

MINNESOTA • REVENUE

PROPERTY TAX

Modify School Aid and State General Levy, Swap Res. Non-hmstd for SRR

March 30, 2004

Department of Revenue
Analysis of H.F. 2117 (Rukavina) / S.F. 2354 (Bakk)

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

	Revenue Gain or (Loss)			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
Ref. Replacement Aid	\$0	\$0	\$732	\$915
Property Tax Refunds	<u>\$0</u>	<u>\$0</u>	<u>\$130</u>	<u>\$130</u>
General Fund Total	\$0	\$0	\$862	\$1,045

Effective for taxes payable in 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: Commercial, industrial, railroad, and most public utility and personal property, is subject to the state general levy. The levy is the state rate multiplied by the property's net tax capacity. Non-commercial seasonal recreational and commercial seasonal recreational property is also subject to the state general levy. The levy is the state rate multiplied by the seasonal recreational property's net tax capacity, except that the first \$76,000 of market value has a class rate modified by a multiplier of 40%, so that 60% of the first \$76,000 of value is exempt. Non-commercial 4c(1) seasonal recreational property is not subject to referendum market value levies.

Proposed Law: Section 1 adds non-commercial 4c(1) seasonal recreational to property subject to referendum market value levies. In section 2, referendum tax base replacement aid is reduced by the ratio of assessment year 2002 non-commercial 4c(1) market value to the assessment year 2002 market value of property currently excluded from referendum levies. Section 3 removes non-commercial 4c(1) seasonal recreational property from the state general levy, and makes residential non-homestead property subject to the state general levy instead. Separate tax rates are required, so that the commercial-industrial portion of the state general levy equals 94% of the total, and the portion raised by residential non-homestead 4a and 4b property equals 6% of the total.

REVENUE ANALYSIS DETAIL

- The proposal was simulated on a payable 2004 property tax model. As a result of referendum and state general levy changed, residential non-homestead 4a and 4b net taxes increase by 8% statewide, while non-commercial 4c(1) seasonal recreational residential classes would experience tax decreases of 24% statewide.
- Reductions to referendum tax base replacement aid, for most districts, is compensated for by an automatic formula increase in referendum equalization aid, resulting in no net aid change. For a few districts, the referendum tax base replacement aid reduction results in a total aid reduction and higher local levies. Therefore, referendum tax base replacement aid is reduced by \$915,000 each payable year (\$732,000 in fiscal 2006, due to the school recognition shift, and \$915,000 in fiscal 2007.)
- Taxes would be shifted onto other classes of property. Lower homestead taxes of \$2 million would result in PTR savings of \$130,000 in fiscal years 2006 and 2007.

Number of Taxpayers: All Minnesota property tax payers.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy