

MINNESOTA REVENUE

PROPERTY TAX

Residential Homestead Market Value Credit Outside Incorporated Areas

February 22, 2002

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

Department of Revenue
Analysis of S.F. 3116 (Hottinger)

| | <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) | | |
| General Fund | \$0 | \$0 | \$2,600 | \$5,200 |

Effective for credits payable in 2003 and thereafter.

EXPLANATION OF THE BILL

Current Law: Residential homestead properties under class 1a (residential homestead), class 1b (blind/ paraplegic or veteran/disabled), class 1c (seasonal resorts including a homestead), and class 2a (agricultural homestead) are eligible for a market value credit equal to 0.4 percent of the market value of the property. The credit may not exceed \$304 and is reduced by .09 percent of the market value in excess of \$76,000.

Proposed Law: The proposal would eliminate the residential homestead market value credit for new homesteads initially occupied after January 1, 2002, if the homesteads are located outside an incorporated area. Minnesota Statutes, Section 414.011, defines incorporated land as land located within a city. Thus, any residential homestead initially occupied after January 1, 2002, and located in a township or other unincorporated area would not be eligible for a residential homestead market value credit, beginning with taxes payable 2003.

REVENUE ANALYSIS DETAIL

- The estimate was made with the Department of Revenue property tax model for taxes payable in 2002, adjusted for growth to taxes payable 2003 and 2004.
- Estimates of new residential homesteads in townships and other unincorporated areas built or prepared for occupancy in 2001, assessed in 2002 for taxes payable 2003 were made using estimated new construction for pay 2002 in the current simulation model.
- Assuming that the average market value of new homesteads located in unincorporated areas statewide is about \$180,000, the maximum credit subject to the proposal would be an average of \$210.

Number of Taxpayers Affected: About 12,000 new homesteads in unincorporated areas would be affected in F.Y. 2004 and about 24,000 homesteads in F.Y. 2005.

ADMINISTRATIVE/OPERATIONAL IMPACT

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

Source: Minnesota Department of Revenue
Tax Research Division

Sf3116_1/JB, LM