

**PROPERTY TAX
Com'l- Industrial Classes and HACA**

March 20, 2001

Department of Revenue
Analysis of S.F. 1423 (Sams)

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

| | <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) | | |
| HACA | \$0 | (\$159,400) | (\$161,900) | (\$161,900) |
| Education Hmstd Credit | \$0 | (\$9,000) | (\$10,000) | (\$10,000) |
| Property Tax Refund | <u>\$0</u> | <u>(\$1,500)</u> | <u>(\$1,500)</u> | <u>(\$1,500)</u> |
| General Fund | \$0 | (\$169,900) | (\$173,400) | (\$173,400) |

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.

Proposed Law: The proposed class rates are 1.65% for the first \$500,000 of 3a commercial and industrial market value and 3.4% over \$500,000. A change in homestead and agricultural credit aid (HACA) is authorized which reflects the reduction in class rates.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2001 property tax simulation model.
- Additional HACA is approximately \$161.9 million (\$159.4 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 result in net tax increases for other property types. Increases in residential homestead net taxes result in an increase in education homestead credit of \$10.0 million (\$9.0 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 \$1.5 million.

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

ADMINISTRATIVE/OPERATIONAL IMPACT

There are no significant administrative or operational costs or savings to the department in administration of this bill.

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