

**PROPERTY TAX
Com'l, & Apt Classes, Credit, HACA**

February 21, 2001

Department of Revenue
Analysis of S.F. 81 (Langseth)

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

	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)		
HACA	\$0	(\$89,900)	(\$91,200)	(\$91,200)
Education Hmstd Credit	\$0	(\$5,100)	(\$5,600)	(\$5,600)
Disparity Reduction Credit	\$0	\$4,300	\$4,500	\$4,500
Property Tax Refund	<u>\$0</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>	<u>(\$1,000)</u>
General Fund	\$0	(\$91,700)	(\$93,300)	(\$93,300)

The proposal is effective for taxes and aids payable in 2002 and thereafter.

EXPLANATION OF THE BILL

Current Law: Class rates for 3a commercial and industrial property are 2.4% for the first \$150,000 of market value and 3.4% over \$150,000. Non-subsidized apartment class rates are 2.4% for most municipalities and 2.15% for apartments in qualifying small cities. Disparity reduction credit (DRC) is authorized for four qualifying border cities.

Proposed Law: The proposed class rates are 2.0% for the first \$250,000 of 3a commercial and industrial market value and 3.4% over \$250,000, and 2.0% for apartments. A change in homestead and agricultural credit aid (HACA) is authorized which reflects the reduction in class rates. The threshold rate for DRC would decrease from 2.3% to 2.0%, and only apartments and 3b employment property would qualify.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2001 property tax simulation model.
- Disparity reduction credit would decrease approximately \$4.5 million. (\$4.3 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Additional HACA is approximately \$91.2 million. (\$89.9 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.

- Provision for HACA increases is made in the bill. However, HACA does not compensate for school equalized levy shifts. Therefore the lower class rates for favored property results in net tax increases for other property types. Increases in residential homestead net taxes result in an increase in education homestead credit of \$5.6 million. (\$5.1 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Because total homestead net taxes increase, property tax refunds would increase by \$1.0 million.

Number of Taxpayers Affected: 90,000 commercial and industrial properties, plus apartments.

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>