



Pa'auilo Mauka Kalopa Community Association

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## Monthly News & Updates

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### November 2020 Newsletter



# Real Property Tax - Decisions and Deadlines

By Joe Clarkson, PMKCA President

***Disclaimer:** The following discussion is based on my understanding of property tax issues from reading Chapter 19 of the County Code and from interviews with management staff at the Tax Office. I am not a tax accountant or a lawyer. I urge everyone who wishes to clarify their tax options to consult with their attorney or officials with the Tax Office. I present the following information as my best interpretation of property tax issues only to illustrate the complexity of the issue and prompt everyone to seek consultation with appropriate authorities.*

Many of us who live in the PMKCA areas of Kalopa and Paauilo Mauka live in our own home and live on a relatively small parcel of land that is zoned Agriculture. All of the following information is relevant only to people in that situation. I will also be limiting this discussion to Non-dedicated Agriculture classification.

### **December 31<sup>st</sup> is Deadline for Applications**

Applications for Homeowner Exemptions, Agricultural classification and Homeowner classification are due by December 31<sup>st</sup>. If granted, these applications can affect your property taxes, sometimes significantly.

It is important to remember that a Homeowner exemption and the Homeowner classification are two different things. The Homeowner exemption is available to everyone who lives in the home they own and does not affect land use

assessment. The Homeowner classification is applied to an entire property, land and buildings included. Homeowner *exemptions* reduce the assessed value of a home, regardless of classification. Homeowner *classification* affects the rate of taxation on the entire property, including land and buildings.

### **Audits and Changes to Assessments are Ongoing**

If you have received a letter from the Tax Office notifying you that you need to re-apply for Agricultural classification by December 31<sup>st</sup> of this year if you want to continue to have your land receive Agricultural assessment values, **DO NOT IGNORE THIS LETTER**. If landowners do not submit the required application by the end of the year, all their land will be assessed at market value. Application forms and information about non-dedicated agriculture classification can be found at <https://www.hawaiipropertytax.com/misc.html>. Most relevant to this discussion are the Agricultural Use Codes and RP Form 19-57 (Non-dedicated Agricultural Use Application).

Different varieties of agricultural use result in different levels of land assessed value. A full discussion of these uses and their effect on land assessed values are available in the November 2018 newsletter archived on the PMKCA website (<https://www.pmkca.org/uploads/1/0/1/6/101647912/nl11-18.pdf>).

### **Assessment Classifications and Tax Rates**

The two most common classifications in our rural Hamakua neighborhoods are Non-dedicated Agriculture and Homeowner. Agricultural classification can significantly reduce property taxes, but it is not always the best choice. A full discussion of how to calculate the difference in taxes between Agriculture classification and Homeowner classification can be found at <https://www.pmkca.org/property-taxes.html>.

### **Homeowner Classification Advantages and Disadvantages**

There are some unique advantages to being in the Homeowner classification. If real estate values decline, the market value assessment of your property will decline. This is true for either Homeowner status or Agricultural status, but if real estate values increase again, Homeowner total assessed values can only increase by 3% per year (both land and home), whereas Agricultural assessed values for the home go up as fast as market prices go up. Agricultural land assessed values are always determined by the values associated with a particular agricultural use.

The tax rate for Homeowner classification is only about two-thirds of the rate for Agricultural classification.

The Tax Office will not need to audit the use of your land since all land is assessed at market value. But when the amount of land assessed at market value is great enough, that market value assessment can be a disadvantage by increasing taxes owed.

### **Agricultural Classification Advantages and Disadvantages**

The main advantage of Agricultural classification is that land put to agricultural use can be assessed at very low values, often averaging only a few percent of

market value.

A disadvantage of switching from Homeowner classification to Agricultural classification is that Building Assessed Value will immediately become equal to Building Market Value. In many Homeowner cases, the Building Assessed Value had lagged behind the Market Value, due to the 3% limitation on increases in the past. Changing to Agricultural could increase the new Building Assessed Value and tax significantly.

But there are advantages to being in the Agricultural classification that might be important to a landowner. A second farm dwelling permit is available only to owners of property that is being used as a farm and an agricultural classification would be important evidence in securing any second farm dwelling permit. It is important to note that no additional dwelling on a farm property can be rented without losing the ability to have an Agricultural classification. To retain the Agricultural classification, it must be used rent-free by people who work on the farm. In fact, rental of any home on a property prevents the landowner from getting any of the rate or assessment benefits of either the Agricultural classification or the Homeowner classification (except for possible homeowner exemptions).

The ongoing program by the Tax Office to audit all agricultural land for actual use in agriculture complicates matters even more. If a landowner has been told that they must re-apply for agricultural status for their land, there is no certainty that the application will be granted in full. Those acres that are not deemed to be in agriculture will have their assessed value jump to market value. Since that is a much higher value and since the agricultural tax rate is 150% higher than the homeowner rate (at the present time), then staying in agricultural status might result in much higher taxes than expected.

**Important Note about Land Use:** The Tax Office has published RP 19-57 Information, Revised 09/2020 “Non-Dedicated Agricultural Use”. This document asserts that land undergoing certain agricultural activities for “home use or recreation” does **not** qualify as agricultural use. Tax Office officials have admitted to me that there is nothing in the County Code to justify this assertion. For Non-dedicated Agricultural status, what matters is the use of the land for agriculture, not the end disposition of the agricultural products from that land. If the Tax Office appraiser insists that farmland used for subsistence or charitable donations of food does not qualify for agricultural assessment, please seek legal counsel.

### **Appraisal and Assessment Schedule**

Tax Office appraisers begin evaluating Non-Dedicated Agricultural applications in late December and early January. Each applicant will be sent a letter disclosing the results of the appraiser’s evaluation and will have a chance to discuss the possibility of further adjustments with the appraiser and the Tax Office. Once an applicant knows what their agricultural use assessment is likely to be, it will be possible to evaluate the tax consequences and decide on the best option for choosing a classification.

It is therefore **VERY IMPORTANT TO STAY IN CONTACT WITH THE TAX OFFICE** and their appraisers to find out how much of your land will stay in agricultural status and to discuss the reasons for their decisions. Even after the

first of the year, it is possible to revert to Homeowner classification rather than stay in Agricultural classification, but the request to do so must be made before assessment notices are mailed on March 15<sup>th</sup>. Any decision to revert to Homeowner classification would be preferably done well before then, but the decision should only be made with a clear understanding of your latest assessed property values and after consultation with the Tax Office.

If you are not already receiving a homeowner *exemption*, you cannot revert to Homeowner classification and the lower rate that goes with it. You can always apply for a homeowner exemption if you live in your home, but applications for homeowner exemptions must be made before December 31<sup>st</sup> in order to be applied to the following year's assessment. (Again, all of the applications discussed here must be made before December 31<sup>st</sup>).

The Tax Office will not optimize your classification status for the lowest possible tax. They will only assess your property under the status you have or have applied for. They will assist you in determining how much tax you would owe under different classifications, but you have to ask them to do so. It is also important to remember that once the annual assessment notices are mailed out on March 15<sup>th</sup>, the only option available for the year is to appeal the assessment under the classification you last applied for and received.

I know that this issue may seem very complicated, unnecessarily so in my opinion, but it is a result of the combination of many different methods of assessment and many different tax rates. Once again, details about how to calculate taxes under different classifications can be found at <https://www.pmkca.org/property-taxes.html>.



### **Board and Officer Positions Available**

**PMKCA is looking for more board members! Jami Sales, our Water, Health and Utilities committee chair, has resigned from the board after many years of service. Jami has been very active in support of our community in many ways and we will miss her contributions to PMKCA board activities. Thank you, Jami, for all your hard work.**

**We will also soon be needing a new PMKCA officer. Diana Nui is our Secretary and has informed us that she will be resigning at the end of the year. Diana will continue working on PMKCA projects at Kalopa Park, but we will miss her participation and record keeping with the board.**

**If anyone is interested in volunteering for either position, please contact any of our Board members by phone or email. Contact information can be found at [PMKCA.org](https://www.pmkca.org).**

## Next Meetings

Here's a lineup of the next PMKCA meetings:

**Thursday, Jan 14, 2021, 7PM** PMKCA Board of Directors Meeting  
(Possibly by Zoom Videoconference)

**Tuesday, Jan 26, 2021, 7PM** PMKCA Annual Meeting  
(COVID 19 guidelines permitting, the annual meeting will be held at  
Paauilo School.)

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