

**SENATE BILL NO. 2054**

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 "annual  
18 gross return" for land used for grazing farm animals means twenty-five percent of  
19 an amount determined by the agricultural economics department of North Dakota  
20 state university to represent the annual gross income potential of the land based  
21 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                   ten-year period ending in 1998, discarding the highest and lowest years'  
12                   indexes, and averaging the remaining eight years' indexes. For each year  
13                   after 1998, the agricultural economics department shall gather the national  
14                   agricultural statistics service annual index of prices paid by farmers for the  
15                   most recent ten years, discard the highest and lowest years' indexes, average  
16                   the remaining eight years' indexes, and divide the resulting amount by the  
17                   base year index of prices paid by farmers. This amount must be divided into  
18                   the amount determined under subdivision a.

19                   ~~2.~~ c. For taxable year 1998, divide the figure arrived at in ~~subsection 4~~  
20                   subdivision b by six. For taxable year 1999, divide the figure arrived at in  
21                   ~~subsection 4~~ subdivision b by seven. For taxable year 2000 and thereafter,  
22                   divide the figure arrived at in ~~subsection 4~~ subdivision b by eight.

23                   4. To find the "capitalized average annual gross return", the average annual gross  
24                   return must be capitalized by a rate that is a ten-year average of the gross federal  
25                   land bank mortgage rate of interest for North Dakota. The ten-year average must  
26                   be computed from the twelve years ending with the most recent year used in  
27                   ~~subsection 4~~ under subdivision a of subsection 3, discarding the highest and  
28                   lowest years, and the gross federal land bank mortgage rate of interest for each  
29                   year must be determined in the manner provided in section 20.2032A-4(e)(1) of the  
30                   United States treasury department regulations for valuing farm real property for

1 federal estate tax purposes, except that the interest rate may not be adjusted as  
2 provided in paragraph (e)(2) of section 20.2032A-4.

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

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

26 7. Each local assessor shall determine the relative value of each assessment parcel  
27 within the assessor's jurisdiction and shall determine the agricultural value of each  
28 assessment parcel by adjusting the agricultural value estimate for the assessment  
29 district by the relative value of the parcel. Each parcel must then be assessed  
30 according to section 57-02-27. If either a local assessor or a township board of  
31 equalization develops an agricultural value for the lands in its assessment district

1                   differing substantially from the estimate provided by the county director of tax  
2                   equalization, written evidence to support the change must be provided to the  
3                   county director of tax equalization.

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