PROPERTY TAX
Payment for Acquisition of Exempt Property

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

April 9, 2003

Department of Revenue
Analysis of H.F. 815 (Thissen)

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
General Fund	$0	($450)	($450)	($450)

Effective for property acquired after January 1, 2004.

EXPLANATION OF THE BILL

Current Law: Property owned by the State of Minnesota or one of its political subdivisions is exempt from property tax if it is used exclusively for public purposes.

Proposed Law: When the state or one of its political subdivisions acquires taxable real property and that property becomes tax exempt, the state or its political subdivisions must pay to all other taxing jurisdictions levying property tax on the property in the year in which it was acquired a transition payment. The transition payment may be paid either using a five-year phaseout schedule (100% of the taxes payable in the year acquired, followed by 80%, 60%, 40%, and 20% in successive years), or by a one-time payment of 150% of taxes payable in the year acquired. A city, county, town, or school district may waive the requirement to receive payment. The payments are not applicable to levy limit calculations.

REVENUE ANALYSIS DETAIL

- The Minneapolis assessor's office reports that the market value of additions by state or local government entities of previously taxable property to exempt status in the city averaged $14,854,067 in the three years from pay 2001 to 2003. The total tax paid by the properties in the year before becoming exempt averaged $523,460, for an average effective tax rate of 3.52%.

REVENUE ANALYSIS DETAIL (Cont.)

- Using information from the 1992 and 1998 abstract of exempt property, and assuming that annual additions to exempt property in Minneapolis represents about half of statewide additions by state and local governments, it is estimated that the market value of annual additions will equal about $29,800,000 per year.
- Total local property taxes foregone by political subdivisions as a result of the public acquisitions of taxable property will be about $1 million per year in pay 2004 through 2006.
- Assuming that the state and most political subdivisions will elect to pay 150% of the foregone tax in the first year, rather than the five-year phaseout, and that the state will acquire about 30% of newly-acquired exempt property for public purposes, the state aid payment will be about $450,000 per year in F.Y. 2005 through 2007.
- The net effect on political subdivisions of paying and receiving payments for exempt property with other subdivisions will be small, and result in a negligible impact on homeowner property tax refunds.
- No information is available on possible payments by local subdivisions to the state for foregone state levies on acquired property, but the amount is assumed to be small.

Number of Taxpayers Affected: All taxpayers in jurisdictions receiving or paying the reimbursements of acquisition of exempt property will be affected.

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

hf0815-1 / jb