alberta Agriculture statistics. By 2015, this value had increased to $2,270, again using Alberta Agriculture statistics, which equates to a 263% increase. In Alberta overall in 1994, agricultural sales were at $473, increasing to $2,480 by 2015. This is a 424% increase using Alberta Agriculture figures. In its 2015 *Farmland Values Report*, Farm Credit indicates a 257% increase in farmland values from 2005-2015. Yet, during this period, Schedule A in the *Alberta Farm Land Assessment Minister's Guidelines* did not change the base year values, nor were there any changes in the Schedule B Assessment Year Modifier. Thus, the farmland assessment fails as an efficient wealth tax, as it does not change with the sales value of farmland over the years. It should be noted that the County of Grande Prairie has a higher mill rate for farmland than for residences.

The assessment of farmland at lower than overall market values may be regressive. Not all farmers are poor. Statistics Canada indicates that the average farm in Alberta in 2011 had a net worth of $2,116,085. It also indicates that, using net operating income and other family income, the average Canadian farm family in 2013 made $122,498, rising to $134,931 in 2015. If we focus on Alberta farm family income, then the family income in 2013 was at $157,154, rising to $179,088 in 2015. In 2013, also according to Statistics Canada, median family income was at $97,390 for all census families in Alberta. Thus, the median family income is below that of farm families in Alberta.

If municipalities cannot fully tax farmland owners at market value, then they may tend to shift their need for property tax revenue onto residential or commercial owners. In effect, farmers are being subsidized at below market assessments even though some of them are above the normal resident of Alberta in terms of income.

As farms are consolidating and getting bigger, this effect will grow over time. Currently, some farms in Alberta are over 10-20 quarter sections in size. When the property tax system has farmland assessments well below market value, it is against fairness and equity. We cannot say that farms or individuals are treated with fairness in that the wealth of different groups is not taxed equally. Farmland assessments in Alberta have little relationship to the current farmland market or overall market values. This hurts the integrity of the property tax system, as participants can no longer see that all properties are treated uniformly or that assessments actually have some semblance to actual values.

Rural municipalities in Alberta are constrained in their ability to raise revenue, due to the regulated nature of farmland assessment valuation determined by the Minister of Municipal Affairs. High value vacant development land cannot be assessed at market value if it is being farmed and rural farmland is assessed at well below farm use market value. In 2016, the County of Grande Prairie had a farmland assessment of $116,536,270 and charged a municipal tax mill rate of 8.2356 for revenue of $959,746. If we assume that farmland assessment is 10% of farm use market value, as found in the analysis, then the County of Grande Prairie is forgoing $8,637,714 in extra revenue that it would have received if the lands were assessed at farm market value ($1,165,362,700 @ .0082356 = $9,597,455). It should be noted that this is for only one rural municipality for one year in Alberta. This is a simplistic analysis. Because farm incomes vary a great deal, it may be problematic to have higher property taxes/assessments for farmers. With good weather and high prices, grain farmers can earn high incomes, but, in a succeeding year with poor weather or low world grain prices, incomes can be low or non-existent. Cattle farmers face highly volatile markets that can result in differential incomes. Nonetheless, the assessment of farmland is problematic for rural municipalities with large farmland areas, as it does not provide a viable source of revenue as the provincial government shelters farmers with the existing property tax system.

Even though it ensures that farmland assessment is below market, the Alberta provincial government still receives farm tax revenue. If a farmer is subsidized in their property taxes, then this lowers their cost of production, which leads to higher profits. Farm profits are either taxed as part of personal income or as corporate income. This tax on farm profits is split between the federal and provincial governments. In 2015, Alberta corporate taxes were at 3% for Canadian Controlled Private Corporations (CCPCs) and 10-12% for general firms. These taxes would only be paid in a good crop year as a bad crop year may result in no profits to report. Compared to a property tax system which taxes every year, this type of tax is positive, as it taxes farmers when they have profits. As well, the Alberta government provides grants to rural municipalities. Unfortunately, when property taxes are low, this results in higher reported profits, which translates into higher federal corporate or personal taxes. In effect, low property taxes in Alberta results in the transfer of tax revenue out of the province to Ottawa.

In the past, Alberta benefited from a vibrant energy industry, which paid for provincial subsidy programs to industry and funded a large public sector. The energy sector was the basis of the provincial economy and allowed the province to run mostly without the expenses of public debt. The energy sector is currently in a downturn and may not return in Alberta to the level of activity it once had. This means that the provincial government must develop other revenue sources to fund public services.

Alberta is in need of reform to its farmland property tax system. Farmland assessments no longer reflect actual farmland values. What is needed is to return the assessment of farmlands to current market values. If farm incomes are volatile and the province wishes to preserve farmland, then farmland could be assessed only using actual farm sales and not overall market values. Or, if the current farmland assessment model is to be used, should the Assessment Year Modifier not at least be updated to reflect current farmland values.

A better way to help farmers, with changing incomes from year to year, is not by an outdated assessment value, but by using lower mill rates. The province could pass legislation, as in Ontario, to have farmland mill rates be a significant percentage below residential or commercial mill rates. An adjustment in the education tax levy would be required if farmland assessments are changed, as they are currently included with the residential assessment base in Alberta. Some may not consider it fair to apply low farmland assessment or mill rates if the lands are being held for eventual development. Thus, consideration should be given to retroactive property taxes, as in Manitoba, using the differential of farm use value to general market value, which are applied to farmland that changes in usage. Given reforms, the general public would then be more likely to support the concept of farmers having lower assessment or mill rates as part of the price of maintaining a vibrant agricultural community.

Note: *This article expresses the viewpoints of the author and not those of Grande Prairie Regional College.*

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