

## Farm Management



# Know which agricultural homestead classification is right for your farm



## Farm & Family

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**M**ANY of you may have noticed in the top right corner of your property tax statements, typically under the estimated market value, a line that says “Property Classification.” This section lets you know whether your property is classified as agricultural homestead or agricultural non-homestead.

Many people focus on this classification for property taxes. However, this classification could have a huge impact on whether or not your estate will be subject to estate taxes upon your death.

### Qualified farm property deduction

In July 2011, Minnesota introduced the qualified farm property deduction, which allowed farmers to increase their Minnesota estate tax deduction up to \$5 million. In 2016, every Minnesota resident is allowed a \$1.6 million deduction for any type of asset. However, individuals with qualified farm property can deduct up to an additional \$3.4 million in qualified farm

property. For example, if an individual has a net worth of \$4 million, \$3 million of which is classified as agricultural homestead, that individual can give \$4 million tax-free. If the agricultural homestead is only \$1 million, they can give \$2.6 million tax-free.

Qualified farm property must be:

- owned by the decedent
- in compliance with corporate farming laws
- classified for property tax purposes in the taxable year of death as agricultural homestead, agricultural relative homestead or special agricultural homestead
- classified as 2a property
- continuously owned for the three-year period prior to death
- maintained as 2a property by a qualified heir for three years
- owned by a qualified heir who must agree to pay a recapture tax if it is sold within three years

When assessing the farm property deduction, it is important to determine how your home parcel is owned. If your home parcel is owned 50% by a husband’s revocable living trust and 50% by a wife’s RLT, all property owned similarly will receive the deduction. If one parcel is owned solely by a husband’s RLT, it will not receive the full deduction.

To determine whether your property is or should be classified as an agricultural homestead, ask the following three questions: Who owns the property? Who occupies the property? Who farms the property? The classification listed on your property tax statement is not always correct. It is your job to notify the county if its classification is incorrect.

### Owner-occupied homestead

As the name itself denotes, this deduction applies to land occupied by the owner. This deduction applies whether the owner farms the land himself or herself or cash-rents, crop-shares or custom-farms the land to a related or unrelated tenant. If the owner, as an individual or a member of an LLC or partnership, actively farms the land, the deduction applies to contiguous farmland as well as land within four townships, approximately 24 miles.

### Agricultural relative homestead

This deduction applies to land occupied by a child, grandchild, sibling or parent of the landowner who is not claiming other property as agricultural homestead. The common scenario for agricultural relative homestead is the landowner lives within four townships, with a qualified relative occupying the land. The qualified relative

can farm the land or the land can be rented to a non-qualified relative.

### Special agricultural homestead

This deduction applies to property owned by a trust. In order to qualify as a special agricultural homestead, the property must be farmed by the grantor, the person creating the trust; the grantor’s spouse; or a child, grandchild or parent of the grantor who does not live on the farm. In order to qualify for this deduction, the land must be at least 40 acres and must be within four townships of both the grantor and the person farming the property. If you qualify under the special agricultural homestead deduction, you must file an application in each county where you own property by Dec. 15 of each year.

Check your property tax statements to see if your property is classified as agricultural homestead. If you are not receiving agricultural homestead and believe you should be, contact your county assessor’s office. Consult an attorney to discuss estate planning and to implement a plan to eliminate or reduce estate taxes using the qualified farm property deduction.

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