

**PROPERTY TAX
Residential Classes, Credit, HACA**

February 21, 2001

Department of Revenue
Analysis of S.F. 82 (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	(\$98,400)	(\$100,000)	(\$100,000)
Education Hmstd Credit	\$0	\$6,700	\$7,300	\$7,300
Property Tax Refund	<u>\$0</u>	<u>\$6,400</u>	<u>\$6,400</u>	<u>\$6,400</u>
General Fund	\$0	(\$85,300)	(\$86,300)	(\$86,300)

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

EXPLANATION OF THE BILL

Current Law: Class rates for residential homestead property are 1.0% for the first \$76,000 of market value and 1.65% over \$76,000. Class 4bb residential nonhomestead class rates are 1.2% for the first \$76,000 of market value and 1.65% over \$76,000.

Proposed Law: The proposal would change the threshold from \$76,000 to \$100,000 for residential homestead and class 4bb nonhomestead property. A change in homestead and agricultural credit aid (HACA) is authorized which reflects the reduction in class rates on the market value between \$76,000 and \$100,000.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2001 property tax simulation model.
- Additional HACA is approximately \$100 million. (\$98.4 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. Decreases in residential homestead net taxes result in a decrease in education homestead credit of \$7.3 million. (\$6.7 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Because total homestead net taxes decrease, property tax refunds would decrease by \$6.4 million.

Number of Taxpayers Affected: 1.3 million residential homesteads, plus 4bb nonhomestead properties.

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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