

MINNESOTA · REVENUE

PROPERTY TAX Exemption of Property Leased to School Districts

PRELIMINARY ANALYSIS

March 12, 2002

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

Department of Revenue
Analysis of S.F. 3428 (Olson) / H.F. 3674 (Smith)

	<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>
General Fund		(000's)	\$(Unknown)	\$(Unknown)

Effective for taxes payable in 2003 and thereafter.

EXPLANATION OF THE BILL

Current Law: Property that is leased or rented to school districts for direct classroom instruction is exempt if the lease is for at least 12 consecutive months, the owner charges a nominal charge for use of the building, and the school district has exclusive use.

Proposed Law: Owners of taxable property who lease or rent space to a school district for direct classroom instruction for a lease of at least 12 consecutive months are eligible for a tax exemption on the property if the lease or rental is reduced by an amount equal to the property tax foregone due to the exemption, as verified by the assessor.

REVENUE ANALYSIS DETAIL

- According to preliminary information from the Department of Children, Families and Learning, about half of the property leased or rented by public school districts is exempt municipal or charitable organization property. Most of the property leased or rented to school districts by owners of commercial property probably is rented at more than a nominal consideration, and such property would be eligible for this exemption.
- Information is not currently available on the total rent currently charged to school districts by owners affected by this proposal, but the total market value of the rented property could be substantial.

REVENUE ANALYSIS DETAIL, continued

- The proposed exemption of commercial property would reduce the local tax base, particularly in the metro area where such leases are more common, and the proposal would shift property tax burden onto other taxpayers, including homeowners. The increased tax on homeowners would increase homeowner property tax refunds by an unknown amount.
- The exemption of commercial property for taxes payable 2003 will not affect the total revenue generated by the state levy, but the proposal would shift the state levy burden to other commercial, industrial and cabin property subject to the state levy.

Number of taxpayers affected: All commercial, industrial and cabin property owners would be affected by the shift in state levy burden caused by the proposed exemptions. Other taxpayers in the local area where exemptions are granted would be affected by the shift in local property tax burden.

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
<http://www.taxes.state.mn.us/polic.html#analyses>

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