

# MINNESOTA · REVENUE

## PROPERTY TAX Bed and Breakfast Classification

March 15, 2002

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

Department of Revenue  
Analysis of H.F. 3669 (Rifenberg)

	<b>Revenue Gain or (Loss)</b>			
<b><u>F.Y. 2002</u></b>	<b><u>F.Y. 2003</u></b>	<b><u>F.Y. 2004</u></b>	<b><u>F.Y. 2005</u></b>	
	(000's)			
General Fund				\$(Negligible) \$(Negligible)

Effective for taxes payable in 2003 and thereafter.

### **EXPLANATION OF THE BILL**

**Current Law:** Residential property that is owner occupied and includes rooms available for lodging by transient guests ("bed and breakfasts") are classified as homesteads on the portion used as a homestead and commercial on the rooms available for rent to guests. Commercial property has a class rate of 1.5 percent on the first \$150,000 of market value and 2 percent on the balance. The qualifying property tax refunds for the property is on the homestead portion only.

**Proposed Law:** The lodging portion of residential property owned and occupied by the owner as a homestead that includes lodging for transient guests is reclassified as class 4c at a class rate of 1.25 percent if the following conditions exist:

- Guests generally stay for periods of 7 or fewer days
- Meals are provided to guests at cost and included in the basic room rate
- Meals are not provided to the general public except for a few special events
- The property is zoned residential or in a residential area
- The owner occupies the property and is the operator of the property

The 4c classification applies only to up to 5 rooms used for lodging. The remainder of rooms are classified as currently as class 3a commercial.

### **REVENUE ANALYSIS DETAIL**

- Based on information from the Office of Tourism and county assessors, there are about 160 establishments that would qualify, with a total market value of about \$34 million.
- Excluding the market value for more than 5 rooms reduces the eligible value to about \$30 million.

- The reclassification of the lodging rooms from class 3a to class 4c at 1.25 percent will shift about \$93,000 of tax burden to other properties including homeowners, but the increase in homeowner property tax refunds would be negligible.
- The classification of lodging rooms as 4c raises the issue whether the class 4c lodging should be excluded from qualifying tax for homeowner property tax refunds. The proposal does not clarify this point, but it is assumed that the class 4c tax would not be included in the qualifying tax.

#### **ADMINISTRATIVE/OPERATIONAL IMPACT**

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

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

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