

# MINNESOTA • REVENUE

## PROPERTY TAX Repeal Various State Aid, Credit and Property Tax Programs

March 1, 2011

**Property Taxes and Local Aids Only –  
See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 398 (Lenczewski) as proposed to be amended (H0398A3)

	<b>Fund Impact</b>			
	<b>F.Y. 2012</b>	<b>F.Y. 2013</b>	<b>F.Y. 2014</b>	<b>F.Y. 2015</b>
	(000's)			
<b>Repeal of State Aids to Local Governments</b>				
Local Government Aid	\$0	\$527,101	\$527,101	\$527,101
County Program Aid	\$0	\$197,454	\$197,454	\$197,454
Police Aid	\$0	\$61,829	\$64,415	\$67,107
Fire Aid	\$0	\$23,866	\$24,541	\$25,236
Insurance Surcharge Aid	\$0	\$2,583	\$2,583	\$2,583
PERA Aid	\$0	\$14,384	\$14,384	\$14,384
Disparity Reduction Aid	\$0	\$18,007	\$18,007	\$18,007
Taconite State Aid	\$0	\$7,545	\$8,500	\$8,500
Payments in Lieu of Property Taxes (PILT)	\$0	\$25,695	\$25,953	\$26,269
Amortization Aids	\$0	\$6,685	\$6,685	\$6,685
Utility Transition Aid	\$0	\$980	\$570	\$142
Indian Casino Aid	<u>\$0</u>	<u>\$754</u>	<u>\$754</u>	<u>\$754</u>
State Aids Total	\$0	\$886,847	\$890,947	\$894,222
<b>Repeal of State Property Tax Credits</b>				
Residential Market Value Credit	\$0	\$261,296	\$264,997	\$273,905
Agricultural Market Value Credit	\$0	\$23,301	\$23,311	\$23,332
Taconite Homestead Credit	\$0	\$0	\$0	\$0
Supplemental Taconite Homestead Credit	\$0	\$5,338	\$5,392	\$5,445
Disaster Credit	\$0	\$14	\$0	\$0
Disparity Reduction Credit	\$0	\$6,212	\$6,212	\$6,212
Bovine Tuberculosis Credit	\$0	\$431	\$431	\$431
Wetlands Credit	<u>\$0</u>	<u>\$13</u>	<u>\$13</u>	<u>\$13</u>
State Credits Total	\$0	\$296,605	\$300,356	\$309,338
<b>Repeal of Miscellaneous State Payments</b>				
Sustainable Forest Incentive Payments (SFIA)	\$0	\$16,304	\$17,634	\$19,067
Performance Measurement Reimbursement	\$0	\$880	\$890	\$900
Distribution of Taconite Proceeds Tax	\$0	\$0	\$0	\$0
Local Option Disaster Abatement Reimbursement	\$0	\$0	\$0	\$0
Taconite Aid Reimbursement	<u>\$0</u>	<u>\$561</u>	<u>\$561</u>	<u>\$561</u>
Miscellaneous Payments Total	\$0	\$17,745	\$19,085	\$20,528

	<b>Fund Impact</b>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
<b>Repeal of Other Property Tax Programs</b>				
Fiscal Disparities Program	\$0	\$0	\$0	\$0
Green Acres Property Tax Program	\$0	\$0	\$0	\$0
Rural Preserve Property Tax Program	\$0	\$0	\$0	\$0
Metro Ag Preserves / Conservation Tax Credit	\$0	\$0	\$0	\$0
Repeal of MOE Requirements	\$0	\$0	\$0	\$0
Levy Limits	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Other Programs Total	\$0	\$0	\$0	\$0
<b>Homeowner PTR Formula Changes</b>	\$0	(\$47,900)	(\$49,400)	(\$51,900)
<b>Interactions for Repeals</b>				
PTR Interactions from Property Tax Changes	\$0	(\$162,800)	(\$167,400)	(\$171,600)
Income Tax Interactions from Property Tax Changes	\$0	(\$34,200)	(\$35,500)	(\$35,700)
<b>GENERAL FUND TOTALS</b>	<b>\$0</b>	<b>\$956,297</b>	<b>\$958,088</b>	<b>\$964,888</b>

Various Effective Dates

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL**

### **Repeal of State Aids to Local Governments**

The bill would repeal a number of state aid programs, including general aid programs such as local government aid to cities and county program aid, police and fire aids, and pension fund aids.

- Effective for aids payable in 2012 and thereafter.
- Annual reductions to state aid programs would total approximately \$887 million in FY 2013, \$891 million in FY 2014, \$894 million in FY 2015.
- It is assumed that local government jurisdictions receiving a reduction would increase property tax levies for a portion of the reduction. This would increase property taxes on all property classes including homesteads.

### **Repeal of State Property Tax Credits**

The bill would repeal a number of state paid property tax credit programs, including residential and agricultural land market value credits, the disparity reduction credit, and bovine tuberculosis credit.

- Effective for credits payable in 2012 and thereafter.
- Annual reductions to state property tax credit programs would total approximately \$297 million in FY 2013, \$300 million in FY 2014, \$309 million in FY 2015.
- Most of the credit reductions result in net property tax increases directly on homesteads.

### **Repeal of Miscellaneous State Payments**

The bill would repeal a number of state payment programs, including the sustainable forest incentive payment and local option disaster abatement reimbursement.

- Effective for state payments made in 2012 and thereafter.
- Annual reductions to state payment programs would total approximately \$18 million in FY 2013, \$19 million in FY 2014, \$21 million in FY 2015.

### **Repeal of Other Property Tax Programs**

The bill would repeal a number of property tax programs, including Fiscal Disparities, Green Acres and Rural Preserves. The bill would also repeal local maintenance of effort requirements, except in those cases where spending is required by federal law and there would be a cost to the state general fund without the requirement.

- Effective for property taxes payable in 2012 and thereafter.
- Repealing these programs would result in a shift in property taxes including an increase in property taxes on homesteads.

## **EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL (continued)**

### **Homeowner PTR Formula Changes**

The proposal would make changes to the homeowner property tax refund (PTR) by modifying the percent of income threshold, copay percentage and maximum refund for some income ranges in the refund calculation table.

- Effective beginning with 2011 returns filed in 2012.
- The estimates are based on the February 2011 forecast.
- Approximately 410,000 claimants received a homeowner property tax refund in the current year.
- The proposal would increase refunds to approximately 60% of current filers who were either at the maximum refund or whose percent of income threshold was above 2.5%.
- It is estimated that an additional 63,000 homeowners would become eligible and file for a refund under the proposal.
- The average homeowner property tax refund increase would be about \$150.

### **PTR and Income Tax Interactions for Aid and Credit Repeals**

The proposal repeals several property tax aid and credit programs. The proposed reductions in aids and credits cause increases in net property taxes, resulting in an increase in property tax refunds paid directly to homeowners and an increase in deductions claimed on individual and corporate income tax forms.

- Effective for taxes payable 2012 and thereafter.
- Levies increase \$336 million for FY 2013, \$338 million for FY 2014, and \$339 million for FY 2015.
- It is assumed that local government spending reductions or other non-property tax revenues will be used to address the balance of aid or credit reductions that are not levied back. The analysis does not incorporate any potential changes to local sales tax revenues or maintenance of effort spending.
- For the purpose of calculating the Fiscal Disparities impact, the net tax shifted by the elimination of the program was assumed to be the difference between contribution and distribution net tax capacities multiplied by the local tax rate.
- Net taxes would be affected by the levy changes, with a portion of those levies paid by homesteads. Net taxes on homesteads would also be affected by the repeal of various property tax credits.
- Property tax refunds would be proportionately affected by homestead net tax changes. In addition to the increase in property tax refunds paid to homesteads currently claiming a refund, a 25% increase in refunds paid is assumed for those currently not claiming a property tax refund.
- Property tax refunds would increase \$162.8 million in FY 2013, \$167.4 million in FY 2014, and \$171.6 million in FY 2015.
- Individual income tax receipts are expected to decrease \$31.9 million in FY 2013, \$33.2 million in FY 2014, and \$33.4 million in FY 2015.
- Corporate income tax receipts are expected to decrease \$2.3 million in FY 2013, \$2.3 million in FY 2014, and \$2.3 million in FY 2015.

**PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)**

<i>Transparency, Understandability, Simplicity &amp; Accountability</i>	Increase	Repeal Aids/Credits	Fewer programs allows for a clearer accountability for local budget decisions.
	Increase	Repeal Ptx Programs	
	Neutral	PTR Formula	
<i>Efficiency &amp; Compliance</i>	Increase	Repeal Aids/Credits	Administrative costs would be lower.
	Increase	Repeal Ptx Programs	
	Neutral	PTR Formula	
<i>Equity (Vertical &amp; Horizontal)</i>	Decrease	Repeal Aids/Credits	Homestead credit elimination reduces progressivity.
	Neutral	Repeal Ptx Programs	
	Increase	PTR Formula	Refunds are increased to households deemed to have relatively high property taxes as a percentage of their income.
<i>Stability &amp; Predictability</i>	Increase	Repeal Aids/Credits	Unstable in the short term, but an increase in stability in the long term.
	Neutral	Repeal Ptx Programs	
	Neutral	PTR Formula	
<i>Competitiveness for Businesses</i>	Decrease	Repeal Aids/Credits	Businesses property taxes increase with local levy changes.
	Neutral	Repeal Ptx Programs	
	Neutral	PTR Formula	
<i>Responsiveness to Economic Conditions</i>	Increase	Repeal Aids/Credits	Property taxes would be based more on valuation and local budget decisions rather than aid formulas or credits paid.
	Increase	Repeal Ptx Programs	
	Neutral	PTR Formula	

*The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.*

Source: Minnesota Department of Revenue  
 Property Tax Division – Research Unit  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)