

**PROPERTY TAX**  
**LMV Phase-out Delay**

April 7, 2003

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested		
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		

Department of Revenue  
 Analysis of H.F. 405 (Erhardt)

	<b>Revenue Gain or (Loss)</b>			
	<u><b>F.Y. 2004</b></u>	<u><b>F.Y. 2005</b></u>	<u><b>F.Y. 2006</b></u>	<u><b>F.Y. 2007</b></u>
	(000's)			
Market Value Homestead Credit	\$0	(\$1,200)	(\$2,400)	(\$3,000)
Market Value Farmland Credit	\$0	\$430	\$880	\$900
Homeowner Property Tax Ref.	\$0	\$4,300	\$9,700	\$16,600
Targeting	<u>\$0</u>	<u>\$3,000</u>	<u>\$6,000</u>	<u>\$9,000</u>
General Fund Total	\$0	\$6,530	\$14,180	\$23,500

Effective taxes payable in 2004 and thereafter.

**EXPLANATION OF THE BILL**

**Current Law :** For each of the payable years 2003 through 2007, there is a phase-out schedule for the limited market value (LMV) program. The LMV program limits the increase in value of residential homestead, residential non-homestead, farm homestead, farm non-homestead, timberland, and non-commercial seasonal recreational property. For pay 2003, the increase may not exceed the greater of 10% of the value in the preceding assessment, or 15% of the difference between the current assessment and the preceding assessment. The phase-out schedule increases the 10% factor to 12% in pay 2004, and 15% until sunset. The phase-out schedule also increases the 15% factor to 20% in pay 2004, 25% in pay 2005, 33% in pay 2006, and 50% in pay 2007. The program sunsets after pay 2007.

**Proposed Law:** The proposal delays the phase-out schedule four years. The formula in effect for taxes payable in 2003 would be retained until assessment year 2006, payable 2007. Starting with taxes payable in 2008, LMV would be phased out and would sunset after pay 2011.

## REVENUE ANALYSIS DETAIL

- The proposal was analyzed on a taxes payable 2003 property tax parcel simulation model.
- Market value credit for homesteads would increase by \$1.2 million in pay 2004, \$2.4 million in pay 2005, and \$3.0 million in pay 2006 if the phase-out were repealed. Because the homestead MV credit decreases as a property's market value exceeds \$76,000, increases in market value cause a drop in credit. Repeal of the phase-out lowers the market value of a homestead, thereby increasing the credit for properties over \$76,000 compared to current law.
- Farmland market value credit will decrease with the decrease in market values attributable to the retention of LMV. Although there is a reduction factor in the formula, it plays a less significant role in the total than does the reduction factor for the homestead market value credit. The credit will decrease by \$430,000 in pay 2004, \$880,000 in pay 2005, and \$900,000 in pay 2006.
- Property tax refunds will decrease \$4.3 million in pay 2004, \$9.7 million in pay 2005, and \$16.6 million in pay 2006 due to a decrease in homestead net taxes.
- Targeting refunds will decrease \$3.0 million in pay 2004, \$6 million in pay 2005, and \$9.0 million in pay 2006 due to a decrease in homestead net taxes.

**Number of Taxpayers Affected:** All property owners.

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