

AGRICULTURAL POLICY REVIEW PART 3: MUNICIPAL ASSESSMENT AND TAXATION

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Saskatchewan farmers are subjected to taxes from three levels of government: federal, provincial, and municipal. All tax policies may ultimately affect the manner in which farmlands are managed, but the most pervasive impacts are those stemming from the municipal tax system of assessing land and collecting property taxes.⁵ Of all taxes, modifications at the municipal level would probably be the best way to encourage environmentally sound land use practices. R.M. Bird notes the potential for using property tax to effect specific land management goals.⁵ Rosaasen makes similar observations by suggesting that, if an entirely different perspective of the property tax structure and good management practices were employed, land use patterns might change radically.³

The Municipal Tax System In Canada, property tax is the main source of the revenue that supports services provided by local governments. In Saskatchewan, all property tax in rural areas is assessed by the Saskatchewan Assessment Management Agency (SAMA). SAMA is responsible for developing assessment procedures, valuing property, and providing the assessments to local governments. The agency is governed by a board of directors rep-

resenting both local and provincial governments. Through their representatives, local governments are given the opportunity to actively participate in the administration of property assessments.

Currently, the value at which a particular property is assessed is a function of its productivity and market value. The amount of property tax that an individual landowner pays is determined by the mill rate set by each municipal council. The mill rate is determined by dividing the municipality's total revenue requirements by the total assessment within its respective boundaries.⁴ In Saskatchewan, rural municipalities are restricted to levying one uniform mill rate to all property.

Assessment In Saskatchewan, the assessment of arable agricultural land is based on the productivity of the soils present within a given unit of land.¹ Each soil type is assigned a numerical Master Rating that is determined by three factors: climate, texture, and the soil profile. The Master Rating is then modified by assessing physical factors which reduce the soil's productivity: gravel and sand pockets interspersed in the soil profile, salinity, solodization, burn-outs, podzolization, drainage,

flooding, and other conditions affecting crop yields. Economic factors which reflect increased production costs are also identified. These include stones, topography, trees, and/or natural and man-made hazards (e.g., draws, ravines, creeks, roads, ditches, etc.). An economic adjustment is made to reflect the increased production costs associated with these factors. The Final Rating for the land unit is determined by subtracting the physical and economic factors from the Master Rating. The assessment for a parcel of land is determined by the Final Rating and is adjusted to account for regional differences in freight rates, fuel costs, and distance from local markets.

A different basis is used for assessing land that still supports native vegetation. Native land used as pasture is assessed based on its potential livestock carrying capacity. Native land used for hay production is assessed based on its potential forage yield and quality. Non-arable land, or "waste land" as it is termed on the assessment, is assessed a minimal value. If any of this land comes under cultivation, then its subsequent assessment is based on the land productivity rating system described for arable land. Assessment under this system invariably increases the assessed value of the parcel that has been cultivated.

Potential Impacts to the Landscape In its current form, the property assessment and taxation system contradicts the principles of environmental sustainability. The system was created to generate revenue for services and development within rural municipalities. The assessment and taxation system continues to provide incentives for development that negatively impacts the landscape:

1) All lands, regardless of economic value, are assessed and taxed.⁵ Historically, farmers had livestock that were pastured on unbroken, native land in the summer and consumed native hay during the winter. Nearly all land had some grazing value and it was legitimately assessed and taxed at rates that reflected this value. However, farm units are no longer the relatively small, mixed operations that were common when the system was inaugurated. Technological advances and economic trends have fostered the development of specialized farms (e.g., grain). Modern farmers, specializing in the production of cultivated crops, often see no benefits accruing from unbroken land and, if it interferes with the operation of equipment, may even consider it a liability. To continue taxing such land may encourage some farmers to cultivate it in order to recoup tax dollars;

2) Tax notices are presented as a lump sum figure with no distinction made between taxes paid on arable versus non-arable land. Producers do not have a good understanding of assessment procedures, and many believe they are taxed equally on all land. This provides farmers, who wish to recover tax dollars, with an excuse to break land;

3) Unbroken land that is considered potentially arable is assessed at a higher rate than undeveloped land having no crop-producing capabilities. This encourages farmers to break the remaining arable acres to exploit their crop-producing potential and indirectly increases the threat of encroachment on adjacent non-arable acres. A farmer breaking the arable land may be tempted to "square his field" by cultivating adjacent non-arable acreage;

4) Cultivated land that is seeded

back to perennial cover continues to be taxed at the higher rate for cultivated land. This discourages crop diversification and penalizes farmers who seed forages for soil conservation benefits; and

5) Land is assessed based on its productivity. This can penalize farmers who implement management practices that maintain or improve the quality of their land.³ Improved productivity results in higher assessments and, therefore, increased taxes.

Possible Solutions Zittlau recommends several modifications to the municipal assessment and taxation system that would result in a system that could facilitate positive land management goals:⁵

1) Discontinue the tax on uncultivated, non-arable land in order to provide farmers with an incentive to maintain such land in a natural state;

2) Revise tax notices so taxes due on each land class are presented individually. If the practice of taxing uncultivated land was discontinued, farmers who persisted in cultivating this land would be reminded of the price they pay in doing so;

3) Potentially arable land that is less than a specified size or represents less than a fixed percentage of a contiguous undeveloped area should be assessed and taxed at the same rate as adjacent non-arable acreage; or

4) To offset the potential tax revenue lost by municipalities from such recommendations, shift taxes from uncultivated, non-arable land to cultivated acreage either by assessing productive land at a higher rate or through an increase in the mill rate. An alternative is to increase provincial/municipal payments by an

amount that would allow municipalities to recover revenues lost when lands providing social and environmental benefits are exempted from taxation.

Rosaasen states that management of cultivated lands could be directly influenced by Saskatchewan's property taxation system.³ He recommends taxes be linked to an organic matter index. If the index increased between assessments, taxes would decline; but, if the index decreased, taxes would rise. The incentive for proper management would be consistent with society's view of land management. The Sixth Annual Western Provinces Conference recognized land assessment and taxation as one of several policies having a major affect on soil and water conservation.² Recommendations on policy reform included:

1) Remove or reduce taxes on conservation land. The resulting reduction in the municipal tax base should be the fiscal responsibility of society as a whole, as it is the benefactor;

2) Cultivated land, converted to perennial cover for soil conservation or salinity control, should be assessed on its livestock carrying capacity as opposed to the higher cultivation rate, as presently employed; and

3) Benefits should be given directly to farmers who implement soil and water conservation practices. These benefits could be in the form of reduced mill rates, as assessments should be conservation neutral and not expected to drive conservation programs.

The Municipal Perspective There are many municipalities in Saskatchewan that are experiencing fiscal difficulties. A proposal that recommends tax concessions on certain

land categories within their constituency would likely be considered as a threat to their tax base and reduce their ability to provide services. However, because of the political nature of municipal governments, most municipal planning reflects short-term goals. Over the long-term, a property tax system that provides continuing incentives to drain, clear, and/or cultivate agricultural land is not in the best interest of municipal governments as it may lead to increased erosion over a much broader area and an overall reduction in the land's productivity. In the short-term, additional cultivated acreage may generate increased revenues, but the long-term decline in the land's productivity will translate into a lower assessment and reduced tax revenue.

At present, assessment information is only updated every five to ten years because current procedures are very time consuming and labour intensive. It would be in the best interest of rural municipalities to use satellite imagery and soil survey data within a Geographic Information System's (GIS) database. This would allow constant updating of land use which forms the basis of the assessment system.

Planned Changes to the Assessment System In 1992, Saskatchewan was to have implemented a revised assessment system, but this was put on hold pending further review by municipal governments. The present assessment system is based on average 1961 to 1970 market and replacement cost data, commonly referred to as 1965 level values. Agricultural land is valued using a productivity indexing system that relates soil productivity to the province-wide average market value of farmland in the 1961 to 1970 period.⁴ The proposed revisions will reflect more up to date market value rela-

tionships. To accomplish this, assessments are to be based on the average 1987 market value of properties. The revised system will still use productivity as the basis of comparison for arable agricultural land, carrying capacity for the basis of comparison on pasture land, and forage yield as the basis of comparison for forage land. Productivity indexes will reflect current yield data. Soil productivity will relate to the average market value of each major soil association, rather than the province-wide average market value of farmland in the 1965 value period.

These proposed changes do not address the environmental impacts of the assessment and taxation system. The executive director of the SAMA has stated that his agency has not yet adopted a policy regarding the impact of land assessment on the conservation of Saskatchewan's soil and environmental resources.

In summary, Saskatchewan's municipal assessment and taxation system was enacted to provide local governments with an equitable method for levying taxes in order to generate revenue. The system based the value of land solely on its ability to produce an agricultural crop, whether grain or livestock. This bias has negatively influenced decisions on land use regarding soil and water conservation. Even though agriculture is an industry that continues to depend on soil, water, and natural ecological processes to survive, the rural assessment system encourages the cultivation of land supporting native vegetation and discourages the establishment of perennial crops on land previously under annual cultivation. This is not a sustainable strategy, nor does it encourage badly needed diversification on the agricultural landscape.

The reluctance of municipal governments to address environmental concerns in the assessment system indicates they have not realized their inherent vulnerability regarding these major issues of sustainability and diversification. The ongoing decline in agricultural productivity that is currently sweeping the prairies directly affects their survival, not only through lower assessments, but through the concurrent drop in the number of rural taxpayers.

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Typical Saskatchewan scene.

Gary W. Seib