

**PROPERTY TAX  
Apt, Residential Non-Homestead Classes  
and HACA**

March 14, 2001

Department of Revenue  
Analysis of H.F. 1398 (Dorman)/S.F. 1442 (Pappas)

	Yes	No
Separate Official Fiscal Note Requested		X
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		X

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
		(000's)		
HACA	\$0	(\$116,500)	(\$118,100)	(\$118,100)
Education Hmstd Credit	\$0	(\$6,100)	(\$6,800)	(\$6,800)
Education Ag Credit	\$0	(\$600)	(\$700)	(\$700)
Property Tax Refund	<u>\$0</u>	<u>(\$1,300)</u>	<u>(\$1,300)</u>	<u>(\$1,300)</u>
General Fund	\$0	(\$124,500)	(\$126,900)	(\$126,900)

The proposal is effective for taxes and aids payable in 2002 and thereafter.

**EXPLANATION OF THE BILL**

**Current Law:** Non-subsidized apartment class rates are 2.4% for most municipalities and 2.15% for apartments in qualifying small cities. Class 4bb residential non-homesteads have a class rate of 1.2% on the first \$76,000 of market value, and 1.65% on the remainder. Class 4b residential non-homestead property (2 to 3 units) has a class rate of 1.65%.

**Proposed Law:** The bill would lower the class rate on the first \$76,000 of market value for each unit of all non-subsidized apartments and residential nonhomesteads to 1.0%. A change in homestead and agricultural credit aid (HACA) is authorized which reflects the reduction in class rates.

**REVENUE ANALYSIS DETAIL**

- The proposal was analyzed on the taxes payable 2001 property tax simulation model. Landlord rental property tax forms from 1996 were used to estimate the \$76,000 bracket.
- Additional HACA is approximately \$118.1 million. (\$116.5 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.

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- Provision for HACA increases is made in the bill. However, HACA does not compensate for school equalized levy shifts. Therefore the lower class rates for favored property result in net tax increases for other property types. Increases in residential homestead net taxes result in an increase in education homestead credit of \$6.8 million. (\$6.1 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Because taxes are shifted onto farm homestead property, there is an increase in agricultural education credit. As a result, agricultural education credit rises by \$0.7 million. (\$0.6 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Because total homestead net taxes increase, property tax refunds would increase by \$1.3 million.

**Number of Taxpayers Affected:** Over 85,000 apartment and residential nonhomestead property owners would be affected.

#### **ADMINISTRATIVE/OPERATIONAL IMPACT**

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue  
Tax Research Division  
<http://www.taxes.state.mn.us/polic.html#analyses>

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