MINNESOTA · REVENUE

PROPERTY TAX
Extension of Homestead Treatment
For Split Class Properties

February 25, 2002

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

Department of Revenue
Analysis of S.F. 2962 (Langseth)

	Revenue Gain or (Loss)			
	F.Y. 2002	F.Y. 2003	F.Y. 2004	FY2005
		(000's)		
General Fund				
Market Value Homestead Credit increase			$(820)	$(522)
Homeowner PTR increase			$(59)	$(38)
Total			$(879)	$(560)

Effective for taxes payable 2003 through 2005 only.

EXPLANATION OF THE BILL

Current Law: If a county assessor has classified a property as both homestead and nonhomestead (i.e., a "split class" parcel), the net tax capacity of the homestead portion is calculated using the class rates of 1.0% on the first $500,000 of market value, and 1.25% on the value over $500,000.

Proposed Law: The proposal would require the assessor, in cases where the market value of the homestead portion of the property is less than $76,000, to "borrow" additional market value from the nonhomestead portion (excluding residential nonhomesteads with less than four units) to apply the homestead class rate to a full $76,000 of market value for taxes payable 2003, to a full $60,000 of market value for taxes payable 2004, and to $45,000 for taxes payable 2005. The "borrowing" would be eliminated for taxes payable 2006 and following years.. The balance of the nonhomestead portion would have the appropriate class rate applied based on the type of nonhomestead property. Thus, the total net tax capacity of the property would be reduced, reducing the property tax for the owner. The homestead portion of the new total tax on the property would increase, while the nonhomestead portion would decrease.

REVENUE ANALYSIS DETAIL

- Based on information from the mini-abstract and the final abstract of assessment, the total market value up to $76,000 that would be "borrowed" from the nonhomestead portion of split class properties under this proposal would be about $200 million statewide for taxes payable 2003, and about $158 million for taxes payable 2004.
- Based on information from parcel files and abstracts of assessment, it is assumed that the average market value of split class properties is $100,000. The homestead portion of split class properties is $30,000, and the average nonhomestead portion is $70,000. The average amount "borrowed" is $46,000 for taxes payable 2003 and $30,000 for taxes payable 2004. Given these assumptions, a total of about 4,300 homestead split class properties would be affected for taxes payable 2003, and about 3,950 properties for taxes payable 2004.
- On average , market value homestead credit would increase by about $191 per parcel, for a total increase of $820,000 for taxes payable 2003, and by $120 per parcel for a total increase of $522,000 for taxes payable 2004.
- On average for payable 2003, affected split class properties would have an increase of $364 on the homestead portion and a decrease of $1,222 on the nonhomestead portion, with an average overall reduction of $858, or 41%. For payable 2004 the total parcel tax would be reduced by $439 on average, or a reduction of 20%.
- In addition, a tax shift created by the reduced net tax capacity of split class parcels would shift tax burdens to other properties including homeowners. The tax shift also would be about $2,931,000 in taxes payable 2003 and $1,090,000 for payable 2004.
- The tax shift thus would increase homeowner property tax refunds (PTR) by about $59,000 statewide in payable 2003 and by $38,000 in payable 2004.
- Because county auditors are instructed to include only the homestead tax before borrowing when they insert the qualifying tax for property tax refund purposes on property tax statements, this proposal will not increase the PTR for split class homeowners for the borrowed portion of the tax.

Number of Taxpayers Affected: About 4,300 split class properties are affected for payable 2003, and about 3,950 properties for payable 2004 are directly affected, and the tax shift involved will shift tax burden onto all other property in the local areas where the split class properties are located.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill**.** However, counties will be impacted by this bill.

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

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