

# MINNESOTA • REVENUE

Preliminary

March 11, 2011

## PROPERTY TAX

### Market Value Homestead Credit Conversion

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 1046 (Runbeck) as introduced

#### Fund Impact

	FY2012	FY2013	FY2014	FY2015
	(000's)			
Market Value Homestead Credit	\$0	\$261,200	\$264,900	\$273,700
Property Tax Refunds	\$0	(\$7,000)	(\$7,100)	(\$7,300)
Income Tax Interactions	\$0	(\$7,800)	(\$8,000)	(\$8,000)
General Fund Total	\$0	\$246,400	\$249,800	\$258,400

Effective for taxes payable in 2012 and thereafter.

### EXPLANATION OF THE BILL

The bill converts the market value homestead credit in M.S. 273.1384 into an reduction in net tax capacity for class 1a, 1b, and 2a homesteads.

### REVENUE ANALYSIS DETAIL

The market value homestead credit is eliminated, resulting in savings to the general fund of \$261.2 million in FY 2013, \$264.9 million in FY 2014, and \$273.7 million in FY 2015. Homesteads that had qualified for the credit would have a reduction in net tax capacity. Total net tax capacity statewide would be reduced by about 4.5%.

It is assumed that county, city and township governments on the whole would treat the elimination of the credit like an aid reduction. A levy reduction of \$109.9 million is assumed for county, city, and township governments to mitigate the effective tax increases on their taxpayers.

Property taxes on homesteads would increase due to the loss of the credit, while some of the tax change would be shifted onto other property types due the net tax capacity reduction for homesteads. Property tax refunds would increase by \$7.0 million in FY 2013, \$7.1 million in FY 2014, and \$7.3 million in FY 2015. Income tax deductions for property taxes would increase, decreasing state income taxes by \$7.8 million in FY 2013, \$8.0 million in FY 2014, and \$8.0 million in FY 2015.

There may be additional school levy and aid impacts that are not included in this revenue estimate.

Number of Taxpayers: All property taxpayers.

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

<i>Transparency, Understandability, Simplicity &amp; Accountability</i>	Neutral
<i>Efficiency &amp; Compliance</i>	Neutral
<i>Equity (Vertical &amp; Horizontal)</i>	Neutral
<i>Stability &amp; Predictability</i>	Neutral
<i>Competitiveness for Businesses</i>	Decrease Tax increase to businesses due to shifting.
<i>Responsiveness to Economic Conditions</i>	Neutral

*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)

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