

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

March 27, 2001

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

Department of Revenue
Analysis of S.F. 1731 (Debbie Johnson) **As Proposed to be Amended**

	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)		
Education Hmstd. Credit	\$0	(\$83,500)	(\$92,800)	(\$92,800)
Education Ag. Credit	\$0	(\$5,200)	(\$5,800)	(\$5,800)
Property Tax Refund	<u>\$0</u>	<u>(\$400)</u>	<u>(\$400)</u>	<u>(\$400)</u>
General Fund	\$0	(\$89,100)	(\$99,000)	(\$99,000)

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. Residential homestead and farm homestead house, garage, and one acre property is eligible for a credit against net taxes of 83% of the general purpose education levies to a maximum of \$390. Farm homestead land is eligible for a credit against net taxes of 70% of the general purpose education levies. Class 2b farm non-homestead and timber land is eligible for a credit against net taxes of 63% of the general purpose education levies.

Proposed Law: The proposed class rates are 2.0% for the first \$150,000 of 3a commercial and industrial market value and 3.0% over \$150,000, and 2.0% for apartments. **As proposed to be amended,** residential homestead and farm homestead house, garage, and one acre property would be eligible for a credit against net taxes of 100% of the general purpose education levies to a maximum of \$475. Farm homestead land would be eligible for a credit against net taxes of 75% of the general purpose education levies. Class 2b farm non-homestead and timber land would be eligible for a credit against net taxes of 68% of the general purpose education levies.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on the taxes payable 2001 property tax simulation model.
- Increases in farm and residential homestead net taxes and proposed changes to the education homestead credit result in an increase in the credit of \$92.8 million (\$83.5 million fiscal year basis after 90/10 school aid shift) in pay 2002 and thereafter.
- Increases in farm homestead and farm non-homestead net taxes and proposed changes to the education agricultural credit result in an increase in the credit of \$5.8 million (\$5.2 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 \$400,000.

Number of Taxpayers Affected: Primarily 90,000 commercial and industrial properties, apartment properties, 1.2 million residential homesteads, farm non-homestead properties, and 105,000 farm homestead 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>