

MINNESOTA • REVENUE

PROPERTY TAX Extension of Homestead Treatment for Split Class Properties

February 8, 2002

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

Department of Revenue

Analysis of H.F. 2817 (Stang)/S.F. 2743 (Fischbach) **Revised to correct assumption about duplexes and triplexes**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund				
Market Value Homestead Credit increase		\$(800)	\$(820)	\$(841)
Homeowner PTR increase		\$(79)	\$(197)	\$(138)
State property tax levy reduction		\$(243)		
Total		\$(1,122)	\$(1,017)	\$(979)

Effective for taxes payable 2002 and thereafter.

EXPLANATION OF THE BILL

Current Law: If a county assessor has classified a property as both homestead and nonhomestead (i.e., a "split class" parcel), the net tax capacity of the homestead portion is calculated using the class rates of 1.0% on the first \$500,000 of market value, and 1.25% on the value over \$500,000.

Proposed Law: The proposal would require the assessor, in cases where the market value of the homestead portion of the property is less than \$76,000, to "borrow" additional market value from the nonhomestead portion (excluding residential nonhomesteads with less than four units) to apply the homestead class rate to a full \$76,000 of market value. The balance of the nonhomestead portion would have the appropriate class rate applied based on the type of nonhomestead property. Thus, the total net tax capacity of the property would be reduced, reducing the property tax for the owner. The homestead portion of the new total tax on the property would increase, while the nonhomestead portion would decrease.

As revised, the proposal clarifies that in the case of a duplex or triplex in which one of the units is a homestead, the entire parcel is treated as a homestead current law, and that this treatment is not considered "borrowing" under this proposal.

The proposal would apply to taxes payable in 2002 and thereafter. For taxes payable in 2002, if a taxpayer has paid the first half portion of the tax on the split class parcel, the increased market value residential homestead credit due would be applied to the second half payment due in October 2002. If the tax already paid for the first half exceeds the total recomputed payment for 2002, the county treasurer will refund the balance due the taxpayer. The proposal allows local governments to levy back the lost revenue for 2002 in the next year, taxes payable 2003. The proposal does not make provision to recover the lost state general tax levy on the commercial portion of split class properties for taxes payable 2002.

REVENUE ANALYSIS DETAIL

- Based on information from the mini-abstract and the final abstract of assessment, the total market value up to \$76,000 that would be "borrowed" from the nonhomestead portion of split class properties (excluding duplex and triplex buildings) under this proposal would be about \$200 million statewide. About \$84 million of that total would be borrowed from commercial property, about \$73 million from apartment property, and the balance from other property types.
- Based on information from parcel files and abstracts of assessment, it is assumed that the average market value of split class properties is \$100,000. The homestead portion of split class properties is \$30,000, and the average nonhomestead portion is \$70,000. The average amount "borrowed" is \$46,000. Given these assumptions, a total of about 4,300 homestead split class properties would be affected.
- On average, market value homestead credit would increase from \$120 per parcel to \$304 per parcel, for a total increase of \$800,000 for taxes payable 2002.
- On average, affected split class properties would have an increase of \$364 on the homestead portion and a decrease of \$1,222 on the nonhomestead portion, with an average overall reduction of \$858, or 41%.
- Overall, the gross tax reduction for taxes payable in 2002 would be about \$2,931,000 statewide, and it is assumed that this reduction would be "levied back" for taxes payable 2003.
- In addition, a tax shift created by the reduced net tax capacity of split class parcels would shift tax burdens to other properties including homeowners. The tax shift also would be about \$2,931,000 in taxes payable 2003 and following years.
- The proposal thus would increase homeowner property tax refunds (PTR) for three reasons:
 - The homestead portion of split class properties would have increased tax, increasing PTR by about \$79,000 statewide, beginning with taxes payable 2002.
 - The tax shift to other properties caused by the decreased net tax capacity of split class parcels would increase homeowner PTR by about \$59,000 statewide in payable 2003 and following years.
 - The special levy in taxes payable 2003 (for revenue lost in payable 2002) would increase homeowner PTR in 2003 by about \$59,000.

REVENUE ANALYSIS DETAIL, continued:

- In the case of split class properties involving homestead and commercial property, the reduced commercial net tax capacity for taxes payable 2002 will reduce the state general levy by an average of \$133 per parcel, or a total state general tax reduction of \$243,000 statewide on about 1,830 commercial split properties. The total revenue from the state general tax will not be affected in pay 2003 and future years because the statewide rate will be adjusted upward. The proposed change to commercial split class properties will shift additional state general tax burden onto all other properties paying the state tax.

Number of Taxpayers Affected: About 4,300 split class properties, including 1,830 commercial split class properties are directly affected by the split class provisions. The tax shift involved will shift tax burden onto all other property in the local areas where the split class properties are located.

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 impacted by this bill.

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