Status of Land Classification for Tax Purposes

By Samuel L. Crockett

After a review of recent land-classification activities in several States, the author suggests the need for considering the total farm as an income-producing entity when the tax-paying ability of real estate is discussed.

FOR ALMOST half a century interest in land classification for the purposes of tax assessment has been a subject of recurring importance in many States. As might be expected, the greatest interest and activity in this method of improving property-tax assessments has been centered in areas in which agricultural land accounts for a large part of total real estate values. The degree of interest in the subject at any specific time appears to be closely related to the extent of pressure brought to bear upon local taxing units to obtain adequate revenues.

Conditions that appear to give rise to renewed dynamic interest in better assessment techniques vary. In one instance the situation may be brought about by depressed prices and widespread tax delinquency. At the other extreme, in periods of unusually high prices and near 100-percent tax collections, inflated costs of goods and services, coupled with limitations on the tax rate and other rigidities which limit the capacities of local governments to raise revenue may also give impetus to closer study of the problems of assessment. In both instances there seems to be a natural tendency for the individual property owner to become actively interested in the assessment level of his property. It is at this stage that property owners begin to make comparisons between the assessed value of their property and that of similar properties in the surrounding area. If dissatisfaction among property owners is widespread, reassessment or reappraisal projects are often initiated to allay further discontentment.

Near the turn of the twentieth century (1909) a committee was appointed within the International Tax Association (later, the National Tax Association) to study and make recommendations for a method of obtaining, generally, a uniform classification of real property. In the report of this committee, published the following year, it was recommended that classification of rural lands should fall into one of eight basic classes.[1] These classes were apparently established to provide basic descriptive categories for both surface and subsurface properties of land. The first four classes are designed primarily to help in deciding upon the surface values of land. These are (1) cultivated land, (2) arable land (land not under cultivation but suitable for plowing), (3) orchard land, and (4) timbered land. The next three classes are mainly for the purpose of describing certain subsurface properties of land. These classes are (1) mineral land, (2) quarry land, and (3) oil and gas land. To qualify for classification in any one of these three categories land must contain sufficient quantities of ore, stone, oil, or gas, to pay for extracting them. Waste land, the eighth class, is a catch-all into which all land not included in one of the other seven classes is placed.

From the time of the publication of the tax committee's report in 1910 to the early 1930's, land classification for tax-assessment purposes commanded the attention of many students of taxation and local government. It also attracted the attention of numerous State tax administrators. Many State tax organizations adopted some criteria for classifying farm land and other property for the ostensible purpose of improving property assessments. The present use of land and soil types, when known, figured prominently in early methods of classification.

The prevalence of inflated land prices and the extreme postwar pressures on needs for revenue by local governments have once again centered attention upon the perpetual goal in the taxation of property: that is, more equitable assessment of property. As land classification was the fore-

[1] For a more detailed discussion of the committee's report, see INTERNATIONAL TAX ASSOCIATION FOURTH INTERNATIONAL CONFERENCE ON STATE AND LOCAL TAXATION, PROCEEDINGS 1910: 335.

runner of technical methods in assessing farm or rural property it seems appropriate to take inventory of its present status in procedures connected with farm real estate tax assessment.

Situation by States

Because of the wide variation in both the methods and the extent to which land is classified for the purposes of property-tax assessment in the individual States, it is not possible to give detailed information for every State.

Eighteen States use only one descriptive term—farm or rural lands. Eight States use two descriptive categories. Terms used by these eight States are cultivatable and uncultivatable; tillable and untillable; and improved and unimproved. Seventeen States use three or more descriptive categories; six of these States classify land by grades and classes according to use. Of the remaining five States, three do not classify land for tax-assessment purposes. No information was obtained from two States.

Reclassification and reassessment work in progress in several States warrants special attention.

MONTANA.—Reports on work in land reclassification indicate that previous classifications in Montana are now unsatisfactory for assessment use. Individual counties, in many instances, have taken the initiative to have made a complete reclassification of all real property in the county. A recently published Montana circular says:

> The land classification which is now in effect in most Montana counties was done between 1919 and 1923 under provisions of the 1919 land classification law. This classification has proved to be inequitable because lands of similar producing ability were not placed in the same class. In order to obtain an equitable basis for assessment, it is necessary to reclassify the land in most counties so that pieces of land adapted to the same use and with similar ability to produce will be placed in the same class and grade.[2]

Realizing the inadequacies of the earlier classification, several counties in Montana have reclassified all farm and ranch land within their boundaries within the last few years. During the fiscal year 1948–49 six additional counties provided funds in their annual budgets for work in land reclassification. The Boards of County Commissioners, local assessors, County Planning Committees, the Montana State Board of Equalization, Agricultural Experiment Station, and State Extension Service, have cooperated in developing a schedule to implement more effectively the end results in this work.

As a result of this cooperative effort on the part of State and local groups four major land-use classes have been established for agricultural land in Montana. These classes are:

1. Tillable irrigated land. All land that is tillable under normal conditions and for which irrigation water is reasonably adequate.
2. Nonirrigated farm land. (a) All nonirrigated land that is now under cultivation and (b) all land that is suitable for cultivation under normal conditions but is not now being cultivated.
3. Wild-hay land. All land such as meadow bottoms and cut-over tracts, which is not tillable but is valuable as a source of hay or winter feed.
4. Grazing land. All nontilled land not classed as tillable irrigated land, nonirrigated farm land, wild hay land, or timber land.

When agricultural land has been placed in one of these classes it is then graded according to its productivity. The schedule of grades established for each land-use class is shown below.

Classes and grades for Montana agricultural land classification [1]

Tillable irrigated land

Grade:	*Tons of alfalfa per acre*
1	4.0 and over.
2	3.5–3.9.
3	3.0–3.4.
4	2.5–2.9.
5	2.0–2.4.
6	1.5–1.9.
7	1.0–1.4.
8	Less than 1.0.

Nonirrigated farm land

Grade:	*Bushels of wheat per acre on summer fallow*
1A	24 and over.
1B	22–23.
2A	20–21.
2B	18–19.
2C	16–17.
3A	14–15.
3B	12–13.
4A	10–11.

[1] See text footnote 2.

[2] STUCKY, H. R., and HALCROW, HAROLD G. LAND RECLASSIFICATION FOR TAX PURPOSES IN MONTANA. Mont. Agr. Expt. Sta. Cir. 204, Bozeman. January 1949.

4B	8–9.
5	Under 8.

Wild-hay land

Grade:	*Tons of hay per acre*
1	2.0 and over.
2	1.5–1.9.
3	1.0–1.4.
4	0.5–0.9.
5	Less than 0.5.

Grazing land

Grade:	*Acres for 10 months grazing season per 1,000-lb. steer or equivalent*
1A	10 and under.
1B	11–18
2A	19–21
2B	22–27
3	28–37
4	38–55
5	56–99
6	100 or over.

COLORADO.—A State-wide reappraisal project has been in progress in Colorado during the last 2 years. Before the inauguration of the reappraisal work, considerable effort was put into formulating a procedure for appraising farm lands. In the initial stage of the project a system of land classification was agreed upon so that land areas of similar productive character would be placed in the same class. Eight classes of land were agreed upon as being adequate, and local assessors will be required to use the classes that are applicable to land in their respective counties.

The 1949 legislative assembly made additional funds available to the State tax commission for completing the reappraisal. In several instances individual counties have contributed funds to help expedite work in the county.

UTAH.—The tax commission has in operation a plan for complete reassessment of land and other real property. The work is being carried on as rapidly as resources permit. One full-time technician is employed to work with county and township assessors in classifying and valuing property. Local committees of taxpayers and agricultural and other technicians are called upon to assist with the classification. All available information, such as soil-survey maps and the soils-capability surveys of the Soil Conservation Service, is used to insure a more uniform and adequate classification of farm lands.

INDIANA.—The State Board of Tax Commissioners in Indiana released in 1948 a *Real Estate Appraisal Manual* for use by assessors throughout the State. The publication was to serve as a guide for local assessors when making a general reassessment of real estate ordered by a special act of the 1947 general assembly. This act requires that a general reassessment of all real estate be made as of March 1, 1949.

The manual suggests placing rural or farm lands into four classes with a maximum of five grades of land in each of the classes. Ratings of average per acre productivity and corresponding values are suggested as an aid in placing land in the appropriate grade, and in achieving more uniformity in the assessed values placed upon land that has similar productive capacity.

NEBRASKA.—Recently two other States have taken steps to permit classification of real property for tax purposes. A 1945 law enacted by the Legislature of Nebraska provides for the classification of all land in the counties lying outside cities and villages. The law is permissive rather than compulsory but a companion bill, by the legislature, requires that the assessment of land be reported as: (1) Farm land under cultivation, (2) irrigated land, (3) pasture land, and (4) waste land. The State Tax Commission has suggested four descriptive grades, ranging from excellent to poor, for use when cultivatable land is being assessed.

TENNESSEE.—In 1949 the Legislature of Tennessee approved a proposal to permit classification of property for tax purposes. Additional legislative action will be necessary, however, before the proposal can be put into operation.

Reappraisal and reassessment projects, or both, are under way in other States where classification is an integral part of the assessment procedure but the projects are not of the scope outlined in the foregoing discussion of current or recent classification work in individual States.

Summary and Conclusions

To date no detailed appraisal has been made of the effectiveness of land classification as a means of improving assessments on farm property. A report on a study of assessments on real property in the United States, published in 1936,[3] presents considerable evidence to indicate that early

[3] SILVERHERZ, JOSEPH D. THE ASSESSMENT OF REAL PROPERTY IN THE UNITED STATES. New York State Tax Com., Spec. Rept. 10. Albany, 1936. p. 290.

attempts at classification netted little in the way of permanent improvement in assessment conditions. In this report it was pointed out that from the beginning one of the basic obstacles to more comparable assessments through the classification method was that local assessors usually classified the land or shifted this responsibility to the individual owner. As long as this condition prevailed any potential improvement that might have accrued from a scientific classification of property was largely voided.

In two States, Montana and Utah, the early classifications were made by special county boards. These boards, composed mostly of local citizens, had no special qualifications for the work. Information on soil types, crop production records, and facts on the carrying capacity of grazing lands, were practically nonexistent. Therefore, the work of these boards, in most instances, left much to be desired.

Real progress has been made in recent years in assembling information on soil capabilities and records of farm production. This material is not always readily available in such form as would be most useful to the local tax assessor or to local equalization boards. But money for a little additional clerical help in the tax assessor's office is all that would be required to assemble the data in a form that the assessor would find useful. Whether classification of land under modern conditions will prove to be more effective than earlier attempts is a question that should be considered carefully.

It must be conceded that attempts to classify land on the basis of its use and annual average productivity should result in some general improvement in farm real estate assessments. Theoretically the concept of "ability to pay" as applied to the taxation of property is based upon "revenue" from property and not upon property *per se*. It is possible that the most elaborate system of classifying farm land would fall short of providing a final solution to the problem of more equitable assessments. The economics of farm operation have become increasingly more complex. For tax-assessment purposes the producing capacity of a specific plot of farm land, over a given period, is significant only to the extent of its effect on the net income of the farm business.

Classification of land, whether based on productivity ratings of soil types or on actual production records, is valid for a limited time only. Unless classifications are frequently reviewed there is a danger of forcing land that may not be devoted to its most advantageous use to remain in the category of lower economic use. Constant use of land to achieve maximum production of specific commodities, as was done during the war years, may have an influential bearing on the long-time productivity of soils. Lands that have recently been classified in the highest producing categories on the basis of wartime records should be frequently reviewed.

New and unexplored possibilities for improving tax assessments on farm property appear to lie not in the direction of more accurate classification of land but in the application of the concept of an income-producing entity to the farm. As a going concern, the tax-paying ability of the individual farm is not necessarily based upon the productive capacity of separate acreages of land. Rather, it depends upon the net return from the collective output of all of the enterprises entered into for the purpose and in the expectation of making a profit. But detailed land classification, subject to frequent review by qualified technicians, should prove to be a valuable aid in determining resource allocation among various enterprises on the individual farm.