

**PROPERTY TAX
General Education Levies,
Class Rate Changes, Credits**

April 5, 2001

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

Department of Revenue

Analysis of H.F. 1402 (Erhardt)/S.F. 631 (Oliver) **As Proposed to be Amended (H1402A2)**

	Revenue Gain or (Loss)			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
		(000's)		
Reduce Gen. Ed. Levy	\$0	(\$822,000)	(\$913,000)	(\$913,000)
New Hmstd Credit	\$0	(\$59,700)	(\$66,300)	(\$66,300)
Old Education Credits	\$0	\$410,000	\$462,400	\$466,800
Property Tax Refund	<u>\$0</u>	<u>\$15,000</u>	<u>\$15,000</u>	<u>\$15,000</u>
General Fund	\$0	(\$456,700)	(\$501,900)	(\$497,500)

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

EXPLANATION OF THE BILL

Current Law: Current general education levies are about \$1.33 billion. Education homestead and education agricultural credits are based on a percentage of general education levies on class 1 and 2 properties. Residential homestead class rates are 1.0% on the first \$76,000 of market value, and 1.65% on the remainder. Commercial-industrial class rates are generally 2.4% on the first \$150,000 of market value, and 3.4% on the remainder.

Proposed Law: New aid is added to reduce the general education levy to \$417 million. The general education levies are to be spread only on class 3 and class 5 property. New referendum levies will be levied only against residential property. Residential property is defined as class 1a, 1b and 1c residential homesteads; class 2a farm homestead house, garage, and one acre; class 4a apartments; class 4b and class 4bb residential nonhomestead 1-3 units; and class 4d subsidized apartments.

Residential homestead class rates would be 1.0% on the first \$76,000 of market value and 1.5% on the remainder. Commercial-industrial class rates would be generally 2.0% on the first \$150,000 of market value, and 3.0% on the remainder. See attached table for classification rates on other property types.

A new homestead credit on the first tier class 1 and 2a net tax capacity of 7% is instituted. Current education homestead and education agricultural credits are eliminated. Transit zones are repealed.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2001 property tax simulation model.
- New general education aid is approximately \$913 million (\$822 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- A new homestead credit is created, which costs \$66.3 million (\$59.7 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Current law education homestead credit and education agricultural credit are eliminated, resulting in a general fund savings of \$410 million in FY 2003, \$462.4 million in FY 2004, and \$466.8 million in FY 2005, based on the February 2001 forecast.
- Because total homestead net taxes decrease, property tax refunds would decrease by \$15 million.

Number of Taxpayers Affected: All property tax payers will be affected.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be costs associated with setting up the new homestead tax credit program. These costs will be for computer programming and communication with the counties.

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

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**Proposed Class Rate Changes
S.F. 631 / H.F. 1402**

	Current Law <u>Payable 2002</u>	Proposed <u>Payable 2002</u>
Residential Homestead		
< \$76,000	1.00%	1.00%
> \$76,000	1.65%	1.50%
Residential Nonhomestead		
Single Unit		
< \$76,000	1.20%	1.00%
> \$76,000	1.65%	1.50%
2-3 units and undeveloped land	1.65%	1.50%
Market-Rate Apartments		
Regular	2.40%	2.00%
Small city	2.15%	2.00%
Low-Income Apartments		
	1.00%	1.00%
Commercial/Industrial/Public Utility		
< \$150,000	2.40%	2.00%
> \$150,000	3.40%	3.00%
Seasonal Recreational Commercial		
Homestead resorts (1c)	1.00%	1.00%
Seasonal resorts (4c)	1.65%	1.50%
Seasonal Recreational Residential		
< \$76,000	1.20%	1.00%
> \$76,000	1.65%	1.50%
Agricultural Land & Buildings		
Homestead		
< \$115,000	0.35%	0.35%
\$115,000-\$600,000	0.80%	0.75%
> \$600,000	1.20%	1.00%
Nonhomestead	1.20%	1.00%