

MINNESOTA • REVENUE

PROPERTY TAX New Classes, New MV Credit

February 26, 2002

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

Department of Revenue
Analysis of S.F. 3011 (Stumpf)/H.F. 3186 (Skoe),

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
			(000's)	
General Fund				
MV homestead credit		\$0	\$1,800	\$1,800
Homeowner PTR decrease		<u>\$0</u>	<u>\$5,700</u>	<u>\$5,700</u>
Total		\$0	\$7,500	\$7,500

Effective for taxes payable 2003 and thereafter.

EXPLANATION OF THE BILL

Current Law: Agricultural homestead land less than \$600,000 of market value is classed at 0.55%. Commercial, industrial, railroad, and public utility property market value over \$150,000 has a class rate of 2.0%. Mineral and other class 5 property also has a class rate of 2.0%. The formula for market value homestead credit is 0.4% of market value up to \$76,000, with a deduction of 0.09% times market value beyond \$76,000. The maximum credit is \$304.

Proposed Law: The proposal would decrease the classification percentage to 0.35% for agricultural homestead land market value less than \$115,000. Commercial, industrial, railroad, and public utility property market value over \$150,000 would have a class rate of 2.7%. Mineral and other class 5 property would also have a class rate of 2.7%. The formula for market value homestead credit would be 0.5% of market value up to \$76,000, with a deduction of 0.25% times market value beyond \$76,000. The maximum credit would be \$380.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2002 property tax simulation model.
- Market value homestead credit changes because the formula parameters change. This results in a decrease in the credit of \$1.8 million in taxes payable 2003 and 2004
- Total net taxes decrease 15% on farm homesteads, due to the market value credit change, as well as the class rate change. Property taxes are shifted onto other types of property.

- Total net taxes increase 10% on commercial and industrial property due to the class rate change.
- Property tax refunds will decrease \$5.7 million in pay 2003 and in pay 2004 due to the decrease in homestead net taxes. The net tax decreases are due to shifting onto commercial property.

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.

Source: Minnesota Department of Revenue
Tax Research Division

hf3186(sf3011)-1/LAM

<http://www.taxes.state.mn.us/polic.html#analyses>