

Classification of Agricultural Properties by the Charts

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Introduction

Like the proverbial politician who always makes a point of wearing a farmer's hat, especially when it's being thrown into the campaign ring at reelection time, nearly everyone in rural Minnesota bears some identification with farmers and the farming community. When there are dollar signs attached to that association, that relationship becomes even dearer. Since the inception of property taxes in Minnesota, farmers have always been the recipients of some of the lowest class rates of all the total classes, but probably for good reason. Economists will cite a public policy of maintaining lower farm property taxes, as well as minimizing other production input expenses, as a means of achieving a cheap food supply for the consumer. It is no small matter that farmers and their friends were once a vocal and dominant voting block with considerable clout.

Many individuals and families owning real estate or living in the less populated areas of Minnesota see an opportunity for cashing in on the lower property tax rates for "farms." Their property needs to only meet the criteria of a "farm" in order to be classified as agricultural and they need only to meet the definition of a "farmer" in order to receive a homestead classification with the lowest property tax rates possible.

Historical Perspective

Although the definition of a "farm" has never been simple and straightforward, the Minnesota State Legislature created the Special Agricultural Homestead provision in 1999 to extend a homestead classification to those property owners who do not live on their agricultural land, but are *actively farming* in their farming enterprise. One

year later, the legislature extended a homestead classification even further to sons and daughters (by blood or marriage) who are *actively farming* their parents' farm and to certain members of *family farm corporations, joint farm ventures, family farm limited liability companies*, and partnerships operating a *family farm*.

Agricultural Classification

Nearly every individual who owns and lives on a rural property of ten contiguous acres or more that is used unquestionably for agricultural purposes will qualify for an agricultural homestead. When any components of this rule of thumb are questioned or tested, as they often are, a gray area develops that our policymakers take up for debate. What if a person owns farmland, but doesn't live on it? What if a person owns less than ten acres that is used intensively for agricultural purposes? What if a member of the owner's extended family lives on the farm, but does none of the farming activity? What if that relative has an agricultural homestead of his own? What are suitable agricultural purposes? What are legitimate forms of farm ownership?

In general, a parcel's size and use determine its classification as agricultural or other-than-agricultural. The minimum size of ten acres for *agricultural land*¹ usually means ten acres or more of tillable cropland. The only allowable use for *agricultural land* is for *agricultural purposes*² which is "the raising or cultivation of *agricultural products* or enrollment in the Reinvest in Minnesota program under sections 103F.501 to 103F.535 or the federal Conservation Reserve Program as

¹ MS 273.13 subd. (c)

² MS 273.13 subd. (c)

contained in Public Law Number 99-198.” The definition of *agricultural products*³ is defined in the Statute Glossary at the end of this article. Two notable exceptions to the size rule are: 1) If a contiguous acreage under the same ownership is pasture, timber, waste, unusable wild land, or land included in state or federal farm programs and contributes to a total of ten acres or more with the original parcel, those parcels may qualify as *agricultural land*. 2) Parcels (excluding the house, garage, and surrounding one acre of land) of less than ten acres in size which are used exclusively and intensively for raising or cultivating agricultural products, shall be considered *agricultural land*. Land can be classified as agricultural even if all or part of the parcel is leased to another person for *agricultural purposes*.

Regular Agricultural Homestead

Once a parcel has been classified as agricultural by its size and use, it is generally the legal status, geographical location, and activities of the persons possessing the title and the physical property that determines the homestead status. If the owner is an individual who lives on the agricultural property, that parcel would receive homestead treatment along with *non-contiguous land*⁴ under the same ownership with the same agricultural use. Minnesota Statutes 273.124 subd. 14 (a) lists specific circumstances where an otherwise non-qualified property might qualify for agricultural homestead treatment.

Relative Agricultural Homestead

An agricultural property occupied by a *relative* (son, daughter, grandson, granddaughter, father, or mother of the owner or the son, daughter, grandson, or granddaughter of the owner’s spouse) as a homestead is treated as a homestead to the same extent as if the related owner occupied the property if the following criteria are met: 1) the owner of the agricultural property must be a Minnesota resident, 2) the owner of the agricultural property must not receive homestead treatment on any

other agricultural property in Minnesota, and 3) the owner is limited to only one agricultural homestead per family⁵.

Qualifying Entity Homestead

Each *family farm corporation, joint family farm venture, family farm limited liability company*, and partnership operating a *family farm*, heretofore known as a *qualifying entity* is entitled to one homestead for each member, shareholder, or partner of said *qualifying entity* who is residing on the land or *actively engaged in farming*⁶. Residences owned by a *qualifying entity*, located on agricultural land, and occupied as homesteads by members, shareholders, or partners of the *qualifying entity* who are *actively engaged in farming* must also be assessed as *class 2a property*. In addition, agricultural property that is owned by a member, shareholder, or partner of a *qualifying entity* and leased to the *qualifying entity*, is eligible for homestead treatment if the owner is living on the property and *actively engaged in farming* on behalf of the *qualifying entity*. All of the properties that meet the above descriptions are grouped together under that ownership entity for homestead classification, but there can be multiple members, shareholders, or partners that also meet the above criteria. In such instances, the rate break value limit is multiplied by the number of individuals or couples that qualify from that entity. The regular agricultural homestead and the *qualifying entity* agricultural homestead are mutually exclusive for the same individual, however.

Special Agricultural Homestead

To compensate for those farmland owners who are actually farming their land, but not living on their farm, a whole new type of agricultural homestead was created and named a *special agricultural homestead* or *actively farming* homestead. To qualify, each detached parcel must be 40 acres or greater in size and be *actively farmed* by a qualifying individual. *Actively farming*⁷ is defined as the

³ MS 273.13 subd. 23 (e)

⁴ MS 273.124 subd. 14 (c)

⁵ MS 273.124 subd. 1 (d)

⁶ MS 273.124 subd. 8 (a)

⁷ MS 273.124 subd. 14 (b)

production of *agricultural products*; livestock or livestock products; milk or milk products; or fruit or other horticultural products by a natural person who participates in the day-to-day labor, decision making, and management of the farm; assumes part of the financial risks of the farming operation, is listed as the farm operator by the Farm Service Agency; and files a “Schedule F” as part of the person’s annual Form 1040 filing with the United States Internal Revenue Service. Qualifying individuals may be the owner; the son or daughter of the owner or owner’s spouse by either blood or marriage⁸; or a member, partner, or shareholder of a *qualifying entity*. Both the owner and the person *actively farming*, if different, must be Minnesota residents. Neither the owners nor the person *actively farming* may live farther than four townships or cities from the agricultural property, with some exceptions. Neither the owner nor spouse may claim another agricultural homestead, but a *relative* who is *actively farming* may claim another agricultural homestead. Individuals and parcels, including all *non-contiguous land*, meeting the aforementioned requirements should receive agricultural homestead treatment. *Non-contiguous land* is defined as detached land under the same ownership as a 2a homestead parcel that is no more distant than four townships or cities from the homestead. In a manner similar to the *qualifying entity* homestead, a *special agricultural homestead* applies to agricultural land leased to a *qualifying entity* if title is in the name of the individual who is a member, partner, or shareholder in the entity and qualifies under these provisions. Real property held by a trustee under a trust agreement may be eligible for special agricultural homestead classification if the former owner is the grantor of the trust and all of the other requirements are met.

Case Study A

Thomas & Richard are two brothers who farm together with hog and crop enterprises. They have consolidated their real estate assets, machinery, and equipment in TD Pork, LLC, a family farm limited liability company, of which they are both shareholders. TD Pork holds title to two parcels

of land. The 107.38-acre parcel is unimproved cropland and an adjoining 20 acres has the confinement buildings for the hog operation and the home where Dick and his wife live. Dick also owns 110 acres of cropland in his own name and leases it back to TD Pork. Tom lives about six miles away in a house on 2.61 acres of land that he owns personally. Both brothers are *actively farming* on behalf of the corporation.

Question: How are all of the parcels involved classified and how is the homestead treated?

Solution: Except for the 2.61 acres that Tom owns by himself, all of the other properties meet the definition of an agricultural property. They are all at least 10 acres in size and used for *agricultural purposes*. Tom’s 2.61 acres would be classified as a *class 1a property* (residential homestead). The remaining property, including the 110 acres that Dick owns individually, would be grouped together as *qualifying entity* property and be classified as *class 2b property* (agricultural homestead). Since Dick is *actively engaged in farming*, TD Pork, LLC would receive agricultural homestead treatment at the 0.55% class rate on value up to \$600,000 and residential homestead treatment at the 1.0% class rate on value up to \$500,000 for the house, garage, and one acre where Dick lives. Tom will need to fill out an application for a Special Agricultural Homestead for a Qualifying Entity annually on behalf of TD Pork, LLC, but the corporation should receive another agricultural homestead treatment at the 0.55% class rate on an additional \$600,000 in value, if it is there. Tom is allowed a residential homestead, but he has no other agricultural homestead.

Go to the Charts

It is relatively easy to get lost in your own thoughts when trying to classify agricultural property. Diagramming the ownership, possession, sizes, and uses of the parcels is helpful, but that too may overlook certain critical criteria. Give the Flow Charts on the following pages a try. The Statute Glossary that follows can also provide a quick reference when in doubt.

⁸ MS 273.124 subd. 14 (b)