

**Property Tax  
Special Agricultural Homesteads**

March 19, 2001

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

Department of Revenue

Analysis of S.F. 594 (Stumpf) **Revised for Agricultural Credit Change**

	<b>Revenue Gain or (Loss)</b>			<b>FY2005</b>
	<b>F.Y. 2002</b>	<b>F.Y. 2003</b>	<b>F.Y. 2004</b>	
		(000's)		
General Fund		(\$13)	(\$14)	(\$14)

Effective for taxes payable in 2002 and thereafter.

**EXPLANATION OF THE BILL**

**Current Law:** Agricultural property of at least 40 acres where the owner is a Minnesota resident but does not reside on the land may be classified as a homestead if the owner, or the owner's son or daughter, does not live farther than four townships or cities from the property and the owner (or the son or daughter) is actively farming the property.

**Proposed Law:** The bill would expand these special agricultural provisions to include cases where the owner's land is enrolled in the federal Conservation Reserve Program (CRP) or in the state Reinvest in Minnesota (RIM) conservation program. Farm nonhomestead land that would qualify for homestead status under this proposal would have a class rate reduction on the first \$600,000 of market value from 1.20% to homestead class rates of 0.35% on the first \$115,000 of market value and 0.80% on the value from \$115,000 to \$600,000. **The education agricultural credit would increase from 63% of the tax on agricultural nonhomestead land to 70% of the tax on the first \$600,000 of market value for agricultural homestead land.**

**REVENUE ANALYSIS DETAIL**

- According to the State Department of Agriculture, a total of 1,589,834 agricultural acres are enrolled in the federal CRP program under contracts with about 30,000 owners. The average enrollment per farm is about 53 acres. A relatively small proportion of entire farms is enrolled statewide. Enrollment is significant in the northwestern area of the state. No information is available from the federal Farm Service Agency about the proportion of enrolled owners who do not live on their land.
- According to the Minnesota Board of Water and Soil Resources, the state RIM program has a total of 3,100 easements, including the property of about 3,000 owners. The average easement is 35 acres.

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- Information from the Kittson County assessor indicates that between 50 and 100 farms in that county are enrolled in the CRP program and would qualify for the special homestead status under this provision.
- The proposed change of qualified farms from nonhomestead to homestead status will reduce the local tax base and cause a property tax shift to all other taxpayers, including other farm homesteads and residential homesteads.
- Assuming that perhaps 500 farms would qualify under the proposal, with an average of 100 acres at \$400 per acre, the total market value involved could be about \$20 million statewide.
- **The increase in education agricultural credit from 63% to 70% on the first \$600,000 of market value will reduce the state general fund by about \$13,000 in F.Y. 2003 and \$14,000 in F.Y. 2004 and 2005.**
- Although the property tax shift to homeowners will increase state costs for property tax refunds, the increase is likely to be negligible.

**Number of Taxpayers Affected:** An estimated 500 farms could benefit from the proposal. All taxpayers in counties with qualifying farms would be affected by the tax shift caused by this proposal.

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

There are no significant administrative costs or savings to the department in administering this bill.

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