



2015-2020

Montana Forest Land Classification Manual

Property Assessment Division



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The Department of Revenue prepared the Montana Forest Land Classification and Appraisal Manual pursuant to ARM 42.20.735, Forest Land Eligibility – General Principles. The manual is available to the general public.

Please direct questions pertaining to this document to the Department of Revenue Property Assessment Division at <http://revenue.mt.gov/home/property.aspx>

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HISTORY OF FOREST TAXATION IN MONTANA

Approximately 14.6 million acres are classified as commercial forest land in Montana. Of this total, about 4.1 million acres are classified as private forest land, with the remaining 10.5 million acres in public ownership.

In 1957, the legislature passed a law directing the State Board of Equalization to provide for a “general and uniform method of appraising timberlands.” Prior to 1957, forest land assessment was inconsistent throughout the state. In 1959, the legislature provided funding for the Board of Equalization to develop a standing inventory tax system. Under this appraisal system, most of the private forest lands were classified and assessed in the early 1960s. Elected assessors had the choice of classifying the standing timber in their county or contracting the work to the state Division of Forestry. The 1972 Constitution of the State of Montana created the Property Assessment Division of the Department of Revenue and eliminated the Board of Equalization. The department assumed the responsibility for maintaining the standing inventory system and creating cyclical valuation schedules.

The 1991 Legislature passed the “Forest Lands Tax Act.” This bill eliminated the standing inventory tax system and replaced it with the forest land productivity tax. The department was granted three years to develop and implement the new system. On January 1, 1994, the forest land productivity tax became effective. In 1997, the legislature made several minor revisions to the law at the request of the department.

Since 1972, the legislature has placed forest lands in several different property tax classes.

1963 to 1982	Property tax Class 03
1982 to 1994	Property tax Class 13
1994 to present	Property tax Class 10

The legislature has also periodically adjusted the taxable percentage rate, most recently in 1999 when legislation phased down the taxable percentage annually over the remainder of the 1997 reappraisal cycle. The taxable percentage rate has ranged from less than one percent to 30 percent.

Currently, forest land reappraisal occurs on a six year cycle. Any increase in assessed values is phased in at equal increments over the duration of the appraisal cycle. Any decrease in assessed values is implemented immediately in the first year of the new reappraisal cycle.

In 2009, the department implemented GIS technology containing numerous layers of information, including the state’s cadastral database, agricultural and forestland land use, building site locations and land productivity estimates. The 2009 reappraisal produced the most significant changes to the existing forest tax system since it was implemented in 1993. Forest productivity estimates were re-evaluated using advanced technology, data and modeling techniques. The forest productivity classification system went from four productivity grades based on cubic feet yield, to an estimated productive capacity, or the culmination of mean annual increment, expressed in board feet per acre. Forest/non-forest boundaries were manually re-digitized on private forest land using 2005 digital color

photography, culminating in the merger of forest and agricultural land into a seamless statewide land use map. Using available technology to capture current uses and productivity information, and the ability to visually display the results on aerial imagery maps, provides the means to keep appraisals current and equalized using the same common data sources.

FOREST LAND TAX ACT

In 1991, the 52nd Legislature passed the Forest Lands Tax Act. Many physical and economic conditions for the classification system are defined, as well as the valuation formula and each component in the formula. The law also provides for forest valuation zones, with each zone designated to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability and other factors important to the valuation of forest land in that geographic area. The technical design for the productivity classification was delegated to the Department of Revenue and the University of Montana, College of Forestry and Conservation.

The bill is codified in 15-44-101 through 15-44-105, Montana Code Annotated (MCA). In 1993, the department adopted administrative rules to administer this law. These rules are described in ARM 42.20.701 through 42.20.750. These rules have since been periodically revised and updated.

Important forest land definitions are found in ARM 42.20.701. Other important definitions are found in ARM 42.20.705.

- (i) contiguous forested land of 15 acres or more . . . in the same ownership and is capable of producing timber that can be harvested in commercial quantity;
- (ii) land that is producing timber or land in which the trees have been removed by man through harvest, including clear-cuts or by natural disaster

Standing timber is exempt from property taxation. § 15-6-223, MCA. Only the bare land under the timber is eligible for assessment. If a landowner deeds his timber to another party, the landowner, not the timber owner, is responsible for the forest land property tax.

Montana statute also allows for a 50 percent reduction in the appraised value for 20 years if standing timber is destroyed by natural disaster. § 15-44-104, MCA. A complete discussion of the natural disaster provision is found in manual section, “***Forest Valuation Due to Natural Disasters.***”

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APPLICABLE STATUTES AND ADMINISTRATIVE RULES

<u>Statutes</u>	<u>Short Title</u>
15-6-143	Class ten property – Calculation of the taxable percentage
15-6-223	Property tax exemption of timber
15-7-103	General and uniform classification and appraisal
15-8-201	General assessment day
15-44-101	Forest Lands Tax Act – short title
15-44-102	Key definitions pertaining to the forest lands tax act
15-44-103	Legislative intent pertaining to the valuation formula: income, expense and capitalization components
15-44-104	Reduction in values for forest land: trees destroyed by natural disasters such as fires, disease, insect infestation or other natural disasters

<u>Administrative Rules</u>	<u>Short Title</u>
42.20.156	Agricultural And Forest Land Use Change Criteria
42.20.171	Land Classification Determination Date For Class Three, Four, And Ten Property
42.20.701	Forest Land Definitions
42.20.705	Forest Land Assessment
42.20.710	Exceptions To Forest Land Assessment
42.20.715	Forest Site Productivity Classes
42.20.720	Forest Land Valuation Zones
42.20.725	Forest Land Valuation Formula
42.20.730	Forest Costs
42.20.735	Forest Land Eligibility – General Principles
42.20.740	Natural Disaster Reduction – General Principles
42.20.745	Forest Land
42.20.750	Valuation Of One-Acre Beneath Improvements On Forest Land

FOREST PRODUCTIVITY

Land productivity is the basis for assessing forest land in Montana. Features that influence productivity on a forest site include soils, climate, slope, aspect and elevation. The classification system measures potential, not actual, productivity. Potential and actual productivity are not synonymous. Potential productivity is constant, regardless of the standing inventory growing on the land. Insects and disease, overstocking, forest fires or logging activities do not influence potential productivity. Actual productivity is the actual growth that has occurred or is occurring, and is influenced by the above-mentioned activities. Actual productivity is dynamic and constantly changes.

Potential productivity can be expressed in volumetric terms by first estimating site quality and then inserting that information into a forest growth model. The volumetric output of the growth model is expressed as the maximum average annual growth of wood that could be expected from a natural, fully stocked stand of coniferous trees over the *biological* rotation age¹.

In Montana's forest productivity system, this growth is expressed in board feet of wood per acre per year (bf/ac/yr). A board foot is the volume of wood in a block 12 inches long, by 12 inches wide, by 1 inch high. Board foot estimates are based on the amount of lumber a mill could produce from a tree. Characteristics such as tree form, log diameter, taper and defect influence the amount of board feet that can be produced by a tree. Board foot volume is estimated for all trees on an acre of land that are at least 8 inches in diameter at breast height (DBH). Tree volume is measured from a one-foot stump to a six inch top (inside the bark). Board foot estimates are based on 16 foot nominal log lengths with five percent hidden defect.

The following example illustrates the difference between potential and actual productivity. One stand of trees is diseased with dead and dying timber but an adjacent stand supports young, healthy trees. Their actual growth rates are quite different, but the underlying potential productivity could be quite similar. The same comparison can be made between a clear-cut and an old growth stand. Both sites may have the same underlying potential productivity even though the clear-cut contains no standing timber and has no actual board foot production.

Forest productivity is influenced by long growing seasons, plentiful sunlight, rainfall and fertile soils. This potential is inherent to the land, even when trees have recently been harvested or destroyed by natural events. Generally, direct measurement of potential productivity is not possible. The forestry profession addresses this problem by identifying and measuring items which are strongly related to potential productivity. Forestry researchers have collected data, then applied statistics and mathematical models to estimate site quality and potential volume growth.

In conclusion, actual productivity will be equal to potential productivity under only rare conditions. As climate, soils and topography change from place to place, so does the potential productivity.² This "potential" is the basis for the Montana forest land tax system.

¹ The maximum average annual growth is reduced by average annual mortality as reflected in normal yield tables.

² Milner, Kelsey S. 1995. Forest Productivity Maps for Montana Forest Land. A primer on the development of the productivity maps used in the Montana Forest Land Tax System. University of Montana. School of forestry. 15 pp.

POTENTIAL PRODUCTIVITY CLASSIFICATION SYSTEM

Mapping potential productivity on the Montana forest landscape is an integration of several technologies that represent state-of-the art capabilities in natural resource management. The Geographic Information System (GIS) contains data on the climate, soils and topography for each acre of the state. Therefore the department uses GIS to conduct electronic field reviews of each forest property.

Computer models can be used to grow trees on each acre of forest land in the state, including clear-cuts. The first step is to estimate site quality using a rating index. Site index is a measure of a forest site's potential productivity. The index expresses the relationship between a site tree's age and height. Site index equations are developed using a base tree age of 50 or 100 years. Age is measured at either diameter breast height (DBH) or the base of the stump (total tree age), depending on how the equations were developed.

Site index equations are often displayed as site curves on a graph with an age and height X - Y axis. If the equations use a base age of 50 years, then adjustments are made to site trees that are less than or greater than 50 years of age, to reflect an expression of height at 50 years of age.

Dr. Kelsey Milner, a former forestry professor at the University of Montana, developed the site index equations for western Montana during his working career with Champion Timberlands Inc. and as part of his Ph.D. work at the University of Montana. His site index equations use a base age of 50 and tree age at breast height (4.5 feet from the base of the tree). It is these site index equations that are a part of the Montana forest tax system.

Site trees are trees used to estimate site index on a forest site. Different tree species grow at various rates on a given site. Therefore, the age to height relationship is different for each species used to calculate site indexes. The site index model incorporates four major tree species found in Montana -- ponderosa pine, western larch, lodgepole pine and Douglas-fir. A ponderosa pine that is 50 years old at DBH and 64 feet in height has a site index of 64. A lodgepole pine that is 50 years old at DBH and 64 feet in height also has a site index of 64. However, a lodgepole pine site index of 64 is not equivalent in site quality to a ponderosa pine site index of 64. They represent different levels of potential productivity.

Dr. Milner analyzed site tree indices on locations containing multiple site tree species. Ratios were calculated, and then applied to larch, lodgepole pine and ponderosa pine site indices to closely adapt them to the Douglas-fir site index for any given site. Site quality on all forested acres is converted to a Douglas-fir site index for application in a forest growth model. A site index is estimated for each 2.2-acre forest site. Site quality on a majority of Montana's commercial forest land falls between 44 and 55 feet of tree height for Douglas-fir site trees at 50 years of age.

The site index models, developed by Dr. Hans Zuuring and Dr. Milner, use actual site data obtained from 325 forest locations throughout the state from a multitude of elevations, slopes and aspects. The one significant mountain range that is not represented in the sampling data is the Big Belt Mountains in and around White Sulphur Springs.

The accuracy of the site index estimates depends upon many factors: the resolution and quality of the GIS databases, the sensitivity of changes to model variables, the quantity, quality and distribution of site tree data and the verification of model outputs. The data represents averages, and any location may differ from average conditions. Forest sites have large biological diversity. For example, a forest locale may have multiple soil types. However, the soil characteristics used in the site index model represent average figures for the entire soil-mapping unit. If this difference is large, the productivity estimate may be in error.

Based on the sampling data, Dr. Zuuring and Dr. Milner calculated a standard deviation of a plus or minus 7.26 feet for site index on any given site. This means that if the model predicts a Douglas-fir site index of 50 on a given quarter-acre site (30 x 30 meter pixel), the actual Douglas-fir site tree index for that site could vary between 42.74 and 57.26 feet.

Dr. Zuuring and Dr. Milner developed two forest biometric equations that utilize climatic, edaphic and soils information to predict site index. Douglas-fir Site Index (DFSI) Model 1 uses four soil components (PH, bareness, cat-ion exchange capacity (CEC), and available soil water content in the first 24 inches). The soil components are obtained from the Natural Resource and Conservation Service (NRCS) soil survey database. The equation in DFSI Model 1 assumes that the soil data is available.

The soils database contains the necessary soil characteristics for most of the soil-mapping units on private land. However, this critical soil data is missing on much of Montana's national forests, national parks, federal wilderness areas and tribal lands. While these ownership types are tax-exempt, there are private in-holdings that must be accurately assessed for property taxation.

When soil data is missing from the NRCS soil database, DFSI Model 1 produces erroneously high estimates. Therefore, Dr. Milner developed a second biometric equation (DFSI Model 2) to estimate site index for locations where soil data is missing from the NRCS database. This model is based only on topographic and climatic variables. The equation in DFSI Model 2 is applied only to areas that lack soil data. The average mean and minimum/maximum readings for DFSI Model 2 on site lacking soil data is very similar to the DFSI Model 1 predictions for sites that do contain soil data. However, the DFSI Model 2 equation lacks the ability to recognize the productive variability across the landscape that DFSI Model 1 accomplishes using soil data.

Both models are run across the landscape and a masking procedure is applied to eliminate a model's results that do not apply to a particular location. The outputs from both models are then spliced together to form a seamless raster grid layer.

Once the site index is determined for each cell in the landscape grid layer, that figure is entered into the Forest Projection Growth System (FPS) model. The Forest Projection System is a national forest growth model, developed by Dr. Jim Arney. The FPS model coefficients have been modified to mimic forest conditions in western Montana and are driven by the site index and specific forest management assumptions made to the model.

The FPS Model is adapted to fit conditions in western Montana. However, the growth model must be applied to all counties in Montana with forested land. In central and eastern Montana, precipitation significantly affects the land's ability to fully stock certain sites. Dr. Milner concluded that on sites that

experience less than 18 inches of annual precipitation, stockability is impaired. Therefore, stockability factors are applied to any site receiving more than 12 but less than 18 inches of precipitation per year. The stockability adjustment factor is variable depending on the amount of precipitation less than 18 inches. Stockability adjustments to the growth table may reduce volumetric yields by upwards of 68 percent on the driest sites. There is no stockability reduction for sites experiencing 18 inches or more annual precipitation.

The FPS model can predict volumetric yields in cubic feet or board feet. Stumpage values used in the valuation process are expressed in board feet. Therefore, the forest land productivity system uses board feet as its method of measurement. There are theoretically 12 board feet in one cubic foot of wood. However, a board foot represents a block of wood 12 inches wide by 12 inches long by 1 inch high after it has been processed into lumber.

The milling process of a log into a square product produces approximately three to five board feet for every cubic foot. Logs with larger cross sectional diameters produce more board feet per cubic foot than smaller diameter trees. Furthermore, you cannot produce lumber from seedlings and saplings. Board foot yields are not produced until the tree becomes merchantable at eight inches in diameter at breast height (DBH). Trees less than eight inches in DBH are considered to be non-merchantable³. Tree volumes are measured from a one-foot stump (outside bark) to a six-inch top (inside bark). Board foot volumes are calculated using the Scribner Decimal Log Rule with 16-foot long nominal log lengths and a five percent defect rate.

Just as individual tree volumes are estimated using specific tree measurements (examples: one-foot stumps, diameter at breast height (DBH), and 6 inch inside the bark tops) growth and yield estimates must use specific growth measurements and time intervals. This provides valid and consistent comparisons between forest sites.

Potential productivity is the per-acre net annualized yield at the culmination of mean annual increment (CMAI). Mean annual increment (MAI)" is a measure of the average yearly increase in volume growth produced in a tree or a stand of trees on one acre. This increment can be calculated by dividing total tree or stand volume growth by the total growth interval. Mean annual growth changes during different growth phases of a tree or stand of trees. MAI typically increases as the tree or the stand matures in the early developmental stages, attains a maximum growth increment in the tree's or stand's middle development, then decreases as the tree or stand becomes more mature. The point in the tree or stand development that produces the maximum MAI is the culmination point and is often referred to as the biological rotation age. The CMAI is the ideal harvest or rotation age in terms of most efficient net annual volume production. The culmination of MAI is inversely related to site quality.

The following example demonstrates how to calculate per acre board foot yield @ CMAI. Assuming the model estimates a net annualized yield of 200 board feet per acre per year @CMAI with CMAI occurring at a stand age of 100 years, $200 \text{ bf/ac/yr} * 100 \text{ years} = 20,000$

³ The terms merchantable and non-merchantable should not be confused with the terms commercial versus non-commercial.

bf/ac. Potential productivity is displayed spatially by aggregating the individual volumetric output from each grid cell in a forested area into larger polygons using map algebra. Each polygon is given a potential productivity based on map algebra which calculated the average bd/ft productivity for that specific area. The minimum nonforest area that is aggregated into a single productivity designation is five acres and the minimum size for commercial timber areas is 15 acres.

Essentially, productivity data across the continuous landscape is converted to discrete data. In order to provide landowners some quantitative idea of what productivity is like on a given piece of their property, a visual display of productivity classes is important. A map displaying productivity of the property provides a better concept of the land classification.

Conversely, showing productivity polygons may give the wrong impression that all forested land within a polygon is similar and forested land in an adjacent polygon with different productivity is dissimilar. Productivity polygons are man-made designations placed on a natural landscape. Stepping across the boundary produced by a change in productivity does not necessarily mean you have suddenly crossed into a vastly different site quality. You have simply moved to a location where the aggregate of data places this area in another productivity designation. Often the difference in volumetric yield on either side of a productivity boundary is a couple of board feet, a difference much too small to recognize visually on the ground.

The weighted mean average of each forest polygon is utilized by the GIS to calculate forest assessments and is stored in a GIS database for each polygon.

Beginning in 2009, state law stipulates that the minimum potential volumetric yield for commercial forest land is 100 bd ft/ac/yr @ CMAI. If a forested site doesn't produce at least this minimum potential yield requirement, the land is not classified as Class 10 - forest land for property taxation.

The upper end of estimated potential productivity range in Montana is located in northwestern Montana. While there are small pockets in this area of state with very high potential productivity, only about two percent of the state has estimated yields greater than 400 bf/ac/yr @CMAI.

Forest Land Eligibility Requirements

To receive forest land classification, land must meet the following criteria:

- Forested land must produce at least 100 bd ft/ac/yr @ CMAI.
- Forested land must be at least 15 contiguous acres or larger and at least 120 feet in width.
- Multiple parcels must be contiguous and in the same ownership.
- The land cannot be dedicated to another use such as agricultural, residential, commercial or industrial.

- The land must be stocked with at least 10 percent commercial “*softwood*” tree species unless the trees have been removed by man through harvest, including clear-cuts, or by natural disaster.
- The land cannot be removed from timber utilization because of deed restrictions, covenants or governmental operations of law.
- The land cannot be incapable of producing commercial wood products because of adverse site conditions or physical inaccessibility.

Nonforest Land and Noncommercial Forest Land

Nonforest land and noncommercial forest land fail to meet all forest land eligibility requirements. Noncommercial forest land is classified and treated as nonforest land. Nonforest land may fall into property class three (agricultural or nonqualified agricultural land) or property tax class four (residential, commercial or industrial land). ARM 42.20.701 defines nonforest land. "Nonforest land" means land that is at least 120 feet in width and at least five acres in size, which does not meet the requirements of ARM 42.20.705. Nonforest land can include rivers and streams, roads, highways, power lines, railroads, and noncommercial tree species.”

Noncommercial forest land may be productive or nonproductive land. Productive

ft/ac/yr @ CMAI. An example is a stand of Douglas-fir in a subdivision that does not allow commercial timber harvest.

Nonproductive, noncommercial forest land is land that cannot meet the minimum productivity requirements. Good examples include juniper, limber pine and white bark pine that are typically found on adverse sites that produce less than 100 bd ft/ac/yr @ CMAI.

Minimum Stocking Rate

Stocking rate is a measure of the degree to which an area is effectively occupied with standing trees. Stocking rate can be described as either the number of stems per acre or the amount of crown closure per acre. Montana’s tax system uses both definitions.

When classifying existing forest land, the land must be covered by a minimum of 10 percent crown closure of commercial tree species. The amount of crown closure can be estimated by extending an imaginary circle around the edge of the tree’s crown to the ground. The area covered by tree crowns is then compared to the area not covered by tree crowns.

There is an exception to the minimum-stocking rate (crown closure). Existing forest land that has had trees removed through timber harvest or natural disaster is still classified as forest land. However if forest land does not regenerate commercial tree species within 10 years after being removed by harvest operations or natural disaster, the land may be reclassified to nonforest land.

A landowner may wish to convert nonforest land to forest land. This typically occurs on small ownerships, where the landowner wants to meet the 15-acre forest land requirement. The landowner must plant a minimum of 300 commercial tree seedlings per acre to convert nonforest land to forest land. The 300 seedlings per acre are approximately equivalent to a spacing of 12 feet by 12 feet. Landowners should be encouraged to plant more seedlings than the minimum amount. Mortality, particularly in the first few growing seasons, will reduce the stocking level. If landowners do not plant an adequate number of seedlings to cover mortality losses, they risk not meeting the minimum-stocking requirement for forest land classification.

Area Requirements

Forest land must have at least 15 acres of contiguous commercial timber, comprising at least 10 percent stocking, unless the trees have been harvested or destroyed by natural disaster. The forested area must be in the same ownership, and at least 120 feet in width. Forested land that does not meet the area requirements is classified as nonforest land. An example of nonforest land is a 14-acre stand of Douglas-fir.

Another example of nonforest would be a 15-acre ownership with a stand of Douglas-fir that surrounds a residence. One acre must be removed from forest land consideration leaving exactly 14 forested acres. Forest land must have a minimum of 15 contiguous acres in one ownership.

Nonforest land is land that is at least five acres in size and 120 feet in width. Nonforest area requirements *are not* tied to ownership. If nonforest is less than five acres in size or 120 feet in width and surrounded by forest land, the nonforest area is absorbed into forest land classification. An example is a road in the same ownership that is 60 feet wide and surrounded by forest land. The road is classified as forest land and is valued using the underlying forestland productivity.

There is one exception to the 15 contiguous acre requirement. The 2013 Legislature passed HB195, which stipulates that land previously classified as forestland that has its acreage reduced for a public use, will continue to be classified as forestland.

“Any parcel of growing timber totaling less than 15 acres qualifies as class ten property if, in a prior year, the parcel totaled 15 acres or more and qualified as forestland but the number of acres was reduced to less than 15 acres for a public use described in 70-30-102 by the federal government, the state, a county, or a municipality and, since that reduction in acres, the parcel has not been further divided.” Section 15-6-143, MCA.

An example would be 15 acres of land classified as forestland that loses 2 acres for purposes of improving a state highway. This land could continue to be classified as forestland.

Ownership

The definition of an ownership is important when multiple parcels of land are involved in forest land eligibility decisions. The definition of an ownership doesn't change as the size of the ownership changes.

An owner means that the applicant and owner of record are the same individual, corporation, or partnership. An owner is the person or persons who have possessory right to land and the right to dispose of the property.

A single ownership exists in two or more parcels of land when all three of the following conditions are met⁴:

- The parcels are owned by the same party and titled identically in the party's name.
- The party has received title in the parcels by a transferring instrument such as a deed, contract for deed, or judgment.
- The party has the present right to possess and use the parcels.

Examples of a single ownership:

John Doe owns parcel A
John Doe owns parcel B
John Doe owns parcel A
William Smith, in-care-of John Doe, owns parcel B

Contiguous Parcels of Land

Multiple parcels of land in the same ownership are considered contiguous if⁵:

- The parcels are physically touching or they share a common boundary.
- The parcels would have touched or shared a common boundary if natural or man-made features had not separated them. These physical features are primarily rivers and streams, roads, utility lines and railroads.
- The parcels would have touched or shared a common boundary if they had not been separated by land leased by the landowner from the federal or state government.

⁴ ARM 42.20.701

⁵ ARM 42.20.701

Contiguous Forest Land

Contiguous forest land is forested land that:

- Physically touches or shares a common boundary
- Is not separated by nonforest land
- Is not separated by another ownership

Contiguous Forest Land versus Contiguous Parcels of Land

A clear distinction must be made in the discussion of contiguous lands. Different criteria are used to decide whether parcels in the same ownership are contiguous **and** whether the ownership has contiguous forest land. Natural and man-made features that have no bearing on the determination of contiguous parcels may or may not have a bearing on the determination of contiguous forest land.

The distance that separates two parcels of land in the same ownership, because of physical features such as rivers and streams, roads, utility lines and railroads, has no bearing on the determination of contiguous parcels. For example, it is irrelevant whether a river is 30 feet wide or 1 mile wide. The parcels in one ownership are contiguous if they shared or touched a common boundary, had it not been for the river. The parcels are contiguous even if the river is in a different (public) ownership. This allows a landowner with multiple parcels, more favorable property tax classifications that are possible from owning larger areas of contiguous land.

The distance that separates forestland **does** have a bearing on forestland contiguity. If the physical feature surrounded by forestland is 120 feet or more **and** 5 acres or more in size, it is considered nonforest land and the forestland is not contiguous. Each parcel of forestland must meet the requirements of a minimum 15 acres, productivity of 100 bfa, and one ownership. If the physical feature surrounded by forestland is less than 120 feet and 5 acres in size, it is not considered nonforest land and does not break contiguity.

ARM 42.20.701 defines nonforest land. "'Nonforest land' means land that is at least 120 feet in width and at least five acres in size, which does not meet the requirements of ARM 42.20.705. Nonforest land can include rivers and streams, roads, highways, power lines, railroads, and noncommercial tree species."

Example 1:

A stream that is generally less than 120 feet wide passes through forest land. The forest land on each side of the stream is contiguous, provided the forest land on both sides of the stream are in the same ownership. The stream is classified as forest land.

Example 2:

A road creates a 120-foot width of nonforest land through forest land. The forest land on either side of the road is noncontiguous. In this situation, the forested area on each side of the road must qualify as forest land on its own merit. Each parcel must meet requirement of a minimum of 15 acres of forest, productivity of 100 bfa, and one ownership.

Forest Land Use Versus Other Agricultural Uses

Livestock grazing is a multiple use practice on private forest land. The land is producing timber and livestock forage. Forest land classification supersedes grazing land classification when this multiple use occurs on the same ground. If livestock grazing occurs on forest land, the land is classified as forest land, including any clear-cut areas.

Forest land is often converted to other uses. If the timber is clear-cut and the stumps are removed, the clear intent of the landowner is to exclude future regeneration of trees. If this situation occurs, the land is reclassified to the appropriate use. For example, if the landowner's intent is to convert forest land to pasture or farmland, the land is reclassified to the appropriate agricultural use classification. The land is then valued on its productive capacity to grow the agricultural crop produced on the land.

Forest Land Use Versus Residential, Commercial and Industrial Uses

Vacant land is eligible for consideration as forest land unless it has been converted to residential, commercial or industrial use which occurs when certain man-made improvements are constructed on or under the property. ARM 42.20.156 defines when vacant land in a subdivision is converted to a Property Tax Class 4 use.

Conservation Easements & Other Restrictions to Commercial Logging

Conservation easements that preclude commercial timber harvesting are rare. The conservation easement is typically used to preclude certain types of development. However, some environmental and wildlife organizations will purchase conservation easements that preclude commercial timber harvesting to protect scenic areas or wildlife habitat.

Vacant land is eligible for consideration as forest land unless certain restrictions have been placed on the land that preclude commercial harvesting of the timber. The restrictions that preclude timber harvest must be relatively certain. An example of productive forest land that is classified as nonforest land because of a governmental decree is private land holdings in Glacier National Park. The federal government will not allow logging trucks in the Park and, therefore, harvesting private timber in the Park is not feasible.

Not all commercial harvest restrictions preclude land for consideration as forest land. ARM 42.20.156 defines which instruments of law may preclude land from consideration as forest land.

Commercial Tree Species

Tree species are divided into two taxonomic categories called Gymnosperms and Angiosperms. Conifers are the most important Gymnosperms. In the Pacific Northwest, conifers have historically played a major economic role in a state's development. Examples of conifers found in Montana are ponderosa pine, Douglas-fir, lodgepole pine, alpine fir and engelmann spruce. The layman term for conifers is softwood.

Angiosperms are the most common and complex plants in the world. Angiosperms are commonly distinguished from conifers by their broad leaves. A generic term for these trees is hardwoods (deciduous species). In taxonomic nomenclature, softwoods and hardwoods should not be confused with the hardness of the wood. Many conifers have wood that is harder than hardwoods. Examples of hardwoods found in Montana are cottonwood, aspen, alder, Rocky Mountain maple and birch. Hardwood species such as oaks and hickories are not native to Montana.

In Montana, the economic impact of hardwoods to the lumber industry is minor. Montana hardwoods do not grow in quantity or quality necessary to support the manufacture of commercial wood products, although some cottonwood is sporadically manufactured into wood pallets. Because hardwood stands are declining in the state, have limited commercial use, and have produced concerns regarding logging in riparian areas, deciduous trees are not considered commercial species for property taxation.

All hardwoods are classified as noncommercial forest land and treated as nonforest. Conifers are the only commercial species recognized for property tax purposes. Yet, even some conifers are considered noncommercial tree species. Rocky Mountain juniper, limber pine, and whitebark pine are the principal conifer species treated as noncommercial trees. Low site productivity and poor lumber utility are major factors in classifying these conifer species as noncommercial for property tax purposes.

Physically Inaccessible Forest Land

Land is not classified as forest land if it is incapable of yielding wood products because of adverse site conditions or physical inaccessibility.⁶ This rule is used in very narrow terms. Most forest land can be harvested with today's modern logging equipment. Logging does not necessarily have to be profitable to classify a parcel as commercial forest land. Land is classified as nonforest if constructing a road to a forested area is virtually impossible. If helicopter logging is the only option for harvesting an area, the property is classified as nonforest land. Examples include forested land located beyond impassable physical obstacles.

If a landowner is landlocked and denied access to the property, the property is classified as nonforest. If the property is landlocked, but the landowner is allowed access by adjoining neighbors, the land remains in forest land classification. Under no circumstance is the productivity lowered because of access problems.

⁶ ARM 42.20.710

Cultivated Christmas Tree Plantations, Ornamental Trees and Windbreaks

Cultivated Christmas tree plantations, ornamental trees and windbreaks *are not* eligible for classification as forest land. Cultivated Christmas, ornamental and nursery tree plantations are agricultural operations that must meet agricultural eligibility requirements. Naturally growing trees on forest land that are sheared and harvested as Christmas trees *are* eligible for forest land classification. Wild Christmas trees are naturally growing native trees located in non-cultivated, mountainous regions. The trees are typically Douglas-fir and are periodically sheared and tapered.

Plantation Christmas trees are planted from rootstock and are usually spaced at approximately six-foot by six-foot intervals on relatively level ground. The soils are cultivated to control weeds and promote good growing conditions. The most common plantation trees in Montana are scotch pine, spruce and grand fir. All Christmas tree plantations are located in Northwestern Montana.

FOREST LAND VALUATION

The valuation formula for commercial forest land is found in 15-44-103, MCA, **Legislative intent -- value of forest lands -- valuation zones**. The income approach to value is used to calculate the forest land values. Net forest and other agricultural income are capitalized. The formula is $V=I/R$, where:

- V = per acre forest and other agricultural productivity value
- I = per acre net income of forest lands
- R = capitalization formula

The forest productivity formula can be further defined as:

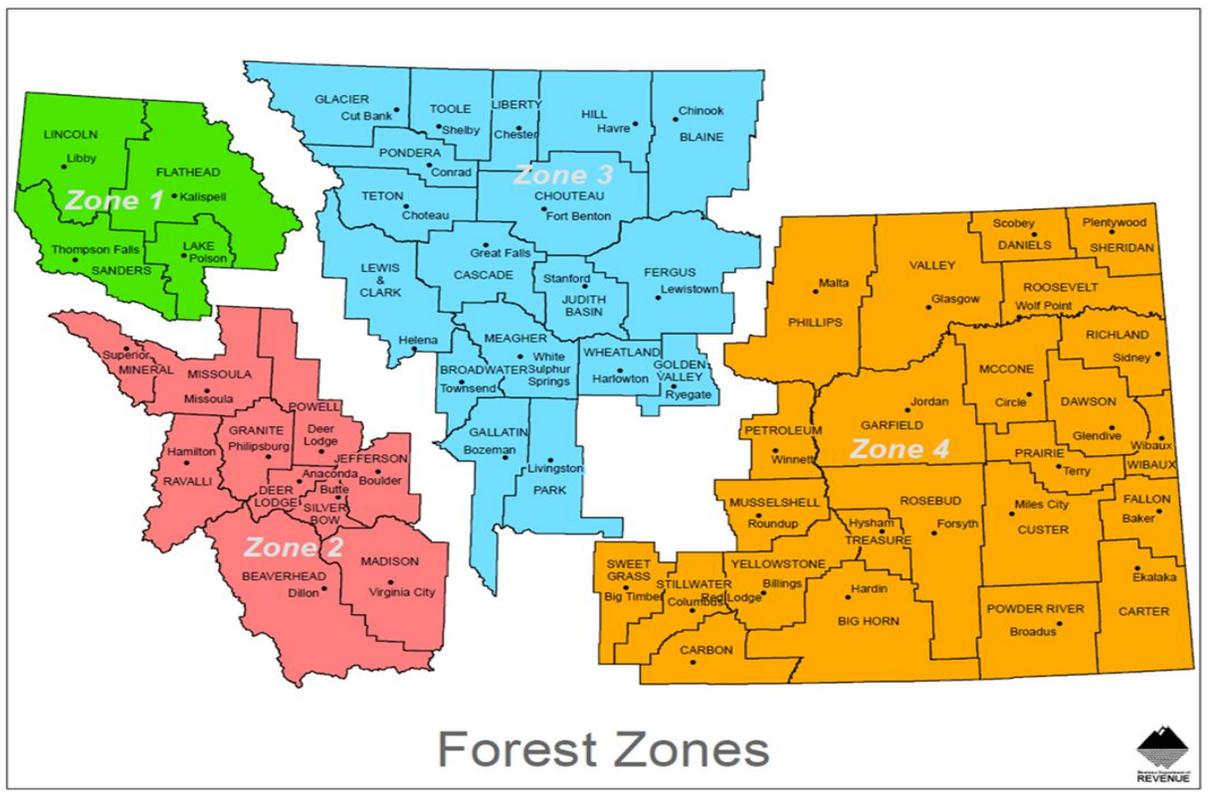
$$V = \frac{(M \times SV) + AI - C}{R}$$

Where:

- M = mean annual net wood production
- SV = stumpage value
- AI = per acre agricultural-related income
- C = per unit cost of the forest product and the agricultural product

The valuation approach assumes an all-aged forest. This method assumes in any given year, some stands are harvested, some are planted and some are thinned. Each productivity value represents a range of productivity, income, costs and interest rates.

2015 FOREST VALUATION ZONES



Montana has four forest land valuation zones. A valuation zone is designed to recognize the uniqueness of marketing areas, timber types, growth rates, access, operability and other pertinent factors of that zone. These zones are determined by identifying the major independent variables in state timber sales and analyzing their relationship to stumpage price. Log flows to manufacturing centers and sale population in a regression analysis are major variables considered in this process.

Forest Income

Forest income is calculated using the average stumpage value for each zone. The average stumpage value represents the price a willing buyer would pay for stumpage from a willing seller. Average stumpage values are derived from state timber sales using multiple regression models.

Forest Costs

The department uses costs incurred by the Department of Natural Resources and Conservation, Forestry Division (FD) and Trust Land Management Division (TLMD). These costs are highly dependent on the timber sale activity and budget considerations of the legislature. Forest costs include fire assessment fees, severance tax, slash disposal, forest management, timber sales, forest practices and administration.

Other Agricultural Income

Livestock grazing is the primary agricultural activity occurring on forest lands. Net grazing income on forest land is low, as the carrying capacity under most forest canopies is poor. Timber stands with crown closures of 70 percent or greater generally have very little livestock carrying capacity. The available animal units on commercial forest land are taken from the 1977 State and Private Forest Inventory conducted by the Montana State Division of Forestry and the United States Forest Service. The grazing rents on private land are obtained from the Montana Agricultural Statistic Service in Helena.⁷

Other Agricultural Expenses

Agricultural expenses are 25 percent of the grazing rental fee. This methodology is identical to that used in the valuation of agricultural grazing lands.

Capitalization Rate

A capitalization rate is used to convert an anticipated income stream of a property into an estimate of property value. There may be one capitalization rate for all the zones, or each valuation zone may have a unique capitalization rate. Montana's current capitalization rate is set in statute at 8%. Section 15-44-103, MCA.

Forest Valuation

Each valuation zone has the same valuation formula; however, the income and expense data varies with each zone. The valuation data is applied to the weighted mean average board foot yield calculated by the GIS for each forest land polygon. The weighted mean varies from one forest polygon to the next. Therefore, there is an unlimited combination of forest land assessed values that can occur. Valuation data is updated for the beginning of each reappraisal cycle and then frozen for the duration of the cycle.

Value Before Reappraisal (VBR)

Class 10 property (Forest land) utilizes the same reappraisal cycle as Class 4 (residential, commercial and industrial) and Class 3 property (agricultural, nonqualified agricultural and non-productive patented mining claims). For all three property tax classes, the full reappraisal value is phased-in incrementally over the length of the reappraisal cycle for any assessed value that increases from one cycle to the next. Any full reappraisal value that decreases from one cycle to the next is fully implemented the first year of the reappraisal cycle.

⁷ Agricultural rents are based on the number of animal units that can be supported for one month (AUM's).

In specific situations, the value before reappraisal (VBR) must be recalculated to determine the correct phase-in value. To determine the assessed value for each year of the reappraisal cycle, the following terminology must be understood.

“Value Before Reappraisal” is the full reappraisal value from the reappraisal cycle immediately preceding the current reappraisal cycle.

“Full Reappraisal Value” is the full reappraisal value from the current reappraisal cycle.

“Phase-in Value” is the current year assessed value. The phase-in value increases incrementally each year of the reappraisal cycle. The phase-in value will equal the Full Reappraisal Value (VBR) in the last year of the current reappraisal cycle.

“Phased-down Value” is any full reappraisal value that decreased from the previous reappraisal cycle. Phased-down values are fully implemented the first year of the reappraisal cycle and do not change for the remainder of the reappraisal cycle unless there is a change in use.

“Reappraisal” is a term that has a slightly different connotation when used for Agricultural - Class 3 or Forestland – Class 10 property, versus Residential/Commercial - Class 4 property. Unlike Class 4, Class 3 and Class 10 property does not include physical improvements to the land. For Class 3 and Class 10 property, reappraisal means a change in the productivity.

“New Construction” is a term that has a slightly different connotation when used for Agricultural - Class 3 or Forestland – Class 10 property versus Residential/Commercial - Class 4 property. Unlike Class 4 property, Class 3 and Class 10 property does not include physical improvements to the land. For Class 3 and Class 10 property, new construction means a change in the agricultural or forest land use. New construction does not mean a change in the productivity capacity of Class 3 and Class 10 property.

“Destruction” is a change in value due to loss (man-made or natural disaster). Destruction is not a term generally associated with land. However, this situation can occur with standing timber in Class 10 and physical improvements in Class 4. Destruction does not occur to land in Class 3.

Reappraisal occurs when changes to the land productivity are made within the current use classifications. For example, if 40 acres of forest land with a productivity of 200 bfa is reclassified to 40 acres of forest land with a productivity of 250 bfa, the change is a reappraisal activity. A new forest land VBR **is not** recalculated for reappraisal changes.

New construction occurs when changes are made to land classifications. Any adjustment to forest land acreage is “new construction.” For example, if 40 acres of forest land classification is changed to 20 acres of forest land and 20 acres of non-qualified agricultural land, the change is a “new construction” activity. The most common example of “new construction” in terms of land activity is a parcel that is subdivided. For example, if a 40- acre forest land parcel is split into two, 20-acre parcels, the change is a “new construction” activity. A new forest land VBR **is** recalculated for “new construction” changes.

The following example demonstrates how the appraiser calculates a new VBR for new construction changes.

Assume:

- A use change occurs for tax year 2
- Year 1 classification: 40 acres forest land with a productivity of 225 bfa (forest land - zone 1)
- Year 2 classification: 20 acres forest land with productivity of 225 bfa and 20 acres of grazing with a productivity of .31 aum/ac.

Calculation:

Use the previous reappraisal cycle valuation data to recalculate the VBR. The VBR for each land use must be calculated separately.

Old VBR = 40 acres (forest land @ 225 bfa) = \$742.30/acre
40 acres X \$742.30/acre = \$29,692

New VBR = 20 acres (grazing land @ .31aum/ac) = \$39.84/acre
20 acres (forest land @ 225 bfa) = \$742.30/acre
(20 acres X 39.84/acre) Grazing Land = \$796.80
(20 acres X \$742.30/acre) Forest Land = \$14,846
Total (Grazing + Forest Land) = \$15,642

Forest Valuation Due to Natural Disasters

Section 15-44-144, MCA, makes it possible for landowners to receive a reduction in forest land assessment when their standing timber is destroyed by natural disaster. Fire is the most common natural disaster; however, high winds, insects and disease may also cause significant destruction to standing timber. The Department may use GIS technology to handle forest land destroyed by natural disaster. Whenever possible, impacted forest land is digitally mapped by department staff in the central office. GIS mapping allows for easier determination of the acres impacted by the natural disaster and ownership of those acres.

Eligible forest land owners receive a 50 percent reduction in assessed value for 20 years from the date of the natural disaster. No modification is made to the forest classification or the forest productivity. To receive a natural disaster reduction, the following criteria must be met:

- The natural disaster occurred after December 31, 1993.
- The applicant files a timely request for valuation review (AB-26) with the local appraisal office.
- The land impacted by the natural disaster must be classified as Class 10 - commercial forest land for the tax year the natural disaster relief is granted by the Department.
- The impacted area must be at least 15 acres or larger.
- The impacted forest land must have had at least 10 percent stocking *before* the natural disaster occurred (i.e., clearcuts are not eligible for natural disaster reductions).

- Ninety percent of the trees must have been damaged or destroyed by the natural disaster. The surviving trees on the impacted forest land cannot occupy more than a 10 percent stocking rate *after* the occurrence of the natural disaster (i.e., most of the live trees must have been destroyed).

Natural Disaster Assessment Procedures

The following steps must be performed by the appraiser when processing an application for a natural disaster reduction.

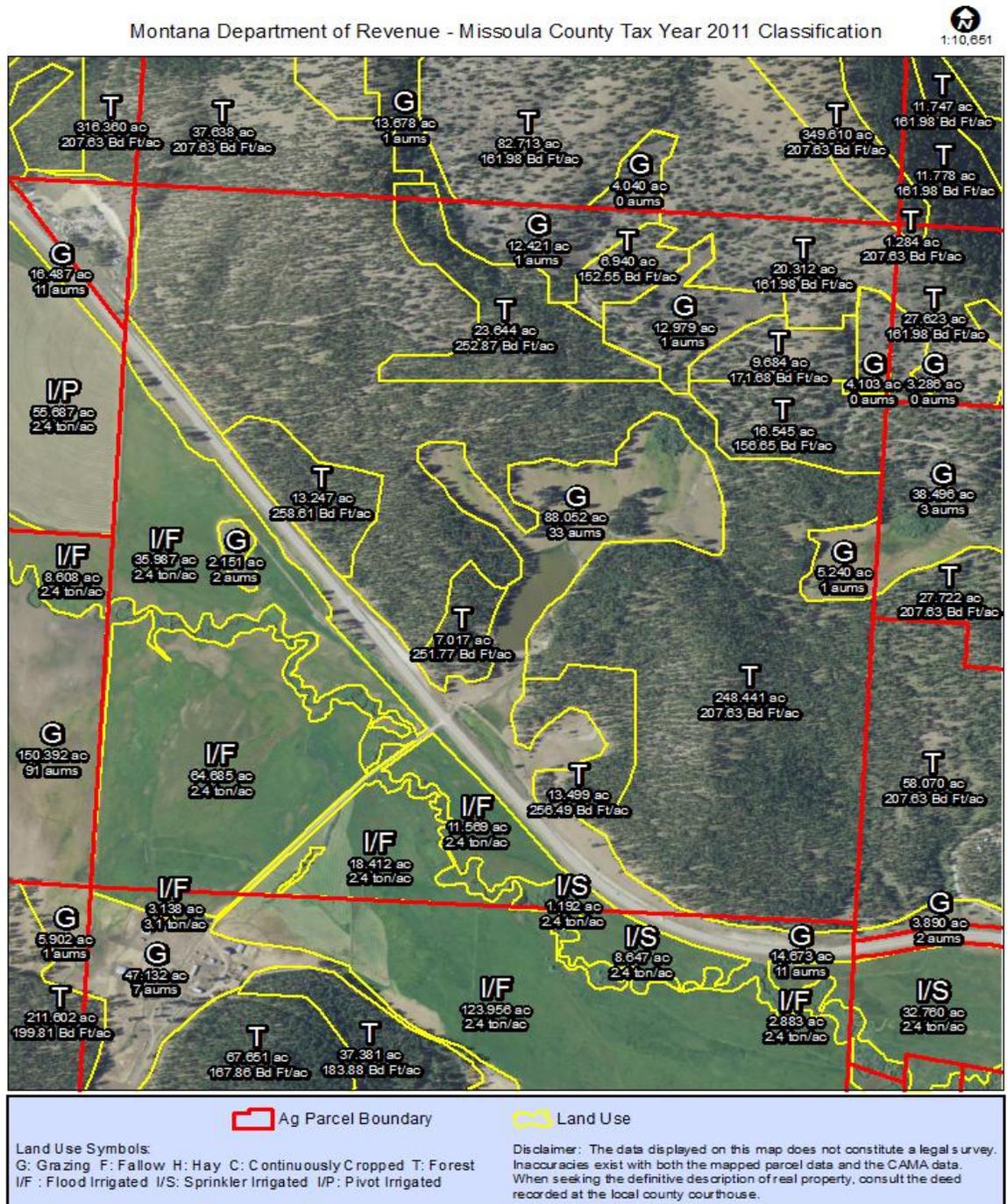
1. The taxpayer or his/her agent must file an AB-26 requesting a review of the forest land value due to a natural disaster loss.
2. If you are reviewing disaster caused by **forest fire**, contact the Agricultural Forest Management Analyst or GIS Specialist at PAD Central to determine if there is a map layer available. GIS map layers may be available for larger forest fires that involve State or Federal agencies. However, even when available, these map layers can vary widely in accuracy. In some cases a site visit may be the **only** way to ascertain the extent of the damage.
3. If no GIS map layers are available, use the Arc Reader map (*or its replacement*), locate the parcel(s) and use the measure tool to estimate the acreage of the area destroyed by fire or other disaster that resulted in total destruction.
4. If an area of forest meets our requirements for a natural disaster reduction, use the measure tool to determine an estimate of the acreage of each separate timber productivity that will get a disaster reduction.
5. A map indicating the impacted area should be sent to GIS Staff in the central office to allow them to track it.

FOREST MAP MAINTENANCE

All forest map information relating to the production of forest assessments is contained in the department's GIS. County staff work to pick up changes in forest land classification via AB26, forest land applications, visual inspections, communication from landowners, etc. When a change in forest classification is initiated, county staff and GIS analysts work to update the ag/forest GIS with correct classification, acres and productivity figures for that area or parcel. Once the GIS data has been updated, the new information is loaded into ORION for valuation. Additionally, new digital maps reflecting the updates are published and made available for county staff.

The following example shows both forest and agriculture GIS data. County staff use GIS software to browse, query and display a wide variety of forest and agriculture GIS data layers and ORION information. Imagery, forest and agriculture classification, soil/forest productivity, parcel boundary, and roads are just some of the GIS layers available for county staff.

The only forest productivity used in the valuation process is the original forest productivity GIS database built in 2008. No modifications or updates to the productivity data have been made. If new areas of forest classification are made, productivity for those areas is derived from the original forest productivity database.



TAX CLASSIFICATION STEPS

A parcel may have single or multiple land uses. To insure that land is classified and appraised correctly, the appraiser takes the following steps:

Step 1. Determine if the parcel meets the forest land eligibility requirements pursuant to ARM 42.20.705, 42.20.710, and 42.20.735.

- a. **If yes**, classify only the forested area that meets the criteria as commercial forest land. If there is a residence(s) improvement surrounded by the forest land, refer to ARM 42.20.750 for the classification and appraisal of the land under the residential improvements. If the improvements are commercial or industrial, classify the land used for those uses as Class 4 property.
- b. Non-commercial forest land is classified as nonforest land. Non-commercial forest land is land that contains timber not meeting forest land eligibility requirements. An example would be forested land on a poor growing site that fails to meet the minimum productivity requirement. Nonforest land is classified as Class 3 or Class 4 property.
- c. If the parcel contains forest land *and* nonforest land *or* if the parcel does not meet forest land eligibility requirements, **go to step 2**.

Step 2. Determine if the land meets agricultural eligibility requirements pursuant to ARM 42.20.620, 42.20.625, 42.20.640, and 42.20.156.

- a. **If yes**, classify the nonforest land according to its agricultural use and productive capacity. Land under barns, sheds, silos, cribs, greenhouses, and like structures; lakes, dams, ponds, streams, irrigation ditches, privately owned roads, and like facilities, are classified as agricultural land provided it is not used for a commercial or industrial purpose. If there is a residence(s) surrounded by the agricultural land, refer to ARM 42.20.655 for the proper classification and appraisal of the land under residential improvements. If the improvements are commercial or industrial, classify the land used for those uses as Class 4 property.
- b. If the land does not meet the agricultural eligibility requirements, **go to step 3**.

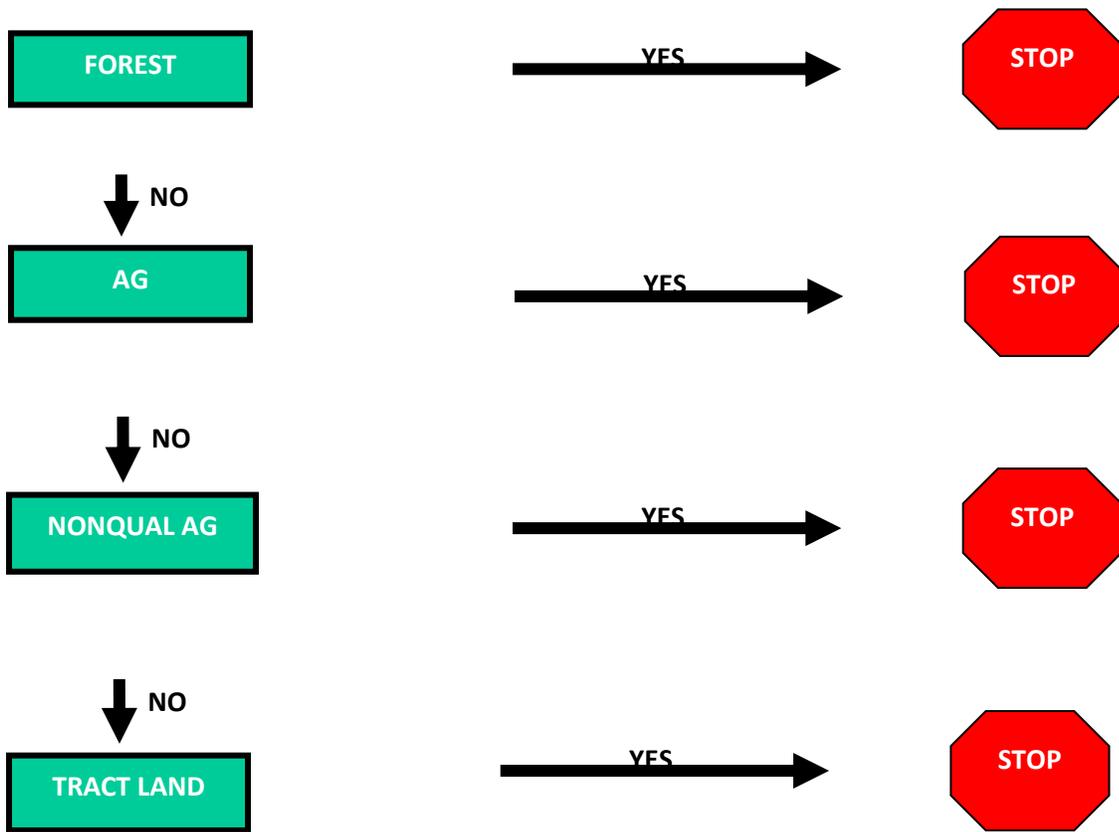
Step 3. Determine if the parcel meets the nonqualified agricultural eligibility requirements pursuant to ARM 42.20.650 and 42.20.156.

- a. **If yes**, classify the nonforest land as nonqualified agricultural land. If there is a residence(s) surrounded by nonqualified agricultural land, refer to ARM 42.20.655 for the proper classification and appraisal of the land under residential improvements. If the improvements are commercial or industrial, classify the land used for those uses as Class 4 property.

- b. If the land does not meet the eligibility requirements pursuant to nonqualified agricultural land, **go to step 4.**

Step 4. Land that does not meet the eligibility requirements found in steps 1 through 3 is classified as Class 4 property and valued at market.

- a. Commercial and industrial operations can occur on parcels that contain agricultural, nonqualified agricultural and forest land. Land is valued at market under commercial or industrial improvements and is commensurate with the area occupied by the improvements and its associated commercial or industrial operation.



Land Eligibility Review Dates for Tax Class 3 and Tax Class 10 Property

The department must review land for Class 3 or Class 10 eligibility and address changes to use classifications and productivity. The department, pursuant to ARM 42.20.171, shall use January 1 of each year as the review date to ascertain the correct land classification for each parcel subject to taxation. The eligibility of land for Class 3 or Class 10 tax assessment is based on the land’s use the preceding year.

The following statutes and administrative rules govern the department's notice to the taxpayer, notice deadlines and appeal dates.

Section 15-7-102, MCA, Notice of classification and appraisal to owners-appeals, states that:

(a) The department shall mail to each owner or purchaser under contract for deed a notice of the classification of the land owned or being purchased and the appraisal of the improvements on the land only if one or more of the following changes pertaining to the land or improvements have been made since the last notice:

- (i) change in ownership;*
- (ii) change in classification;*
- (iii) except as provided in subsection (1)(b), change in valuation, or*
- (iv) addition or subtraction of personal property*

Section 15-8-201, MCA, General assessment day, in part states that:

(1) The department shall, between January 1 and the second Monday of July in each year, ascertain the names of all taxable inhabitants and assess all property subject to taxation in each county.

(2) The department shall assess property to:

(a) the person by whom it was owned or claimed or in whose possession or control it was at midnight of the preceding January 1; or

(b) except in the case of land splits, the new owner if the provisions of 15-7-304 have been met and the transfer certificate has been received and processed prior to determining the taxes that are due as provided in 15-10-305(2).

Section 15-15-102, MCA, Application for reduction in valuation, states in part that:

The application [for a reduction in value] must be submitted on or before the first Monday in June or 30 days after receiving either a notice of classification and appraisal or determination after review under 15-7-102(3) from the department, whichever is later.

Classification Eligibility Review Dates

Pursuant to ARM 42.20.171 - Land Classification Determination Date for Tax Class Three, Four, and Ten Property, the department shall determine land classification based on type of use, agricultural income (if applicable) and property size as of January 1 of the year the determination is made. If on January 1 land within a parcel meets eligibility requirements for one or more property tax classifications, the department shall assign the land to the correct property tax class and land designation. The owner or the owner's agent must file a request for review by the first Monday in June or 30 days from the receipt of an assessment notice, whichever is later.

Example 1

A landowner owns a vacant 10-acre parcel of land that is assessed as residential land and valued at market on January 1 of the current year. He purchases a contiguous, vacant 5-acre parcel in February that is also assessed as Class 4 - residential land. The following month, he files a Property Review Form (AB-26) requesting both parcels be classified and assessed as Class 10 - forest land for the current year.

- a. The taxpayer met the deadline for the current year to file the property review form pursuant to 15-7-102, MCA.
- b. The taxpayer owned a single, 10-acre parcel on January 1 of the year the AB-26 is filed. The adjacent 5-acre parcel was in a different ownership on January 1. The property does not meet minimum forest land acreage requirements pursuant to 15-44-102, MCA, for the current year.
- c. The taxpayer's request for a change in property classification is denied and both parcels are assessed and valued as Class 4 property.
- d. Both parcels will be eligible for *consideration* as Class 10, forest land, the following tax year because the taxpayer owns two contiguous parcels totaling 15 acres in size on January 1 of the following year.

Example 2

A landowner owns a 40-acre parcel that is classified and assessed as forest land on January 1 of the current year. In February, he purchases a contiguous 10-acre parcel of land that is assessed as non-qualified agricultural land. In March, he files a Property Review Form (AB-26) requesting the newly acquired parcel also be assessed and valued as forest land.

- a. The taxpayer met the deadline for the current year to file the property review form pursuant to 15-7-102, MCA.
- b. The taxpayer owns a single 40-acre parcel on January 1 of the year the AB-26 is filed. The adjacent 20-acre parcel is in a different ownership on January 1 of the current year.
- c. The 40-acre parcel owned by the taxpayer on January 1 is classified and assessed as Class 10 – forest land for the current year. The 20-acre parcel is classified and assessed as Class 3 - nonqualified agricultural land for the current year.
- d. The 20-acre parcel will be eligible for *consideration* as Class 10 - forest land the following tax year because the taxpayer owns 60 contiguous acres on January 1 of the following year.

Example 3

A landowner owns a 30-acre parcel that is assessed and valued as forest land on January 1 of the current year. In December of the same year, he purchases a contiguous 10-acre parcel of forested land. In March of the **following** year he files a Property Review Form (AB-26) requesting that the 10-acre parcel be assessed and valued as forest land.

- a. The taxpayer met the deadline for the current year to file the property review form pursuant to **15-7-102, MCA**.
- b. On January 1, of the year the AB-26 is filed, the taxpayer owns two contiguous parcels that total 40 acres in size.
- c. Both parcels are assessed and valued as Class 10 - Forest land for the year the AB-26 is filed if the parcels meet all eligibility requirements pursuant to 15-44-202, MCA

Land Use and Assignment of Productivity

Pursuant to ARM 42.20.171 - Land Classification Determination Date for Tax Class Three, Four, and Ten Property, the department shall assign the proper classification based on the land's use or uses that were present on January 1 of the current year. The owner(s) of record who receives the tax assessment, or their agent, may request a review of the property's use classification and productivity. The owner or the owner's agent must file a request for review by the first Monday in June, or 30 days from the receipt of an assessment notice, whichever is later.

Example 1

A landowner purchases a 40-acre tract in February of the current year. The property was assessed as forest land on January 1 of the current year. The landowner files a property review form (AB-26) in March of the current year. The landowner states that the productivity is too high for his newly acquired forest land. The landowner requests that the productivity be adjusted downward.

- a. The landowner met the deadline to file the property review form pursuant to 15-7-102, MCA.
- b. The inherent capability of that land to produce at a given level was the same the previous year as it is during the current year. Land productivity does not change with a change in ownership.
- c. Although the landowner purchased the property after January 1 in the year he filed an AB-26, the department must consider the merits of the landowner's concerns about productivity for the current year. If the productivity was incorrect under the previous owner, the department cannot ignore the error simply because the new owner did not own the land on January 1. The productivity is adjusted for the current year if a change is appropriate.

Example 2

A landowner purchases a 20-acre tract in February that was assessed as nonqualified agricultural land under the previous ownership. The new landowner decides to convert the property into forest land that spring by planting the prerequisite number of tree seedlings. The new landowner receives a property tax assessment on June 1 that informs him the property is

classified and assessed as Class 3 – nonqualified agricultural land for the current year. The landowner files a forest land application (AB-3T) in September of the same year. The landowner claims that the property is now adequately stocked with trees and requests forest land classification and assessment for the current year. The landowner states that he waited to file the application until he knew the trees would survive through the summer months.

- a. The landowner did not meet the deadline to file the property review form pursuant to 15-7-102, MCA, for the current year.
- b. The property was classified and assessed as Class 3 - nonqualified agricultural land on January 1 of the year the agricultural application was filed.
- c. The land does not meet minimum forest land acreage requirements for the year the landowner filed a forest land application (AB-3T). The seedlings were not in the ground on January 1 of the current year.
- d. The forest land application is denied for the current year and the property is classified and assessed as Class 3 - nonqualified agricultural land.
- e. The property is eligible for consideration as forest land classification and assessment the following year.

Classification and Valuation of Land under Residential, Commercial and Industrial Improvements

The term “improvements” found in 15-6-134 and 15-7-206, MCA, refers to residential improvements. Land under a residential improvement receives a one-acre use designation on all Class 3 and Class 10 property. Legislation found in 15-7-202 and 15-7-206, MCA, stipulates that land under other types of man-made improvements such as farm buildings and irrigation ditches must be classified as agricultural land (if the surrounding property is classified as agricultural land). The department promulgated ARM 42.20.655 to address the valuation of land under a residence on agricultural land, and ARM 42.20.750 to address the valuation of land under a residence on forest land.

A residential improvement is any fixed dwelling that is constructed and used for human habitation. The structure must, at a minimum, contain sleeping facilities. Any building that is used entirely for storage is not considered a residence. Unless a residential improvement exists, outbuildings, garages and agricultural structures do not receive a one-acre building site designation to the land under the improvements.

A fixed dwelling does not have to contain water and sewer/septic amenities. Many summer homes and cabins do not have a septic system and/or well. These buildings are appraised as a residential structure and the land under the improvement is assigned a one-acre building site designation.

Wells and septic systems are exempt from property valuation. Any site that contains just a well and septic system is not assigned a one-acre building site designation. A one-acre building site classification will be assigned to land that contains a well, septic system and a mobile home. If

the mobile home is removed from the site, leaving the land without a residential improvement, then the one-acre building site designation will be removed from the assessment. A mobile home or trailer that is not permanently attached to a foundation and does not contain water and/or septic improvements is not assigned a one-acre building site designation.

The treatment of one acre under residential improvements on forest land is described in ARM 42.20.750. The one-acre under residential improvements on Property Tax Class 10 – Forest land, is valued at its market value. Exactly one acre is assigned to land under residential improvements in Class 10, even if the residential improvement physically occupies more or less than one acre. If a parcel is less than one acre in size and contains a residence, the entire parcel is designated as a building site if it meets agricultural eligibility requirements.⁸

If two or more residential improvements are located on the same acre, then a single one-acre designation is assigned to the parcel. For example, if the primary residence has a guesthouse adjacent to it, the parcel is assigned one “one-acre building site,” even though the parcel contains two residences.

For each residential improvement that is not located on the same acre, a separate one-acre building site designation is assigned to the parcel. For example, if a parcel has several residential homes that are not located on the same acre, land under each residential improvement is assigned a one-acre building site.

Land under commercial and industrial improvements on Class 3 and Class 10 property is not assigned a one-acre designation. Department staff must determine the actual amount of land under the commercial or industrial improvements and place that land in property Tax Class 4. An example of a commercial improvement on a parcel containing agricultural land is a riding arena that is used to produce nonagricultural income. An example of an industrial improvement on a parcel containing forest land is a wood products plant.

When a one-acre building site under residential improvements is assigned to parcels in Class 3 or Class 10, the following valuation method applies for each land type.

Agricultural land: One acre of land under the residential improvement surrounded by agricultural land is valued at the agricultural class with the highest productive value and production capacity of agricultural land

Nonqualified agricultural land: One acre of land under the residential improvement surrounded by nonqualified agricultural land is valued at market.

Forest land: One acre of land under the residential improvement surrounded by forest land is valued at market.

⁸ In this example, the ownership has multiple parcels that are contiguous to each other.

A parcel may contain multiple land use classifications (i.e., agricultural/forest land, nonqualified agricultural land/forest land, agricultural land/Class 4 land, etc.); however, a parcel can never receive agricultural and nonqualified agricultural land classification.

If a parcel contains multiple land uses, determine which type of land use surrounds the residential improvements by utilizing aerial photographs, notations on property record cards, or pictures of the residential improvement to identify the type of land use that surrounds the improvements. If you are unable to make this determination in the office, a field inspection is necessary. It is extremely important to determine the correct land use surrounding residential site on parcels containing agricultural and forest land. If the land under residential improvements is surrounded by forest land, the building site is appraised at its market value. If the land under residential improvements is surrounded by agricultural land, the residential site is appraised at an agricultural value.

In rare instances, an ownership may be less than 20 acres in size and contain at least 15 acres of forest land and several acres of nonforest land. Unless the nonforest land meets agricultural eligibility requirements, the land is valued at market. If the residential improvements on these parcels are surrounded by nonagricultural land, the parcel is not assigned a one-acre building site and the land under the improvements is valued at its market value.

FIELD REVIEWS

Occasionally, department staff will conduct on-site inspections to verify information. This is normally initiated by the landowner filing an AB-26, Request for Informal Review, or an AB-3T, Application for Forestland Classification, with the department. For example, staff may need to perform an on-site inspection to help determine the existence and extent of natural disaster, or to verify if trees are being correctly classified as non-commercial forestland.