



Pa'auilo Mauka Kalopa Community Association

Photo courtesy of Karl Backus

## Monthly News & Updates

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### December 2022 Newsletter



## ***Decisions, Decisions... and Classifications***

*January 3, 2023 is the  
deadline for changes to  
your property tax  
classification.*

Joe Clarkson  
PMKCA President

We are now well into the holiday season, a season that requires numerous hard decisions, some more enjoyable than others: what meal to prepare for gatherings of family and friends, whether and how to travel during the holidays and what gifts to buy and exchange during the holidays. But another big decision also looms during the month of December, what do I do about my property tax classification?

Yes, the end of December is the deadline to make an application for a change of classification (normally December 31, this year it is January 3 due to the 31<sup>st</sup> falling on a Saturday).

**But why would anyone want to change their classification?** The answer is that in certain circumstances a change in classification can have a big impact on how much property tax must be paid to the county. If you are secure in the knowledge that you will not need to consider this topic, read no further. The following information is mostly for people who have made significant changes or improvements to their property or are uncertain that they are taking advantage of their legal options to minimize their property taxes. And since tax increases have been near 20% from last year to this year, any chance to save money is welcome.

The majority of people in rural Hamakua live in their own home, many of them on a patch of rural land. The main choice for people in this situation is between the “**Homeowner**”

classification and an “**Agricultural**” classification. (Note, the “Homeowner Classification” is not related to the homeowner tax exemption which is due to anyone who lives in the home they own, regardless of their property’s classification.)

**The Agricultural Classification** will reduce the value of any land used for agricultural purposes, based on the type of use. There are two kinds of Agricultural Classification, dedicated and non-dedicated. Most small landowners choose the non-dedicated option, which has no fixed dedication requirement and can be changed any year. (The dedicated classification is used mostly by commercial farms with a minimum income of \$2,000 per year and requires a minimum ten-year dedication period.)

It’s wise to take time to review your classification decision each year, since impact on your tax bill in the coming tax year (2023-2024) could be significant. Last year, as a result of the county’s 2021 review of property values, Hamakua residents with the Agricultural Classification and high building assessments saw unexpected increases in their taxes amounting to hundreds of dollars.

Both classifications and the taxes owed are tempered by the exemptions available to the property owner (living in the home, age, etc.). If you are considering changing your classification, you will not lose the value of your exemptions. The difference in taxes owed lies elsewhere.

There are two main reasons to carefully consider which classification to apply for. The first is the difference between the tax rates for the two classifications and the second is a constraint (“cap”) on how fast the assessment for the Homeowner Classification can change.

**Consider the tax rates for the Agricultural and Homeowner Classifications:** The current tax rate for an Agricultural Classification is \$9.35 per thousand dollars of taxable property value. The current tax rate for a Homeowner Classification is \$6.15 per thousand dollars of taxable value.

At first glance it would seem that everyone would want to choose the Homeowner Classification to get the lower rate, but any given property’s taxable value can be quite different under the two different classifications.

Land that is being used for agriculture can be assessed at values far below market value for the land, often only a tiny percentage of its actual market value. This can more than make up for the higher tax rate for agricultural land.

**Consider that the Homeowner Classification CAPS the amount that the assessment of your buildings can increase:** For both Classifications, all buildings, including homes, are assessed at market value; so, how much money is owed (and can be saved) depends on the relationship between the assessed value of the home and the assessed value of the land.

In the Homeowner Classification, all land is assessed at market value, regardless of use. In addition to the lower rate, another key factor that benefits property owners with the Homeowner Classification is that the increase in assessed value of buildings is capped at 3% per year.

As mentioned earlier, market values went up about 20% last year here on Hawai’i Island, but folks in the Homeowner Classification saw assessments rise only 3%.

During the 2021 property assessment cycle (for the 2022-2023 tax year, those of us with properties in the Agricultural Classification bore the full brunt of market value increases of homes and buildings.

Agricultural land assessments for a particular property will stay fixed according to their use but the building assessment will immediately go up or down according to changes in the real estate market.

**Figuring It Out:** Juggling all of the Classifications and assessed values and exemptions can get complicated.

Fortunately, PMKCA has created an interactive worksheet that can help you do the juggling. All you need to do is grab your most recent property tax assessment, go to PMKCA.org and click on the **Property Tax** link on our website ([www.pmkca.org](http://www.pmkca.org)) to download an Excel worksheet that will allow you to calculate your property tax using the different classifications. Follow the directions in the Excel worksheet and see how your taxes might change depending on classification.

There is also more information on the PMKCA site about how agricultural land is assessed for different uses, but it's best to consult with the county Property Tax folks to determine how your land qualifies for Agricultural assessment.

If you can't use the PMKCA worksheet, you can request that the Property Tax Office help you. Just give them a call and they will use your current assessment values to estimate the difference between the tax bill for the two classifications.

Generally, if a parcel has buildings that are worth considerably more than the land (both at market value), there is a possibility that Homeowner Classification will save money and protect against future inflationary increases in assessed value.

However, if most of a parcel's land can be assessed as Agricultural and the buildings are not of much greater market value than the market value of the land, then Agricultural Classification will save money. The PMKCA property tax calculator will let you see how you would fare between the two classifications at the present time.

It is hard to know what will happen to the real estate market in the future. Recent interest rate increases will probably slow, or perhaps even reverse, the recent rises in real estate values, but the last time there was a significant decline in property values was after the 2008 financial crisis. The real estate market has softened and home prices have started to decline in many places on the mainland, but while the Big Island has seen sales slow, there have yet been no significant declines in prices.

Changes can be made to your property tax factors, like the Homeowner and Agricultural Classifications can only be done at the end of each calendar year. So, taking some time during December to consider your property tax and assessment options could save you headaches when the next property tax assessment notices come out in March, 2023 – and real CASH when it's time to pay your 2023-2024 property taxes in August, 2023.

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## **Coming PMKCA Meetings & Events**

*Have a pleasant holiday season!!  
In January, 2023, PMKCA will meet again.*

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**Board of Directors Meeting**  
**Thursday, January 12, 2023 - 6PM**  
*Location: TBD*

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**GENERAL MEMBERSHIP MEETING**  
**Tuesday, January 24, 2023 - 7PM**  
*Location: Pa'auilo School*

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**Join PMKCA or Renew Your Membership  
for 2023!!**

***Our membership dues -only \$20 for a calendar year!! - have remained the same for years. With your membership you receive this newsletter and other community bulletins, have the opportunity to participate in our meetings and committees, and support the activities that PMKCA does on behalf of our communities.***

***To join, or renew your membership, click the "Visit our website" link below, then choose Membership/Dues.***

***We offer a PayPal option, or mail a check made out to PMKCA, PO Box 408, Pa'auilo, HI 96776. Easy-peasy - and important!C***

[Visit our website](#)



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