

MINNESOTA • REVENUE

PROPERTY TAX Repeal LMV Phase-out

February 12, 2002

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

Department of Revenue
Analysis of H.F. 2594 (Mullery)

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)			
General Fund			
Market Value Homestead Credit increase	\$0	(\$2,800)	(\$3,300)
Market Value Farm Hmstd Credit decrease	\$0	\$370	\$440
Homeowner PTR decrease	\$0	\$1,100	\$1,300
Targeting reduction	<u>\$0</u>	<u>\$500</u>	<u>\$1,000</u>
Total	\$0	(\$830)	(\$560)

Effective for taxes payable 2003 and thereafter.

EXPLANATION OF THE BILL

Current Law: For each of the payable years 2003 through 2007, there is a phase-out schedule for the limited market value (LMV) program. The program sunsets in pay 2008. The LMV program limits the increase in value of residential homestead, residential non-homestead, farm homestead, farm non-homestead, timberland, and non-commercial seasonal recreational property. For pay 2002, the increase may not exceed the greater of 8.5% of the value in the preceding assessment, or 15% of the difference between the current assessment and the preceding assessment. The phase-out schedule increases the 8.5% factor to 10% in pay 2003, 12% in pay 2004, and 15% until sunset. The phase-out schedule also increases the 15% factor to 20% in pay 2004, 25% in pay 2005, 33% in pay 2006, and 50% in pay 2007.

Proposed Law: The proposal would repeal the phase-out schedule. The sunset date is pushed back a year through payable year 2008.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2002 property tax simulation model.
- Market value credit for homesteads would increase by \$2.8 million in pay 2003 and \$3.3 million in pay 2004 if the phase-out were repealed. Because the homestead MV credit decreases as a property's market value exceeds \$76,000, increases in market value cause a drop in credit. Repeal of the phase-out lowers the market value of a homestead, thereby increasing the credit for properties over \$76,000 compared to current law .
- Property tax refunds will decrease \$1.1 million in pay 2003 and \$1.3 million in pay 2004 due to a decrease in homestead net taxes.
- Targeting refunds will decrease \$0.5 million in pay 2003 and \$1.0 million in pay 2004 due to a decrease in homestead net taxes.
- Farm homestead market value credit will decrease directly with the decrease in market values attributable to the retention of LMV. The credit will decrease by \$370,000 in pay 2003 and \$440,000 in pay 2004.

Number of Taxpayers Affected: All property owners.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill. However, counties will be fiscally impacted.

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

hf2594-1/LAM