

RURAL LAND ASSESSMENT  
COLLECT THE TAX . . . NEGLECT THE LAND?

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ABSTRACT

Taxation of property has been a revenue source for government, particularly local government. The system of property taxation in Saskatchewan has evolved from a flat land tax in early years to the current tax system which employs an assessment system to more accurately reflect variations in the productive value of different parcels of land. A new assessment system has been proposed under which the taxation of rural land in Saskatchewan would be largely based on recent land market prices. Is the singular purpose of an assessment system to collect taxes, or should other implications be considered? What impact have past assessment systems had on land use? Soil conservation? Enterprise mix? or the rural community?

This paper examines some of the features of various assessment systems and the current proposal for a new assessment system in Saskatchewan with a focus on these questions.

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The paper which follows is not a formal paper, rather it is a reproduction of the overheads used in the oral presentations with a few additional comments. The authors reluctantly agreed to provide the overheads since a formal paper could not be prepared in the timelines specified. It is the authors intent to more fully explore and develop some of these ideas.

- TAXATION

ARE THESE INDEPENDENT ISSUES???

- LAND USE

OR

INTERDEPENDENT ISSUES???

- COMMUNITY

The authors argue the issues are interdependent

WHAT IS THE FRAMEWORK FOR ANALYSIS?

• PHYSICS

- EARTH AND MOON (LIMITED UNIVERSE)
- SOLAR SYSTEM (SLIGHTLY BROADENED UNIVERSE)
- STARS AND GALAXIES!!!!

• CURRENT FARM RETURNS WHEN VIEWED FROM THE PERSPECTIVE OF THE FIRM

- SHUT DOWN! .... HEAD FOR CITY!
- WHAT ABOUT INTERDEPENDENCE OF WHOLE SYSTEM?
- WHAT ABOUT ELEVATORS, RAILWAYS, MACHINE DEALERS, TERMINALS, SHIPPING FIRMS?
- DO WE WANT ALL THE FARMS TO SHUT DOWN?

• TRADE STRATEGIES AT AMERICAN AGRICULTURAL ECONOMICS ASSOCIATION CONFERENCE - 1988

- AMERICAN ECONOMISTS PRESENTED AGGRESSIVE STRATEGY TO EC (playing strategies in Economics and Trade)
- EC ECONOMISTS RESPONDED IN A CONCILIATORY MANNER. AMERICANS DECIDED THERE WOULD BE NO TRADE WAR
- MY COMMENT: BRAVO!! BUT WHAT WOULD A POLITICIAN DO??  
WHAT DID POLITICIANS DO?
- THE FRAMEWORKS FOR ANALYSIS WERE DIFFERENT. ONE ASSUMED ECONOMISTS WOULD BE THE FINAL DECISION MAKER . . . THE OTHER ASSUMED POLITICIANS WOULD BE THE FINAL DECISION MAKER.



The interaction of the above determines how our system develops

Ken Rosaasen's experience in Australia:

- "LOOK AT MY LOVELY PADDOCK" - Ken looked for a wheat field when he was being shown grass and natural trees.
- HAD PREVIOUSLY THOUGHT LAND MUST BE CULTIVATED BY FARMERS
- HOMESTEAD ACT
  - encouraged clearing and breaking of land
- SURVEY SYSTEM - LEGAL SYSTEM SUPERSEDED NATURAL TOPOGRAPHY AND LAND CAPABILITY
- A SURTAX ON UNCULTIVATED LAND
- WILDLAND TAX (PROVINCIAL)
- NATIVE VS. "IMPROVED LAND"
- even the word choice indicates our view that land should be cultivated.

## TAXATION (PROPERTY)

- COLLECT DOLLARS - NEEDED FOR A FUNCTIONING SOCIETY

### WHAT ARE SOME GOALS OF TAXATION?

1. EQUITY
2. EFFICIENCY
3. NEUTRALITY
4. SIMPLICITY

## LAND USE

### WHAT IS THE GOAL?

1. PRESERVE FOR FUTURE GENERATIONS?
2. RESPOND TO MARKET SIGNALS?
3. "MINE IT"? . . . but just for this year!
4. SUSTAINABLE LAND USE?

"NO NET LOSS" - President Bush . . . but does it mean if the soil blowing into Saskatchewan from Alberta is equal to the soil blowing out of Saskatchewan in to Manitoba that then it's okay??!

5. PRIVATE LAND OWNERSHIP? . . . but I like owning land . . . I've got some land

## PARADIGM PARALYSIS

- VISITING A NEW ZEALAND DAIRY FARM – 60 COW ROTARY MILKING SYSTEM WITH 650 COW HERD - MILKED FROM THE REAR. IN THE PASTURE . . . WHAT'S THE MATTER WITH THOSE COWS – THEY DON'T HAVE TAILS! "You must be a foreigner or you wouldn't have noticed". But won't the animal rights groups go after you? "No . . . not unless they are foreigners . . . you see . . . the New Zealanders think of cows as having no tails because that is the only kind they see . . . and anyway . . . there is the bull off to your right with a tail! You see . . . we can argue that we are trying to breed them back on."
- "INCOME APPROACH" OR "MARKET VALUE"
- IMPLICITLY ASSUMES PRIVATE PROPERTY
- CAN SELL WHEAT, CANOLA, BEEF, ETC.
- CAN'T SELL A VIEW, WALKING RIGHTS OR DUCKS IN A SLOUGH (in most circumstances on the Prairies)
- GERMANY HAS A DIFFERENT SYSTEM . . . WALKING PATHS OPEN TO THE PUBLIC ON PRIVATE LAND
- RIGHTS OF INDIVIDUAL VS. SOCIETY IS ONE ISSUE
- CANADA . . . PROBABLY MOVING TOWARD RIGHTS OF SOCIETY IN LAND USE ACCORDING TO A RECENT INTERPRETATION OF SUPREME COURT RULINGS.

## TAXATION OF PROPERTY

- TAXATION . . . ONE COMMENT "THE ART OF PLUCKING FEATHERS FROM A GOOSE IN A MANNER WHICH CAUSES THE LEAST SQUAWKING"

- IF PURSUED AS A GOAL, THE RESULT IS TO TAX THE UNINFORMED AND UNORGANIZED!
- TAX SHOULD BE RESOURCE NEUTRAL AND NOT SHIFT LAND USE – RELATED TO PRODUCTIVITY (Economists often espouse this view)
- THIS HAS NO TIME DIMENSION - THE SOIL'S PRODUCTIVITY IS RATED AS OF NOW!

#### ACCOUNTING POLICIES!

- WE MEASURE GDP (Gross Domestic Product)
  - THE CASH FLOW IN AN ECONOMY - GOODS AND SERVICES PRODUCED
- WHAT ABOUT THE STOCK OF RESOURCES?
- STORY OF A NEIGHBOUR ON RENTED LAND BANK LAND - Doing very well with a good cash flow. HE WAS LOADING UP HIS LAND BANK LAND AND "SELLING TOP SOIL IN TOWN!!"
- WHAT ABOUT WHEAT LAND?
- USED TO BE 4% ORGANIC MATTER
- HAS REDUCED IN SOME AREAS TO 2.7% ORGANIC MATTER SINCE SETTLEMENT (AFTER 1900). IS IT DIFFERENT?

#### ASSESSMENT SYSTEM AND PROPERTY TAXATION

- THE SIMPLE PRINCIPLE OF PAY ON PRODUCTIVITY HAS A PROBLEM WHEN A TIME DIMENSION IS CONSIDERED AND WHEN SOCIETY TAKES A POSITIVE VIEW ON PRESERVING THE ENVIRONMENT.

AN EXAMPLE: TWO QUARTER SECTIONS SIDE BY SIDE

<u>1950s</u>	Assessed at \$2500	<u>1950s</u>	Assessed at \$2500
	Wind & Water erosion, salinity etc.		Good management - soil quality maintained
<u>1980s</u>	Reassessed at \$4800 ?	<u>1980s</u>	Reassessed at \$5400 ?

- Now the person who has preserved soil quality pays more for maintaining the roads and educating the children!

What if an organic matter index or another measure of soil condition?

if land quality ↑ taxes ↓

if land quality ↓ taxes ↑

Does our property taxation system reward the right people and management practises?

#### ASSESSMENT SYSTEM

- HOW DO YOU MEASURE FAIRNESS BETWEEN RURAL AND URBAN AS THE PROPERTY TAX SYSTEM INTERACTS WITH THE INCOME TAX SYSTEM?
- PROPERTY TAXES
  - FOR FARMLAND - A DEDUCTION FOR INCOME TAX PURPOSES (PRETAX DOLLARS)

- FOR A HOUSE IN TOWN?? (AFTER TAX DOLLARS!)

- IF NO PROPERTY TAX FOR FARMERS OR BUSINESS - ROADS STILL NEEDED AND CHILDREN STILL IN SCHOOL - BUT ALL LOCAL PAYMENTS IN AFTER TAX DOLLARS??

#### ANOTHER TAX PRINCIPLE

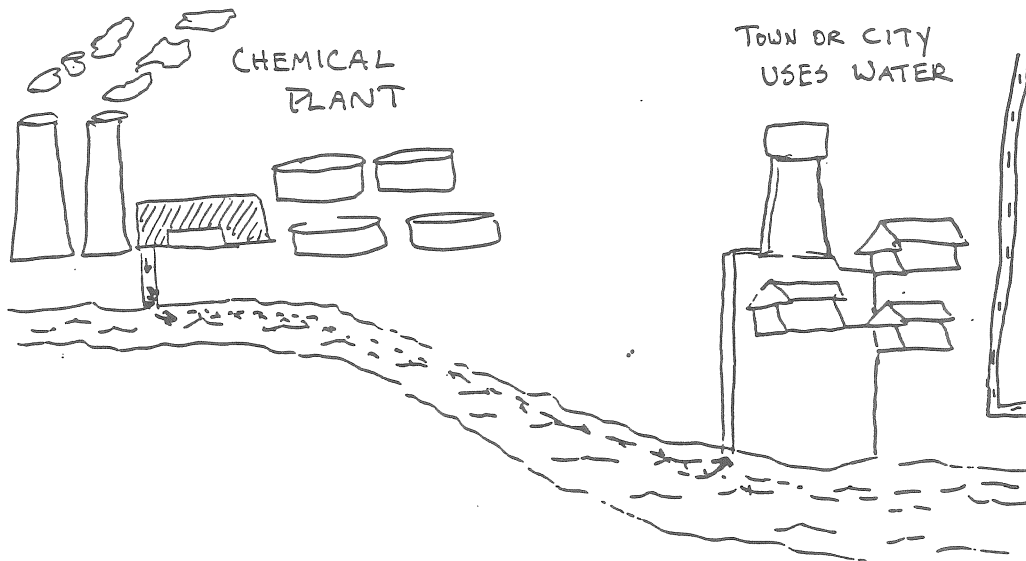
- CROWN OWNED LANDS AND/OR OTHER WORTHY GROUPS SHOULD BE TAX EXEMPT?
  - e.g. Canadian Wildlife Federation: if buy a 1/2 section for society . . . tax base erodes for the community
- "THE HISTORY OF EXEMPTION FROM PROPERTY TAXATION APPEARS TO BE THAT OF EVERY CAUSE BEING A GOOD CAUSE" (P.14 Eager).
- A GRANT IN LIEU WOULD BE AN APPROPRIATE SOLUTION.

#### A COMMUNITY WILL SAY

"ENDOWED WITH GOOD WATER"

"BEAUTIFUL MOUNTAINS" (BANFF)

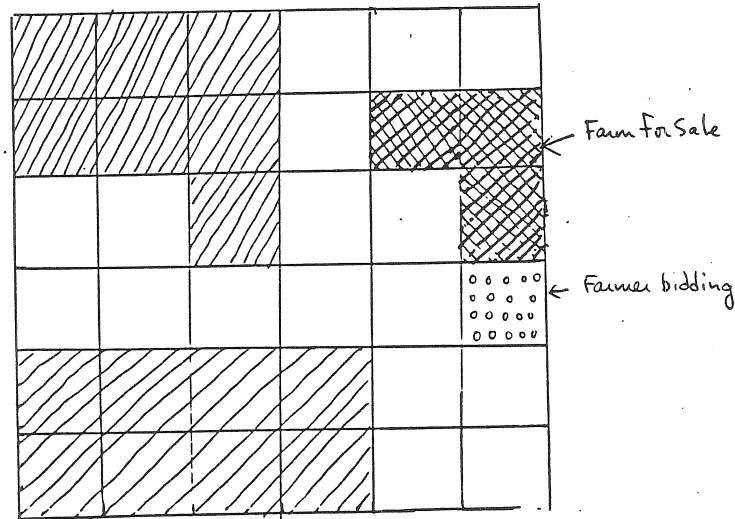
- Land is largely considered a private property of the farmers.
- Are markets perfect in reflecting all the costs and benefits??



#### ASSUME

- CHEMICAL PLANT IS POLLUTING RIVER FOR THE TOWN DOWNSTREAM - A STUDY .... TOWN MUST SPEND \$500,000 TO INSTALL "PURIFICATION" EQUIPMENT
  - SHOULD TOWN BE COMPENSATED BY CHEMICAL CO.?
  - OR .... "TOUGH LUCK" - "LET THEM LEAVE" "THEY'RE FREE TO DO SO"

- IN A MARKET WITH NO GOVERNMENT AND NO REGULATIONS - THEN NO COMPENSATION
- REGULATIONS ARE REQUIRED TO FORCE CHEMICAL COMPANY TO PAY IF THAT IS DEEMED DESIRABLE
- MARKET MECHANISM NOT ALWAYS PERFECT IN PAYING "ADDED COSTS" TO THIRD PARTIES



- CONSIDER AN AGRICULTURAL EXAMPLE - 3 section farm for sale. One bid is for \$410/acre from a 17 section farmer. The other bid is \$400/acre from a one section farmer. Land goes to highest bidder. The one section farmer may also soon leave. It has an impact on the community.
- LOWER DEMAND FOR FOOD, CLOTHING AND OTHER SERVICES
- BUSSING DISTANCE AND TIME INCREASE FOR CHILDREN
- RECREATIONAL OPPORTUNITIES DECLINE AS NOT ENOUGH CHILDREN FOR A TEAM

YES - THE BUSINESSES ARE FREE TO LEAVE TOWN! - AND THEY HAVE LEFT.

"ADDED COSTS" FOR OTHERS MAY NOT BE REFLECTED IN THE LAND MARKET BY MERELY SELLING TO HIGHEST BIDDER.

SHOULD POLICY MEASURES BE CONSIDERED?

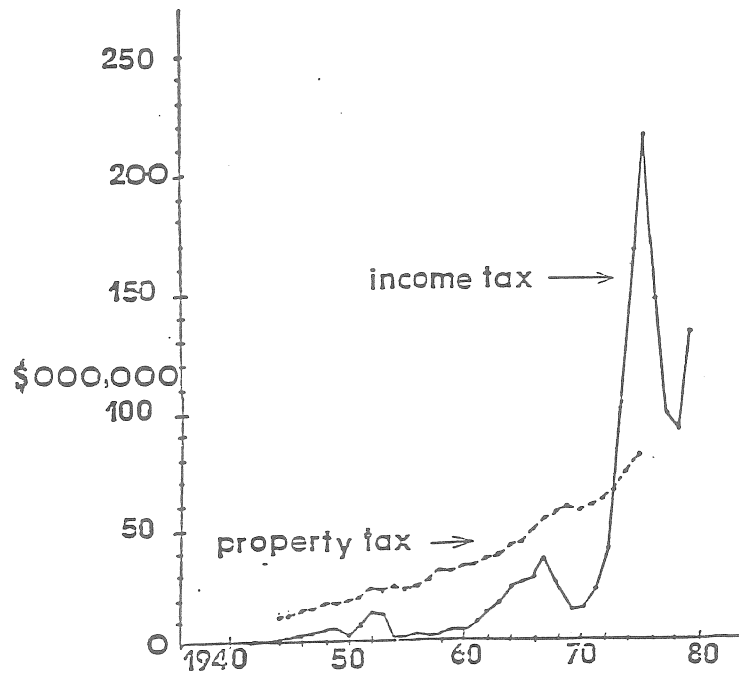
- PROGRESSIVE LAND TAX? SURCHARGE ON SALES TO LARGE LAND HOLDERS? (Large landholders, however, maybe paying more per child in taxes now?)
- What about an absentee operator like a university professor who is only at the farm for seeding and harvest? Is that a cost to the community where the farm is located??

#### PROPERTY TAX VS. INCOME TAX

1941 - 1979

- Property tax used to be more important than income tax ..... And may be so in the 1990s due to low farm incomes.
- Property tax cannot be managed like income tax through tax management practises or changing enterprises, trading machinery etc.

- Property taxes are regressive since the costs are greater when incomes are low and the deduction is less valuable for income tax purposes.



- the issues surrounding property taxation are not new.
- some selected historical quotes will illustrate:

"THE REASON FOR TAXATION IS SIMPLY STATED – TO SECURE MONEY"

"... an examination of taxation practices over the years (in Saskatchewan) reveals little in the way of broad lines of policy designed to co-ordinate the various fragments of taxation into what might properly be called a system." (Eager, 1965, p.1)

"Broad philosophical concepts and general principles have not been evident in the pattern of Saskatchewan development . . . Pragmatism has been instead the measuring stick of prairie institutions." (Eager, 1965, p. 1)

"From the time that a single taxpayer was assessed in each category, rival claims have been sustained for title of the most abused group of taxpayers." (Eager, 1965, p.1,2)

"Finally, the minister mustered the frequently used argument of practice elsewhere – Alberta already had taken a similar step and Manitoba was expected to do so in the near future." (Eager, 1965, p.26)

E. EAGER. THE RATIONALE OF TAXATION  
IN SASKATCHEWAN, 1965, P. 1.3

LEGISLATIVE NEWSLETTER, January 6, 1939

"The present system is based on standards and values determined in 1920. These standards were determined by the assessors personal opinion and judgement and largely influenced by the sales values prevailing at that time."

"History of exemption from property taxation appears to be that of "every cause being a good cause", Legislators have shown a considerable reluctance to oppose individual proposals to provide exemptions in . . . sensitive areas." (Eager, 1965, p.14)

1912 - "Amendment to R.M. Act providing for a surtax on land. The clause is designed to get at the non-resident holders of large areas of uncultivated land" (Ministry of Municipal Affairs). (Eager, 1965, p.17)

"The aims of the surtax thus imposed on tracts of land larger than the usual farm were to promote cultivation and encourage the extension of permanent settlement" (on landholders with more than 3 sections of land). (Eager, 1965, p.17)

1917 surtax was replaced with Wild Lands tax: hence the levy went to Province rather than municipalities. 1% of assessed value of all wild or uncultivated lands both inside and outside of R.M.'s. (Eager, 1965, p.26)

Wild Lands Tax continued until 1936. (Eager, 1965, p.27)

## SASKATCHEWAN: A PROPOSAL FOR A REVISED ASSESSMENT SYSTEM

### 1989 RURAL MUNICIPALITY ACT

#### SAMA'S MANDATE FOR RURAL LAND ASSESSMENT

##### GOALS:

1. EQUITY
2. FAIR VALUE
3. FAIR AND JUST RELATIVE VALUES

##### MEASURES:

1. PRESENT USE OF LAND AND ANY OTHER CONDITION OR CIRCUMSTANCE AFFECTING VALUE
2. SAMA - APPROVED ASSESSMENT MANUAL

##### ASSESSMENT TOOLS

1. VARIABLE MILL RATES - e.g. commercial vs. other - SAMA
2. PERCENTAGE OF VALUE - SAMA
3. EXEMPTIONS - PROVINCIAL OR LOCAL GOVERNMENTS
4. FAIR VALUE OF PROPERTY - LEGISLATIVE

##### SAMA'S GOALS

1. MARKET RELATED ASSESSMENT
2. REDUCED EXEMPTIONS
3. 100% OF VALUE

##### SAMA METHODOLOGY FOR ASSESSMENT OF CULTIVATED LAND

PRODUCTIVE POTENTIAL → PRODUCTIVITY RATING → FINAL RATING (INCLUDES ECONOMIC FACTORS, ECONOMIC INDEX AND BASE YEAR FACTOR)

##### SAMA METHODOLOGY FOR ASSESSING PASTURE LAND

RATED ON CARRYING CAPACITY AND ADJUSTMENT → FINAL RATING (INCLUDES ECONOMIC INDEX AND BASE YEAR FACTOR)



## IMPLICATION OF SYSTEM

1. DIFFERENT SOIL ZONES HAVE DIFFERENT DIRECTIONAL CHANGES
  - a) Arable land - black, dark grey and grey wooded soils (decrease in assessment relative to average)
  - b) Dark brown soils will maintain average assessment
  - c) Brown soils will increase relative to the average assessment.
2. NON-ARABLE LAND (HAY + PASTURE) WILL INCREASE RELATIVE TO ARABLE LAND.

## PROBLEMS OF MARKET RELATED VALUATION AND SOME METHODOLOGICAL CONSIDERATIONS

- Market Prices appear to be key factor in relative land value assessment
- SAMA uses a **single year** of price data (1987)
  - What if local drought
    - Several sales due to financial stress "willing buyer....willing seller?"
    - Previous system used 10 years of market data.
  - Total sales in final sample was 710 useable sales for 38 soil associations (by phone from SAMA staff)
    - Is this adequate??
  - Pasture and Hay - a different land use and a different methodology. 1987 as year for market price data??? Was it a good year for comparison??
  - Wide range of carrying capacity but a narrow range of market values.
  - How "normal" were relative values of grazing land vs. grain land in 1987.

The application of the Economic index changes the impact of economic factors for various soil zones. e.g. Stones + deductions for power poles etc. – are different for each soil class due to the impact of the economic index!!

- 1.00 - Sceptre
- .60 - Rocanville

## CONCLUSION

- PROPERTY TAXATION, LAND USE AND RURAL COMMUNITIES ARE INTERDEPENDENT
- TAXATION SYSTEMS EVOLVE FROM OUR PARTICULAR HISTORY AND CULTURE
- SAMA PROPOSAL
  - HAS A NARROW VIEW OF TAXATION
  - QUESTIONABLE METHODOLOGY
  - DEPARTED FROM FORMER SYSTEM WHERE POSITIVE FEATURES WERE WIDELY RECOGNIZED
- THE PROPERTY TAXATION SYSTEM SHOULD BE SOIL CONSERVATION POSITIVE

**A SUGGESTION: INFORM FARMERS OF TAX ASSESSMENT/ACRE**

THE ANNUAL LAND TAX NOTICE SHOULD PROVIDE INFORMATION ON LAND USE AND ASSESSED VALUE BY LAND USE.

E.G.	CULTIVATED	120 acres	-	\$30,000
	PASTURE	30 acres	-	\$3,000
	WASTE SLOUGH	10 acres	-	<u>\$50</u>
	TOTAL	160 acres	-	\$33,050

**PEOPLE BEHAVE RATIONALLY WITHIN THE SET OF RULES THAT THEY OPERATE (OR LIVE BY)**

RULES HAVE UNINTENDED CONSEQUENCES. CARE MUST BE TAKEN IN THE DESIGN OF A TAXATION SYSTEM SINCE LOOKING AT A SINGLE PRINCIPLE AND CONSIDERING ONLY THAT PRINCIPLE MAY CAUSE ADVERSE CONSEQUENCES IN OTHER IMPORTANT AREAS.

WE ARE FORTUNATE TO LIVE IN A DEMOCRACY WHERE POLICIES AND POLICY CHANGES CAN BE OPENLY DEBATED. THIS SHOULD LEAD TO A BETTER SYSTEM AS IT CONTINUES TO EVOLVE.