PROPERTY TAX
SALES AND USE TAX
Nonprofit Low-Income Housing

February 13, 2002

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

Department of Revenue
Analysis of S.F. 2867 (Ranum) / H.F. 3289 (Wagenius)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
	(000's)			
Property Tax	$0	$0	(Negligible)	(Negligible)
Sales and Use Tax	(Unknown)	$0	$0	$0
General Fund Total	(Unknown)	$0	(Negligible)	(Negligible)

Property tax exemption effective for taxes payable in 2003 and after.
Sales tax exemption effective retroactive to July 1, 2001.

EXPLANATION OF THE BILL

Current Law:

Property Tax
Rental property owned by a nonprofit organization is now subject to property tax.

Sales and Use Tax
Laws of Minnesota for 2001, first special session, chapter 5, article 12, section 70, provides a sales and use tax exemption for materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of low-income housing owned by a qualified nonprofit organization. This exemption took effect on August 1, 2001.

Proposed Law:

Property Tax
Section 1 provides that rental housing owned by a charitable, nonprofit organization would be exempt from property tax provided the renters are persons or families with incomes less than 30 percent of area median income and the annual rent does not exceed 9 percent of area median income, adjusted for family size. The rent includes one-half of any additional amounts the occupants must pay for utilities or garbage removal. Payments in-lieu of property tax equal to 5 percent of rent shall be charged to the nonprofit organization. A property qualifying for the

EXPLANATION OF THE BILL (Cont.)

exemption continues to qualify after a tenant's income exceeds the limit for up to two years if the property is occupied by the same tenant.

Sales and Use Tax
Section 2 provides a sales and use tax exemption for materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of low-income housing which is property-tax exempt under section 1. The exemption is retroactive to July 1, 2001.

REVENUE ANALYSIS DETAIL

Property Tax
Although the proposed exemption from property tax will reduce the local tax base and cause a shift of property tax burden to all other taxpayers including homeowners, the increased state cost for homeowner property tax refunds would be negligible.

Sales and Use Tax
The bill has no sales tax impact in fiscal year 2003 and after because the 2001 legislation referenced above exempts construction of and improvements to low-income housing by nonprofit corporations qualifying under sections 501(c)(3) or 501(c)(4) of the Internal Revenue Code.

The only sales tax impact would be for the month of July 2001, the difference between the bill's effective date of July 1, 2001, and the current law date of August 1, 2001. Any impact would be from valid refund claims timely filed with the Department of Revenue.

Number of Organizations Affected: Between 60 and 80 nonprofits could potentially be involved with low-income housing development.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administering this bill.

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