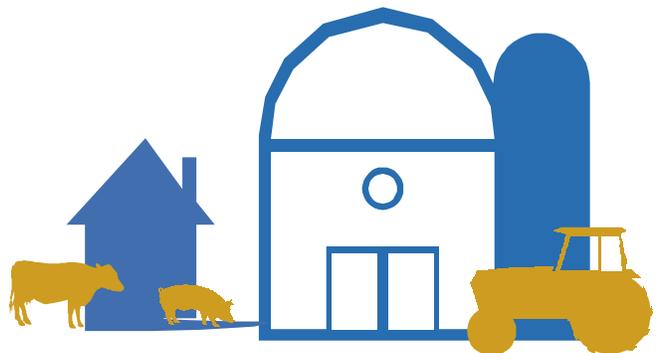


Farm Consultation Report

Assessing Issues and Taking the Next Steps

**A summary of responses to the
Discussion Paper on
Farm Property Assessment and Taxation**



Introduction

In the summer of 1997, Iris Evans, Minister of Municipal Affairs, established an MLA Committee to review a number of issues related to how farm property is assessed and taxed across the province. Members of the Committee include:

Richard Marz, Chairman, MLA, Olds-Didsbury-Three Hills
Rob Lougheed, MLA, Clover Bar-Fort Saskatchewan
Barry McFarland, MLA, Little Bow

Based on the Committee's review of background information, previous reviews and suggestions, a discussion paper was prepared focusing on nine key issues:

1. Definition of farming operations
2. Assessment of woodlots
3. Valuation of farmland for property assessment purposes
4. Intensive vs. extensive agricultural operations
5. Assessment of land not used for farming operations
6. Farm residential site valuation for assessment purposes
7. Farm residential tax exemption
8. Business tax on farming operations
9. Tax rate subclasses for farming operations.

The discussion paper was distributed widely and consultations were held across the province in the fall of 1998. This report summarizes the responses received by the Committee and provides the basis for the Committee's next steps – to prepare recommendations for review by the Minister of Municipal Affairs.

The Committee would like to thank the hundreds of municipalities, county councils, villages, towns, cities, organizations, and individual farmers and community members who responded to the discussion paper.

The issues are complex ones. They affect not only the property tax base of local governments, but also the pocketbook of individual farmers and other rural taxpayers. It is essential that the issues and the impact of various alternatives be assessed carefully and that an appropriate balance be achieved – a balance between preserving the best of the current system, addressing inequities, and putting in place a fair system for the future.

Farming is a changing business, especially as agricultural producers look to ways of adding value, diversifying and improving their chances of having a successful and productive farming operation. The Committee has to consider the changing nature of the farming business in preparing its recommendations, and ensure that its recommendations do not discourage or provide a disincentive for Alberta farmers either starting in the business or looking for ways of diversifying their operations but ensuring that all operations are assessed fairly.

Assessment is a method used to fairly distribute the tax burden among property owners. Reassessment is, in itself, revenue-neutral. Reassessment of all property in a municipality ensures that all ratepayers are paying their fair share of the total tax burden.

As the Committee proceeds with developing detailed recommendations, our goal is to achieve the right balance and to develop a fair system for assessing and taxing farm property.

As readers of this report will note, one of the primary issues of concern raised by people participating in this review focused on education property taxes. For many people, acceptance of certain proposals for change in how farm property is assessed and taxed depends on changes in how education is funded – specifically on whether or not farmland is taxed for education purposes. The Committee is not in a position to address that issue or propose solutions since it was not considered to be part of our mandate. However, in view of the number of times this issue was raised, the Committee will ensure that the issue and people’s concerns are brought forward to the Minister and to government.

Background

Discussions about potential changes to how farm property is assessed and taxed are not new. In the past, many changes were made by adding different regulations and exemptions. The result is a complex and difficult system of rules and conditions.

In January 1995, a new Municipal Government Act came into force. Its intent was to give municipalities greater flexibility to adjust to changing conditions and more authority to make decisions at the location level. The intent also was to streamline and deregulate assessment processes. As a result, most property and buildings are now assessed on a market value basis. In addition, the Municipal Government Act makes a clear distinction between the two functions of assessment and taxation. The Act sets out the rules for assessment practices; adjustments for tax policy are made either as exemptions or adjustments to tax rates.

Another major change took place early in 1995. The province took over full responsibility for funding education. Education property taxes became the responsibility of the provincial government instead of local school boards. A province-wide uniform tax rate is in place and applied to the equalized assessment of a municipality to calculate the education tax requisition.

With these changes, it was important to review the current basis for assessing farm property. First, farm property is not assessed on a market value basis but through a complex set of regulations. Second, rules for assessment and taxation for education purposes are not the same for rural and urban municipalities. And third, the current system results in a number of inequities in the amount of taxes paid by different farmers.

To address a number of key issues, the MLA Committee reviewed the work of the Farm Property Assessment Steering Committee established in 1995. A series of nine key issues was identified along with several recommendations. Those issues and recommendations were outlined in a discussion paper circulated by the Committee in the fall of 1998. The discussion paper included a questionnaire for people to use in responding to the various issues involved in the review. Public meetings also were held in 12 locations across the province.

In total, the Committee received 381 written submissions and replies to the questionnaire. In addition, about 1,200 people attended or made presentations at public meetings. Appendix 1 provides a summary of the locations and attendance at public meetings.

Listening to Albertans

General observations

Before outlining the specific responses to the questionnaire, some general observations about the overall views expressed through the review are important and help put the specific issues in context.

1. There is an overriding concern with education property taxes.

Time and again, the Committee heard concerns about funding education from the property tax base. People suggested there should be a completely different approach to education funding. Those suggestions included funding education completely from the provincial government using income taxes, dedicated education taxes, lottery dollars, or some source other than property taxes. With the province's decision to eliminate the education portion of tax on machinery and equipment, many suggested that farmland also should be exempt from education property taxes. There were many who suggested that, if education continues to be funded from the property tax base, only the farm residence should be taxed for education purposes, not farmland.

2. On many of the issues, opinion was divided and no clear consensus emerged.

As readers will see from the detailed responses, opinions are divided. Many people commented that, while there are some inequities in the current system, changes will only create new inequities. In response to different options presented in the discussion paper, a number of groups offered more support for coming up with a better option rather than selecting one of the options outlined. For many, it appeared there was more support for the status quo – preferring the “devil you know” – than trying to make major changes. On the other hand, several submissions said tinkering wouldn't do and a completely new system was needed.

3. On some issues, people come from fundamentally different perspectives.

On the one hand, a number of submissions took the view that there should be no exemptions whatsoever. Market value assessment should be applied regardless of the use or ownership of the property and whether it's located in a rural or an urban area. The market value system is able to accommodate

the differences. On the other hand, others argued strongly for retaining the current system combined with additional categories of assessment and more exemptions for different circumstances.

4. There is suspicion that any changes will result in higher taxes for agricultural producers at a time when they can't afford it.

Whenever changes in the tax system are proposed, many people suspect the result will be higher taxes. Agricultural producers are no different. Many expressed concerns that changes could amount to a tax grab at a time when farmers could ill afford any increase in their costs.

5. Farm property assessment and taxation are complicated issues and many people don't understand how the current system works or why specific components of the assessment system are in place.

As noted in the background section of this report, changes to farm property assessment have been made over the years by adding different regulations and exemptions. The result is a complex and complicated system of rules and conditions. Listening to the concerns raised at meetings and reviewing submissions and responses, it is clear that, in some cases, people do not have a full understanding of how the system works today and why certain changes and regulations were added over the years. In some cases, this made it difficult for people to understand the reasons for some of the proposed solutions or to assess whether or not the proposed solutions are better than the current assessment system.

6. The tax system should not result in disincentives to value added agriculture or to agricultural producers who are diversifying their farming operations. While larger farming operations should be taxed more than smaller ones, farmers who diversify and expand their operations into new areas should not be penalized through the property tax system.

Many respondents saw the proposed changes in the definition of farming as having a negative impact on encouraging value added agriculture. The difficult question becomes where to draw the line between a farming operation and a commercial operation. Several respondents also expressed concerns that changes in assessment should not penalize farmers who take risks and go into new areas in order to diversify their operations.

7. There is a lack of trust among the different groups and types of municipal governments in terms of why changes are needed and who will benefit.

An underlying theme of many of the submissions was a questioning of why different groups are looking for changes. Submissions from urban areas often mentioned the need for more fairness in taxes between urban and rural areas. Urban areas suggest they pay more in education property taxes. Rural areas suspect the objective is to shift more of the tax burden for education onto rural taxpayers. They argue that rural people should pay less in education taxes because the programs and services their children receive aren't as extensive. On the municipal side, they suggest taxes should be lower because they don't get the same services from their municipality as people get in urban areas. While some argue for more flexibility for their local governments, others worry that local governments would simply look for more ways of increasing their taxes and cause even greater inequities across the province. Clearly, there is no strong sense of people working together to come up with workable solutions that address everyone's concerns.

8. The system is complex already and any changes should make the system simpler.

Many submissions made the point that, while some options may make sense in principle, they would be difficult to administer and add further complexity to the system. A number of submissions also suggested that some of the proposed definitions and options were unclear and this would add further problems in interpretation and administration.

9. More time is needed for careful assessment.

Many submissions commented on the short time frames for reviewing the issues and commenting on the discussion paper. Suggestions also were made that public meetings should have been held in more locations across the province. A number of submissions recommended that further study was needed and, before any changes were made, there should be a complete impact assessment done and available for people to review.

Responses to the questionnaire

The following sections provide an overview of each of the nine key issues and a summary of the responses received. In each case, percentages favouring one position or another are included. These percentages include only the totals of responses to the questionnaire. Views expressed at public meetings or through written submissions are summarized in the “comments” section on each of the issues. A complete summary of the responses to the questionnaire is included in Appendix 2.

1. Definition of farming operations

Background

All land, other than farmland, is assessed on the basis of its market value. If farmland is going to be valued on a different basis, there needs to be a clear definition of what constitutes a “farming operation.” That definition has to reflect significant changes in the agricultural industry, including value added agriculture.

In the discussion paper, the Committee recommended that:

“A new definition of farming operations should be introduced to clarify what uses qualify property as farmland for the purposes of assessment and taxation and to ensure that only primary agricultural uses of property receive the required assessment or tax exemptions.”

The following definition was proposed in the discussion paper.

‘Farming operation’ means the raising or production of primary agricultural commodities on a commercial basis and includes:

- (a) field crops;
- (b) horticulture, including sod, flowers and nursery stock
- (c) fish farming, fur framing and bee keeping;
- (d) the raising of livestock as defined in the Livestock and Livestock Products Act;
- (e) woodlots;
- (f) the storage of primary agricultural commodities and any process or action required for their storage at industry standards; and
- (g) the storage, on the owner’s property, of the production inputs, including farm machinery required for the production of primary agricultural

commodities and any action required for their storage at industry standards;

but does not include the use of a property to the extent it is used for:

- (h) the retailing of goods or services for a fee or other consideration;
- (i) the cleaning, grading, processing or packaging of a primary agricultural commodity for sale or other consideration;
- (j) the storage of primary agricultural commodities where the facility is managed by an association of owners established to operate the facility;
- (k) the purchase and resale of primary agricultural commodities by a licensed agricultural commodity dealer; and
- (l) the maintenance of livestock or other animals for recreational purposes.

‘Primary agricultural commodities’ means the products from farming operations and includes:

- (a) the natural, unprocessed products, including silage, resulting from the growing of plants;
- (b) livestock, as defined in the Livestock and Livestock Products Act, in a live condition;
- (c) unprocessed honey or milk, ungraded eggs, pregnant mare urine, embryos, and livestock semen;
- (d) whole fish and raw furs;
- (e) unrefined wool and antlers; and
- (f) logs from woodlots.

‘Woodlot’ means a parcel, or designated part of a parcel, of land for which an approved management plan has been prepared by a professional forester and implemented solely for the sustainable production of timber.

‘Commercial’ means the raising or production, for sale, of primary agricultural commodities on a ‘for profit’ basis and includes such raising or production by a non-profit organization or the Crown whether the commodities are sold for profit or other consideration.

Summary of responses

Do the proposed definitions identify what should and should not qualify as ‘farming operations’ for the purposes of assessment and taxation?

- Yes 45.6%
- No 54.4%

Comments

Although many respondents said they supported the definition in general terms, their concerns were primarily with specific aspects of the definition. While some said a definition wasn't necessary, most said they would prefer to see certain aspects changed and greater clarity in the definition. Some suggested that market value should be applied to all property – whether it's farmland or land in urban municipalities. Several groups suggested that farming would be better defined as all on-farm functions. This would include all aspects from seeding up to and including the first point of sale of the product.

Many respondents were concerned about the impact of the proposed definition on value added agriculture. Some felt that the proposed definition was overly restrictive and would penalize farmers who are simply trying to add value to their farming operations, either by diversifying or by adding value to their products. Some felt that the proposed definition penalized farmers who tried to add value to their products or were offering a service to neighbouring farmers.

Concerns also were expressed about defining the line between farming operations and commercial operations. Many respondents suggested that it was difficult to set clear rules on when a farmer becomes a retailer. There were a number of suggestions that the term "on a commercial" basis should be eliminated from the definition. Several respondents suggested that farmers should be able to retail goods and/or services related to their own production without being taxed as "commercial" operations. The most common concerns were with the proposed items (h), (i) and (j).

Several suggestions were made that the definition should include a more complete description of horticulture and include nurseries and nursery stock, trees and tree farms, as well as flowers and herbs. There also were a number of suggestions that the definition for woodlots was too narrow. There are commercial products produced by native woodlots that are not recognized like florals for crafts, medicinal herbs and plants, and maple and birch syrup. Some questioned whether an approved management plan for woodlots was a reasonable requirement while others said this should be essential.

In addition to these concerns, the responses to the questionnaires raised a number of specific questions about various components of the proposed definition. These specific issues and suggestions are being addressed by the Committee.

2. Assessment of woodlots

Background

Owners of woodlot operations have expressed concerns about the assessment and taxation provisions for sustainable woodlots. Under current legislation, the operation of woodlots is not considered as a farming operation. It is considered as the harvesting of a natural resource. The result is that woodlots are assessed on the basis of market value and not as farmland. The Woodlot Association claims that this discourages the development of sustainable woodlot operations and encourages early harvesting of the resource.

In the discussion paper, the Committee recommended that:

“Woodlots should be included as a use of property that qualifies as a farming operation. Woodlots should be assessed on the basis of their productive value as a woodlot in a similar fashion to all other farm property.”

Summary of responses

Do you agree that the use of a property as a sustainable woodlot should be considered as a ‘farming operation’ and that the property be assessed on the basis of its productive value as a managed woodlot?

Yes 72.5%

No 17.5%

Comments

The majority of people agreed that use of a property as a sustainable woodlot should be considered as a farming operation and taxed on the basis of its productive value. Some suggested that there should be a separate category entirely for woodlots or that the productivity value of woodlots was fundamentally different and should be established in consultation with woodlot owners.

Suggestions were made that the definition should distinguish between natural and replanted woodlots, or between land newly acquired expressly for the purpose of selling wood as opposed to land acquired since homesteading days which has not been cleared and broken.

The option of taxing woodlots on the basis of market value was not supported by most respondents. Many suggested that taxing woodlots at market value was

anti-conservation and could result in clear cutting the land. Others suggested that land should be taxed on the basis of market value and then taxed as its timber is cut and sold. And suggestions were made that individuals who purchased woodlots merely to set up a residence while earning their income elsewhere should be taxed at market value.

There also was divided opinion on whether a management plan should be required. Some suggested that woodlots should be managed as wildlife habitat with a management plan approved by an accredited organization. Others disagreed with the need for a management plan.

3. Valuation of farmland for property assessment purposes

Background

Farmland is currently assessed on the basis of its productive value. All farmland is rated on the basis of its ability to produce an average net income under typical management practices. The current system uses a comprehensive set of rating schedules based on typical crops and management practices, costs of production, crop yields and crop prices from 1971-72 to 1981-82. The rating schedules have not been updated since the mid 1980s.

The system was intended to ensure that, wherever possible, assessments would consistently reflect agricultural market value within a particular region and from one region of the province to another.

In addition to the fact that the rating schedules are out of date, there are some problems with the current system. The rating schedules do not allow for adjustments to account for changes in farming practices and income levels from one region of the province to another. The rating schedules only recognize three farming practices – grain and oilseed dry land farming, ranching and irrigated land farming. In addition, the system does not recognize any intensive use of land other than irrigation.

To address these issues, the Committee made the following recommendations:

Introduce an updated productive value system for farmland assessment. In addition, the system should be periodically reviewed to ensure it reflects current conditions in the agricultural industry.

Summary of responses

In your opinion, should farmland continue to be assessed on the basis of its productive value?

Yes 85%
No 15%

If you agree, do you believe that the productive value system should be updated periodically to reflect current farming practices, costs of production, and commodity prices?

Yes 81.5%
No 18.5%

If you agree, do you believe that the productive value system should be updated periodically to reflect current farming practices, costs of production, and commodity prices?

Yes 81.5%

No 18.5%

Comments

By far the majority of respondents supported retaining the productive value as the basis for assessing farmland. Generally, respondents said this was the fairest method of assessing farmland because farmers then pay taxes based on the ability of the land to generate income. Those who opposed productive value typically supported a move to market value as the basis for assessment. As noted in the general observations, significant number of respondents raised concerns about education property tax in relation to this question.

In terms of updating the system, a number of specific suggestions were made. Several suggestions were made that the productive value should be based primarily on Hail and Crop records of production levels. Some said that the system should consider limits on the choices in crops available to the farmer due to the location, climate conditions, need for irrigation or size of land required. Others said that soils of similar series types should be assessed similarly. There were suggestions that the system should consider typical crop management practices, factors limiting growth on certain soil types, increasing costs of production, yields that are typical for the region, and commodity prices that are current and based on a rolling five year average. Others suggested that productive values should be updated annually while some said they should be updated every 10 years or every three years.

There also were some suggestions that the development of more intensive feedlot farming operations had to be considered. These operations produce a high return per acre and result in higher infrastructure costs as well as concentrated waste. Some suggested there should be a separate valuation for land used for intensive livestock.

A number of respondents also said that the assessment process has become too complicated and it's difficult to understand.

4. Intensive vs. Extensive Agricultural Operations

Background

In recent years, most of the growth in value-added agriculture has been in intensive farming operations. As intensive farming operations expand, there are added infrastructure costs to a municipality. In rural municipalities, all agricultural buildings aside from residences are exempt from assessment and taxation. This means that expansion of agricultural buildings and other improvements necessary to support intensive farming operations are not taxed. The additional infrastructure costs are borne by all taxpayers in the municipality while owners of intensive farming operations do not pay a fair share of tax because their buildings and expansions are exempt.

In urban municipalities, agricultural buildings are assessable and exempted from property taxes to a level of 50%.

Both of these situations cause inequities across the province. There are wide variations in property taxes paid by various agricultural operations.

The discussion paper set out four options for addressing this issue.

Summary of responses

Option #1: Make no changes to the present system and address the local infrastructure costs through a business tax on intensive agricultural operations.

Yes 33.9%

No 66.1%

Comments: People who opposed this option basically opposed a business tax on agricultural operations. On the other hand, some suggested that a locally applied business tax on intensive livestock operations could help solve the perceived inequities. Many said that it was important to clearly define intensive and extensive operations.

Option #2: Introduce an assessment exemption amount for farm buildings. An assessment value over this predetermined amount would be subject to tax. The exemption could be a flat amount or be based on the existing farm unit assessment exemption used for farm residences.

Yes 22.8%

No 77.2%

Comments: The majority of respondents disagreed with introducing an assessment exemption for farm buildings. Many suggested this option would be administratively complex, difficult and costly to implement. The additional cost of assessing buildings and then exempting them from property tax was considered a waste. If this option were implemented, some said that the province would have to help municipalities with the assessment costs. Some suggested that intensive and extensive agricultural buildings should be assessed and taxed at fair market value. On the other hand, some suggested that a tax on capital was a regressive tax.

Option #3: Continue to exempt all farm buildings and apply an increased land assessment to reflect intensive use of the land.

Yes 42.1%

No 57.9%

Comments: There was divided opinion on this option. Some suggested that this was the most practical and simple option to implement while others disagreed. As noted above, many people said there needed to be a clear definition of intensive agricultural uses. Suggestions were made that greenhouses should be exempt and only the land should be taxable.

Option #4: Assess and tax either the land or the buildings on each parcel, whichever results in the highest assessment.

Yes 25.9%

No 74.1%

Comments: Most respondents did not support this option. Some said that, on large holdings, a significant amount of assessment would escape taxation. Concerns were raised about the cost of

implementing this option and difficulties in administration. A substantial amount of resources would have to go into maintaining an inventory of all farm land and farm building characteristics.

Do you believe there is a better solution to this issue?

Yes 85.7%

No 14.3%

Comments: Many respondents suggested that there should be a better solution to this issue than the four options presented. Some suggested the issue should be left to municipalities while others said that moving to a market value assessment would address the issue more effectively. Some suggested that, if municipalities received a portion of the fuel tax produced in the area, this would help cover the additional infrastructure costs. There also were suggestions that separate productive values should be developed for land used for intensive agricultural operations to take into account the added impact of these properties on municipal services. Others suggested adding a wholesale tax on all food items, removing fuel tax exemptions on farm trucks, introducing resource grants from the province to cover infrastructure costs, or introducing a road levy.

A number of organizations representing intensive agricultural producers suggested a specific approach that would involve assessing a “footprint” of land used by intensive farming operations. This footprint would be assessed at market value. The assessment would be based on a minimum of 20 acres regardless of whether or not the operation used less than 20 acres. The residential site would be excluded. An intensive livestock operation subclass tax rate would be established based on a formula or animal units. The subclass rate would not be more than twice the municipality’s lowest rate. All other land owned by the intensive operation would be assessed based on productive value.

5. Assessment of land not used for farming operations

Background

Prior to the Municipal Government Act, in rural municipalities, the first three acres of land not used for farming operations was assessed at market value and the remaining land was assessed on the basis of its productive value as if it were farmland. In urban areas, all land was assessed on the basis of its market value.

The Municipal Government Act now requires that all land not used for farming operations should be assessed on the basis of its market value. Owners of land not used for farming purposes in rural municipalities have expressed concerns that this will result in an increase in their property taxes.

The Committee recommended that:

All land not used for farming operations should continue to be assessed and taxed on the basis of its market value.

Summary of responses

Should land not used for farming operations continue to be assessed and taxed on the basis of market value?

Yes	80.7%
No	19.3%

Comments

The majority of respondents agreed that land not used for farming operations should be taxed on the basis on market value. The primary area of concern centered on land that was set aside for environmental conservation, for grasslands, or for wildlife habitats. Many respondents suggested that if this land was taxed on its market value, it could discourage farmers and others from conserving land. Suggestions were made that wildlife habitats should be taxed at the lowest possible rate or completely exempt from taxation in order to encourage conservation.

6. Farm residential site valuation

Background

Currently, the site of a residence on farmland is assessed on the basis of the market value of three acres or a larger area in actual use, as if the site were a separate parcel. This applies whether the property is in a rural or an urban municipality. Acreage land and all other residential property is assessed on the basis of market value.

Concerns have been expressed that three acres is a larger area than what is actually used for residential purposes. Some ratepayers claim that it is unfair to assess the three-acre site as if it were a separate parcel.

The Committee's discussion paper asked for people's views on three options. The Committee recommended option 3.

Summary of responses

Option #1: Make no change to the current system.

Yes 57.7%

No 42.4%

Comments: Opinions were divided on maintaining the status quo. Those who supported the current system said that changes to introduce the three acre site for assessment purposes were relatively new and to begin to change the process now to one that may not be simpler or easier to understand was not a good idea. (In fact, use of the three acre site for assessment of farm property has been in place since 1989.) Many said that the current system was working well, although some said that three acres may be too much area for a residential site. On the other hand, a number of respondents said that changes were needed in the current system.

Option #2: No residential site would be assessed on the basis of market value. All land, including the site of the residence, would be assessed on the basis of its productive value.

Yes 21.6%

No 78.4%

Comments: Most respondents disagreed with this option. Comments were made that it would lead to difficulties in distinguishing between farm and non-farm properties and would be

difficult to administer. Concerns were expressed that, if all land were valued at its productive value, the difference in assessment and taxation between rural and urban properties would only lead to further inequities. A number of people suggested that all exemptions on residences should be removed.

Option #3: The residential site on a residential acreage parcel would continue to be valued on the basis of the market value of a three-acre site, as if the site were a separate parcel. The site of a residence on a farm parcel would be valued on the basis of the market value of a one-acre site as part of a total farm parcel. The three-acre site would continue to be applied to parcels of land 60 acres or less. The one-acre site should be applied to parcels of land of more than 60 acres.

Yes 49.4%

No 50.6%

Comments: Opinions were divided on this option. While some said this was the best option, others said it was complex and would be difficult to administer. Comments were made that it appears more complicated to implement than the benefits than might be gained. Those who supported the option said that it would give equal treatment to all farm operations and create a level playing field. Those who opposed the option said that exemptions for residence should be removed and all farm residences should be assessed at market value. Some suggested that the option would be considered unfair by urban municipalities and non-farmers because of the education tax issue.

Do you believe there is a better solution to this issue?

Yes 70.1%

No 29.9%

Comments: Again, the majority of respondents thought there should be a better solution than the three options outlined. Suggestions included assessing all residences together with a one acre parcel at full market value, leaving it at the three acre size and taxed at market value, a flat tax on every residential site, or completely exempting a farm house and site no matter what size it is. The most common comment was that exemptions for farm residences should be removed and all residences should be assessed on the same basis – market value – whether they are located in a rural or an urban municipality.

7. Farm residential tax exemption

Background

In a rural municipality, a residence on farmland is exempt from assessment, in whole or in part, based on the assessed value of the qualifying farmland owned by the farmer. The maximum exemption for the first residence is \$61,540. An additional residence may be exempted to a maximum of \$30,770 of assessment remaining after the exemption of the first residence. The exemption applies only to land owned by the farmer or leased from the Crown or a municipality. Land that is leased from private owners does not qualify for an exemption. Estimates are that more than 50% of farmland in the province is farmed by someone other than the landowner. The current policy does not allow for exemptions of residences in an urban municipality.

Some ratepayers have questioned the fairness of the current exemption policy. Agricultural producers who own more land or farm a better quality of land qualify for more of an exemption. There also are inequities between those who own and those who rent land. Urban taxpayers have expressed concerns about a perceived unfairness of having all urban residences taxed based on market value while residences on farmland in rural municipalities are exempt. This applies to both municipal and education property tax.

The Committee asked for responses to three different options.

Summary of responses

Option #1: Maintain the present system.

Yes 40.0%

No 60.0%

Comments: Those who supported the current system said that it provides a fair approach for both large and small farm operations. On the other hand, others said that giving exemptions through the assessment system is not appropriate. Again, frequent comments were made about removing education property tax. Several respondents commented that a farmer who owns land in a rural municipality should pay the same education tax on his or her residence as a residence in an urban municipality. Others disagreed, suggesting that it was impossible to assess rural homes with the same scale used in cities and that inequities in education (e.g. long bus rides, fewer programs, etc.) between rural and urban areas needed to be taken into consideration.

Option #2: Apply no exemptions to residences regardless of location.

Yes 41.1%

No 58.9%

Comments: Those who supported this option consistently said that all exemptions for residences should be removed and residences should be taxed on market value. This way, everyone is on an even footing. On the other hand, some suggested that the exemptions should be retained, otherwise there would be a significant shift in tax burden onto farm residences. Some suggested this would be particularly unfair to the small farmer and that it would discourage young people from getting into farming. Large homes on farms should not have the same rate of taxation as smaller homes.

Option #3: Phase-out the current exemption and shift the exemption to land used for farming purposes. The farmland exemption could be either a percentage exemption or a flat exemption from tax.

Yes 44.9%

No 55.1%

Comments: The majority of respondents did not support this option. Comments were made that the option addresses concerns about fairness and would remove the current friction over the exemption of farm residences, but people wanted to know what the impact would be. Some suggested they would support this option if farmland was exempt from educational property tax. Others supported phasing out the exemption and shifting the exemption to farmland as long as the current exemption rates were transferred to the land.

Do you believe there is a better solution to this issue?

Yes 71.0%

No 29.0%

Comments: As in other questions, most respondents thought that a better solution should be developed. Suggestions were wide ranging but many suggested that all residential tax exemptions should be removed, all residences should be assessed on market value, and all residences should be assessed for education tax purposes whether they are located in an urban or a rural

municipality. Several respondents supported the proposal from the Alberta Association of Municipal Districts and Counties that suggests the current exemption for farm residences should be eliminated but only if agricultural land is fully exempted from provincial education tax.

8. Business tax on farming operations

Background

Business taxes are generally used by municipalities to offset the additional costs created by businesses in their community. Prior to the Municipal Government Act, urban municipalities could have business taxes on farming operations but rural municipalities could not. The Municipal Government Act puts no restrictions on municipalities' choosing to introduce business taxes for agricultural operations.

As intensive agricultural enterprises are growing, the impact on the infrastructure in rural municipalities is growing as well. Some rural municipalities are considering a business tax as a way of ensuring that intensive operations share in the additional infrastructure costs.

The Committee recommended that:

All municipalities should continue to be allowed to apply a business tax on farming operations. The current provisions of the Municipal Government Act regarding business tax should be amended to provide municipalities with the ability to apply a business tax on farming operations in a manner that is applicable to the agricultural industry. As an example, the legislation could require the business tax to be based on the average number of animal units on the property at any time.

Summary of responses

Do you agree with this recommendation?

Yes 46.7%

No 53.3%

Comments

Opinion was divided on business taxes. Those who supported the recommendation, said that municipalities should have the flexibility they need to introduce business taxes. They suggested that this was the best way of dealing with additional infrastructure costs resulting from intensive farming operations. Several respondents suggested that business taxes could be applied to commercial operations such as feedlots, grain plants or intensive business operations but not to basic farming operations.

On the other hand, opponents of business taxes said that the result would be further inequities across the province where some municipalities levy business taxes and others don't. There should be a level playing field across the province. Suggestions were made that this could be a tax grab by municipalities and it would add to the tax burden on the agricultural industry at a time when farmers cannot afford it. The province and municipalities should be encouraging food producers not driving them away through higher taxes. Others suggested that the additional costs to a municipality as a result of intensive farming operations should be addressed directly through the assessment system, not by adding business taxes.

9. Tax rate subclasses for farm property

Background

Under current legislation, there is only one assessment class for farmland. This doesn't allow municipalities the option of applying different tax rates to different types of farm property. Municipalities can designate an unlimited number of assessment categories for residential properties. Some have suggested that allowing municipalities to apply different tax rates to different properties would give them more flexibility for dealing with local tax policy and infrastructure issues.

The Committee recommended that:

Legislation should be amended to allow municipalities the flexibility to apply different tax rates on farm property depending on the type of agricultural operation taking place on the property.

Summary of responses

Do you agree with this recommendation?

Yes 51.2%

No 48.8%

Comments

Opinions were divided on this issue. Those who agreed with the recommendation suggested that municipalities should have the right to apply different tax rates and that this is an effective way of addressing differences in types of farming operations. They supported the flexibility this would provide to municipalities. On the other hand, concerns were expressed about the possibility of this opening up room for interpretation, disputes, dissension and perceived inequities. Some felt that municipalities could use this to increase taxes on certain types of properties without providing any more services.

Conclusions and next steps

As noted previously, opinions are divided on a number of issues and options raised by the Committee. On many issues, there isn't a clear consensus on the direction to be taken and often, there was strong support for developing a better solution. The most consistent concerns related to education property tax.

In general terms, the Committee's conclusion is that there is strong support for maintaining productive value as the basis for assessing farmland and that this system should be updated regularly. A definition of farming operations is important, but further work is needed to clarify some of the particular aspects of the definition and to ensure that it does not discourage value added agriculture. There is general support for assessing land not used for farming purposes on the basis of its market value, but consideration should be given to land set aside for conservation purposes or to protect natural habitats. There also was general support for assessing woodlots as farming operations. On other issues, opinions are more divided.

As next steps, the Committee is planning the following actions:

Definition of farming operations

The definition of farming operations is acceptable in principle but refinements are needed on specific aspects of the definition to clarify what is intended.

Action: The Committee will review and refine the proposed definition, make changes as necessary, and recommend a revised definition of farming operations.

Assessment of woodlots

Based on the positive feedback received from stakeholders, property used as a sustainable woodlot should be considered as a farming operation and the property should be assessed on the basis of its productive value as a woodlot.

Action: The Committee will include this recommendation in its final report to the Minister. The Committee will recommend that woodlots be included as a use of property that would qualify as a farming operation. Subsequently, woodlots would be assessed on the basis of their productive value as a woodlot.

Valuation of farmland for property assessment purposes

There was widespread agreement that farmland should continue to be assessed on the basis of its productive value. A method of updating the productive value system on an ongoing basis needs to be developed.

Action: The Committee will recommend a method for updating the productive value system. Stakeholders will have an opportunity to review the proposed method and provide their advice.

Assessment of land not used for farming operations

There was general agreement that land not used for farming operations should continue to be assessed and taxed on the basis of its market value. Concerns were raised about land set aside for conservation purposes. The Committee will include this recommendation in its final report.

Action: The Committee will develop proposals for addressing specific concerns related to land set aside for conservation, for Special Places, and for wildlife habitats. Stakeholders will have an opportunity to review the proposals and provide their advice.

Farm residential site valuation

While opinions on this issue were divided, the Committee's view is that the current system appears to be the preferred option. Other options proposed did not receive widespread support.

Action: The Committee will recommend no changes to the current assessment approach.

Intensive farming operations and exemption of residences on farmland

The public consultation process did not provide direction on four issues:

- An assessment method for intensive agriculture.
- Business tax on farming operations.
- Tax rate subclasses for agriculture.
- Exemptions for rural residences.

On intensive agriculture, none of the four proposed methods to value intensive operations received an endorsement, but several of the intensive agricultural producer associations did present alternatives that may be worth further consideration.

On the rural residential exemption, there was some acceptance of the principle that rural residences should become taxable, but only if the education property tax was removed from farmland.

Actions: The Committee will undertake specific impact studies for a sample of municipalities to assess the effect of different options including: the impact of removing the residential exemption, introducing a business tax, allowing municipalities to introduce sub-classes of farmland and different tax rates for different classes, and assessing intensive operations based on the “footprint” concept. The results of the impact studies will be made available to stakeholders. Specific solutions and recommendations will be developed following completion of these studies.

Based on the feedback and advice received, there is important work left to be done before overall changes can be made in how farm property is assessed and taxed. The Committee intends to proceed as quickly as possible to get the further studies underway, however, it will take some time for thorough impact assessments to be prepared.

In the mean time, the Committee intends to proceed with further steps on refining the definition, updating the productive value system and developing proposals for assessing land set aside for conservation.

The Committee would like to thank all those who participated in the review of these important issues. While we are not yet at a point where the work is complete, we will continue to count on the ongoing advice of agricultural producers, municipalities, organizations and individual Albertans to help shape the Committee’s final recommendations.

Appendix 1

List of meetings and submissions

Public Meetings

The following is a list of stakeholder presentations made at the 11 public meetings held across the province. In addition to these scheduled presentations, about 1,200 people attended the public hearings and many of those people made presentations or identified questions at the meetings.

Westlock *October 20, 1998*

1. County of Barrhead #11
2. Friends of the Athabasca Environmental Association
3. Alberta Forest Caucus of Alberta Environment Network
4. Westlock Northeast Ratepayers Association

Drayton Valley *October 21, 1998*

1. Woodlot Association
2. Parkland Residents Association
3. Alberta Cattle Feeder's Association
4. M.D. of Brazeau #77
5. Pembina Institute for Appropriate Development

Fairview *October 22, 1998*

1. County of Grande Prairie (Division 8)
2. M.D. of Saddle Hills

Valleyview *October 22, 1998*

1. M.D. of Big Lakes
2. Peace Country Agricultural Protection Assoc.
3. M.D. of Greenview

Brooks *October 26, 1998*

1. Alberta Cattle Commission
2. Ducks Unlimited Canada
3. The City of Calgary
4. County of Newell
5. Pedigreed Seed Producers Operating as Registered Seed Establishments

Picture Butte *October 27, 1998*

1. Vulcan County
2. Alberta Milk Producers
3. M.D. Of Pincher Creek
4. Western Stock Growers Association
5. County of Lethbridge #26

- Olds** *October 28, 1998*
1. Council of Alberta Horticultural Industries
 2. M.D. of Rocky View #44
 3. Mountain View County
 4. Action for Agriculture
 5. Alberta Canola Producers Commission
 6. M.D. of Foothills #31
- Lacombe** *October 28, 1998*
1. County of Ponoka
 2. Wild Rose Agricultural Producers
 3. Alberta Greenhouse Growers Association
 4. Lacombe County
 5. County of Wetaskiwin
- St. Paul** *November 3, 1998*
1. Landscape Alberta Nursery Trades Association
 2. Alberta Pork Producers Development Corporation
 3. County of St. Paul No. 19
 4. Alberta Beekeepers Association
 5. Alberta Fish & Game Association
- Vermilion** *November 3, 1998*
1. Land Stewardship Centre
 2. Alberta Chicken Producers
 3. County of Vermilion River # 24
 4. Alberta Market Gardeners Association
- Killam** *November 4, 1998*
1. County of Camrose #22
 2. County of Stettler #6
 3. Prairie Oat Growers Association
 4. Southern Alberta Food Processing Initiative Consortium
 5. Flagstaff County
 6. Canadian Seed Growers Association

Submissions

The Committee received a total of 381 written submissions and replies to the questionnaire. These submissions have been compiled and a summary of the responses is included in Appendix 2.

Appendix 2

Summary of responses to the questionnaire

Question	Yes	%	No
1. Definition of Farming Operations	157	45.6	187
Individuals	15		15
Municipal Districts	36		24
Counties	62		109
Towns	13		15
Villages	3		5
Cities	14		13
Organizations, Associations and Companies	14		16
2. Assessment of Woodlots	179	72.5	68
Individuals	16		1
Municipal Districts	42		14
Counties	70		29
Towns	17		9
Villages	2		5
Cities	14		6
Organizations, Associations and Companies	18		4
3A. Valuation of Farmland for Property Assessment Purposes	238	85.0	42
Individuals	18		1
Municipal Districts	49		8
Counties	108		14
Towns	25		6
Villages	7		0
Cities	13		7
Organizations, Associations and Companies	18		6
3B. Valuation of Farmland for Property Assessment Purposes	167	81.5	38
Individuals	12		4
Municipal Districts	39		5
Counties	77		16
Towns	15		5
Villages	3		2
Cities	12		5
Organizations, Associations and Companies	9		1

Question	Yes	%	No
4. Intensive Versus Extensive Agricultural Operations <i>Option 1</i>	72	33.9	140
Individuals	7		11
Municipal Districts	19		29
Counties	33		61
Towns	9		13
Villages	0		6
Cities	3		15
Organizations, Associations and Companies	1		6
4. Intensive Versus Extensive Agricultural Operations <i>Option 2</i>	39	22.8	132
Individuals	1		12
Municipal Districts	12		11
Counties	9		64
Towns	7		13
Villages	2		3
Cities	6		11
Organizations, Associations and Companies	2		8
4. Intensive Versus Extensive Agricultural Operations <i>Option 3</i>	80	42.1	110
Individuals	10		4
Municipal Districts	12		28
Counties	31		43
Towns	6		14
Villages	0		4
Cities	7		12
Organizations, Associations and Companies	14		5
4. Intensive Versus Extensive Agricultural Operations <i>Option 4</i>	44	25.9	126
Individuals	3		10
Municipal Districts	10		28
Counties	20		50
Towns	4		15
Villages	1		4
Cities	4		13
Organizations, Associations and Companies	2		6

Question	Yes	%	No
4. Intensive Versus Extensive Agricultural Operations Better solution	102	85.7	17
Individuals	6		2
Municipal Districts	22		4
Counties	39		6
Towns	13		2
Villages	3		1
Cities	12		2
Organizations, Associations and Companies	7		0
5. Assessment of Land Not Used for Farming Operations	225	80.7	54
Individuals	16		1
Municipal Districts	46		14
Counties	94		16
Towns	24		9
Villages	6		1
Cities	21		6
Organizations, Associations and Companies	18		7
6. Farm Residential Site Valuation for Assessment Purposes <i>Option 1</i>	131	57.7	96
Individuals	8		10
Municipal Districts	28		20
Counties	66		42
Towns	11		10
Villages	1		4
Cities	8		9
Organizations, Associations and Companies	9		1
6. Farm Residential Site Valuation for Assessment Purposes <i>Option 2</i>	33	21.6	120
Individuals	4		8
Municipal Districts	6		28
Counties	13		50
Towns	4		13
Villages	4		2
Cities	0		16
Organizations, Associations and Companies	2		3

Question	Yes	%	No
6. Farm Residential Site Valuation for Assessment Purposes <i>Option 3</i>	84	49.4	86
Individuals	11		8
Municipal Districts	17		19
Counties	33		34
Towns	8		9
Villages	1		4
Cities	6		11
Organizations, Associations and Companies	1		1
6. Farm Residential Site Valuation for Assessment Purposes Better solution	61	70.1	26
Individuals	3		1
Municipal Districts	15		6
Counties	24		10
Towns	9		4
Villages	2		1
Cities	7		3
Organizations, Associations and Companies	1		1
7. Farm Residential Tax Exemption <i>Option 1</i>	76	40.0	114
Individuals	6		11
Municipal Districts	28		20
Counties	37		42
Towns	8		14
Villages	1		5
Cities	3		12
Organizations, Associations and Companies	5		5
7. Farm Residential Tax Exemption <i>Option 2</i>	72	41.1	103
Individuals	4		9
Municipal Districts	13		27
Counties	22		43
Towns	8		11
Villages	2		4
Cities	14		5
Organizations, Associations and Companies	9		4

Question	Yes	%	No
7. Farm Residential Tax Exemption	74	44.9	91
<i>Option 3</i>			
Individuals	10		3
Municipal Districts	15		19
Counties	30		38
Towns	6		13
Villages	4		3
Cities	4		12
Organizations, Associations and Companies	5		3
7. Farm Residential Tax Exemption Better solution	66	71.0	27
Individuals	5		2
Municipal Districts	13		5
Counties	33		12
Towns	8		2
Villages	1		1
Cities	4		4
Organizations, Associations and Companies	2		1
8. Business Tax on Farming Operations	122	46.7	139
Individuals	7		12
Municipal Districts	32		24
Counties	49		60
Towns	11		12
Villages	1		5
Cities	10		12
Organizations, Associations and Companies	12		14
9. Tax Rate Subclasses for Farm Property	128	51.2	122
Individuals	11		8
Municipal Districts	28		24
Counties	55		48
Towns	12		15
Villages	2		4
Cities	14		6
Organizations, Associations and Companies	6		17