



Dan Bucks
Director

Montana Department of Revenue



Brian Schweitzer
Governor

Memo

To: Senator Ryan Zinke

From: Ed Caplis,
Tax Policy and Research
Montana Department of Revenue

Date: February 22, 2011

Subject: Request for Information on Agriculture's Role in Montana's Economy and Tax System

Below are responses to the request you made to the Department.

What is the estimated share of individual income and corporate income taxes paid that is attributable to agricultural income?

Short Answer: For tax year 2008, agricultural income is estimated to have represented approximately 2.5% of total income and corporate taxes. This estimate does not take into account, however, favorable accounting rules for agricultural income that may lower the amount of net income in economic terms that is actually required by the law to be reported for tax purposes. Hence, this estimate may overstate the share of state income taxes paid on agricultural income by an unknown amount.

Analysis: Using the 2010 Montana Agricultural Statistics Report (2008 BEA data also) Gross Farm Income was \$3,626 M and Farm Expenses was \$3,263, which generated a Realized Net Farm Income of \$363 M

This income would be subject to reporting on either individual income taxes or corporate income taxes. For individual income taxes, the top marginal rate is 6.9%. The corporate rate is 6.75%. Because the majority of income is likely reported on the individual income tax, the higher 6.9% rate is used in this analysis. Using the top income tax rate against the Net Farm Income, it is estimated that Farm's (BEA lumps Farms and Ranches together) paid \$25m in Montana income taxes.

Dividing the \$25M by the \$1,031M in Individual and Corporate Tax the estimated taxes from farms represent less than 2.5% of the total income tax.

This analysis does not take into consideration favorable accounting rules that apply to agricultural income that can reduce the net income that actually needs to be reported for tax purposes.

How do property taxes compare for residential, commercial and agricultural property of similar market value?

Due to variations in local levies, a comparison on a statewide basis cannot be readily made. However, reasonable comparisons can be made on a county level. The charts below provide a comparison of the tax liability for tax year 2010 for \$500,000 in commercial property, residential property and grazing land in a sample of selected counties.

Comparison of Property Taxes Paid on \$500,000 in Market Value of Real Property in Select Counties			
	----- Estimated Taxes Paid -----		
County	Commercial	Residential	Grazing Land
Daniels	\$6,816	\$5,021	\$856
Flathead	\$6,854	\$5,049	\$861
Hill	\$7,181	\$5,289	\$902
Rosebud	\$2,919	\$2,150	\$367
Yellowstone	\$7,388	\$5,442	\$928

Comparison of Property Taxes Paid on \$500,000 in Market Value of Real Property in Select Counties

Grazing Land¹

County	Market Value	Assessed Value	Taxable Market Value	Taxable Value	Estimated Consolidated Mill Levy	Estimated Taxes
Daniels	500,000	53,865	53,865	1,578	542.25	856
Flathead	500,000	53,865	53,865	1,578	545.27	861
Hill	500,000	53,865	53,865	1,578	571.27	902
Rosebud	500,000	53,865	53,865	1,578	232.26	367
Yellowstone	500,000	53,865	53,865	1,578	587.77	928

1. Average Value of 1 Acre of Grazing Land From NASS is \$530. Assessed Value is Based on 945 Acres of Average Grazing Land at \$57 an Acre.

Commercial Real Property

County	Market Value	Assessed Value	Taxable Market Value	Taxable Value	Estimated Consolidated Mill Levy	Estimated Taxes
Daniels	500,000	500,000	429,000	12,570	542.25	6,816
Flathead	500,000	500,000	429,000	12,570	545.27	6,854
Hill	500,000	500,000	429,000	12,570	571.27	7,181
Rosebud	500,000	500,000	429,000	12,570	232.26	2,919
Yellowstone	500,000	500,000	429,000	12,570	587.77	7,388

Residential Real Property

County	Market Value	Assessed Value	Taxable Market Value	Taxable Value	Estimated Consolidated Mill Levy	Estimated Taxes
Daniels	500,000	500,000	316,000	9,259	542.25	5,021
Flathead	500,000	500,000	316,000	9,259	545.27	5,049
Hill	500,000	500,000	316,000	9,259	571.27	5,289
Rosebud	500,000	500,000	316,000	9,259	232.26	2,150
Yellowstone	500,000	500,000	316,000	9,259	587.77	5,442