PROPERTY TAX
Class 4d Property

March 11, 2002

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

Department of Revenue
Analysis of H.F. 3585 (Dawkins) / S.F. 3374 (Rest)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
		(000's)		
General Fund:				
New construction housing aid				($500)
Homeowner PTR increase				(Negligible)

Effective for taxes payable 2004.

EXPLANATION OF THE BILL

Current Law: Current law provides for a class 4d property classification for qualifying low-income rental housing. The class rate for class 4d property is 0.9 percent for taxes payable 2002, 1 percent for 2003, and 1.25 percent for 2004, when the class 4d program is terminated and the class rate is the same as market-rate apartment property. Sections 273.126 and 462A.071 defining the basis for eligibility for class 4d were repealed effective for taxes payable 2004. Any agreements made for rental property under the repealed sections expire effective January 1, 2004.

Current law also provides a new construction low-income housing aid for cities containing qualified class 4d property on which initial construction was begun after January 1, 1999. Because the basis for eligibility for class 4d property was repealed effective with taxes payable 2004, no city will have eligible class 4d property for taxes payable 2004, and no aid will be paid for new construction of low income housing.

Proposed Law: Sections 273.126 and 462A.071 are reinstated, defining the basis of qualification for class 4d property and affirming existing agreements made under the repealed sections. Although class rates for class 4d are not changed, a new assessment procedure would require the assessor to determine a "restricted use value" resulting from restrictions on uses under class 4d. The reinstatement of the repealed sections permits new-construction low-income housing aid to be paid to cities with qualifying class 4d property in calendar year 2004 (F.Y. 2005).

REVENUE ANALYSIS DETAIL

- Under current law, the class rate for class 4a market-rate apartments is 1.8 percent for taxes payable 2002, 1.5 percent for 2003, and 1.25 percent for 2004 and thereafter. The class rate for new apartment construction begun after June 30, 2001 is 1.25 percent. According to information from the Minnesota Housing Finance Agency (MHFA), the narrowing gap between class 4d and class 4a apartment property has reduced the incentive for apartment owners to accept the restrictions on use for class 4d property.
- The proposed market value reduction for class 4d property would reestablish the incentive for owners to apply for class 4d classification, reducing the local tax base. The resulting shift in tax burden to other taxpayers including homeowners would increase state homeowner property tax refund payments by a negligible amount for F.Y. 2005.
- The proposed reversal of the repeal of class 4d qualification criteria for pay 2004 and following will allow state payment of new-construction low-income housing aid to cities with qualified class 4d property. The proposed reduction of market value for class 4d will restore incentive for applying for class 4d status, depending upon actual reductions assessed. For taxes payable 2002, a total aid of $145,456 will be paid on a total new construction market value of $28.2 million. For taxes payable 2004 (F.Y. 2005), trends indicate a total eligible market value of $69.4 million and a payment of about $500,000.

Number of taxpayers affected: For taxes payable 2002, taxpayers in 37 cities are affected by state payment of new-construction low-income housing aid.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be administrative or operational costs to DOR in administration of this bill**.** There will be costs associated with developing the guidelines. A Senior Appraiser will be assigned to meet with assessors and regional reps to develop the guidelines. Developing the guidelines will take about four weeks minimum.

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

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