PROPERTY TAX
SALES AND USE TAX
Nonprofit Low-Income Housing

April 3, 2001

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

Department of Revenue
Analysis of H.F. 1613 (Wagenius) / S.F. 1631 (Ranum) **As Proposed to be Amended**

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
Property Tax	$0	(Negligible)	(Negligible)	(Negligible)
Sales and Use Tax	$(200)	$(270)	$(275)	$(280)
General Fund Total	$(200)	$(270)	$(275)	$(280)

Property tax exemption effective for taxes payable in 2002 and after.
Sales tax exemption effective July 1, 2001.

EXPLANATION OF THE BILL

Current Law:

Property Tax
Rental property owned by a nonprofit organization is now subject to property tax.

Sales and Use Tax
Construction materials sold to nonprofit housing organizations are generally taxable. Construction materials and equipment purchased and installed by a contractor are normally considered taxable retail sales. This rule applies regardless of whether the property owner is a nonprofit organization, a local government, or a for-profit business.

Proposed Law:

Property Tax
As proposed to be amended, section 1 provides that rental housing owned by a charitable, nonprofit organization would be exempt from property tax provided that the renters are persons or families with incomes less than 50 percent of the greater of state median income or area median income and the annual rent does not exceed 9 percent of area median income, adjusted for family size. The rent includes one-half of any additional amounts the occupants must pay for utilities or garbage removal. Payments-in-lieu of property tax equal to 5 percent of rent shall be charged to the nonprofit organization. A property qualifying for the exemption continues to qualify after a tenant's income exceeds the limit for up to two years if occupied by the same tenant.

Sales and Use Tax
Section 2 provides a sales and use tax exemption for materials and supplies used or consumed in, and equipment incorporated into, the construction, rehabilitation, improvement, or expansion of low-income housing which is property tax exempt under section 1. In cases where the nonprofit housing is built with the intention of qualifying for the property tax exemption but which does not currently qualify for it, the taxpayer may still receive the sales tax benefit if the housing does become property tax exempt within one year of the purchase of the materials and supplies.

Sections 3 and 4 provide that the sales tax exemption would be administered as a tax refund. Tax must be paid on the construction materials and a claim for refund filed with the Department of Revenue.

Note: The analysis assumed that items purchased and installed by construction contractors qualify for exemption, although under the wording of sections 2 and 3 this point is not entirely clear.

REVENUE ANALYSIS DETAIL

Property Tax
- Although the proposed exemption from property tax will reduce the local tax base and cause a shift of property tax burden to all other taxpayers including homeowners, the increased state cost for homeowner property tax refunds would be negligible.

Sales and Use Tax
- The average cost per new unit of taxable items was estimated at $24,000.
- The Minnesota Housing Finance Agency estimated that, under the proposed amendments, nonprofits will build about 150 units a year.
- The resulting figure was increased by 15 percent to account for rehabilitation of existing units.
- Because this exemption requires payment of the tax up front and receiving it back by a refund, the estimates assume that 75 percent of the potential amount for a fiscal year would actually be refunded that year and 25 percent in the following fiscal year.
- The estimates for fiscal years 2003-2005 were increased annually by forecast inflation as published by DRI, Inc.

Number of Taxpayers Affected: Between 60 and 80 nonprofits could potentially be involved with low-income housing development.

ADMINISTRATIVE/OPERATIONAL IMPACT

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

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