

# MINNESOTA • REVENUE

## PROPERTY TAX Make LMV Permanent

March 4, 2003

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

Department of Revenue  
Analysis of S.F. 103 (Cohen)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</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 in pay 2008.

**Proposed Law:** The proposal would repeal the phase-out schedule and sunset. The LMV program would be retained at pay 2003 levels.

## 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increase by \$1.2 million in pay 2004, \$2.4 million in pay 2005, and \$3.0 million in pay 2006 if the phase-out were repealed.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>

sf0103-1 / lm