

MINNESOTA • REVENUE

PROPERTY TAX Make LMV Permanent

February 23, 2004

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

Department of Revenue
Analysis of S.F. 103 (Cohen), **Updated Analysis**

	<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	\$0	(\$1,300)	(\$1,300)
Market Value Farmland Credit	\$0	\$0	\$600	\$600
Homeowner Property Tax Ref.	\$0	\$0	\$3,400	\$3,400
Targeting	<u>\$0</u>	<u>\$0</u>	<u>\$2,600</u>	<u>\$2,800</u>
General Fund Total	\$0	\$0	\$5,300	\$5,500

Assumed effective for taxes payable in 2005 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 bill would repeal the phase-out schedule and sunset. The LMV program would be retained at pay 2003 levels.

Note: For purposes of the analysis, it was assumed that the limitation would be retained at the pay 2004 levels.

REVENUE ANALYSIS DETAIL

- ? The proposal was analyzed on a taxes payable 2004 property tax parcel simulation model.
- ? It is assumed that pay 2004 changes can not be made with the effective dates in the bill introduced last year. Analysis assumes limitation formulae are frozen at taxes payable 2004 levels instead of pay 2003 as written.
- ? Market value credit for homesteads would increase by \$1.3 million in pay 2005 and \$1.3 million in pay 2006 if the phase-out were repealed.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 would decrease by \$600,000 in pay 2005 and \$600,000 in pay 2006.
- ? Property tax refunds will decrease \$3.4 million in pay 2005 and \$3.4 million in pay 2006 due to a decrease in homestead net taxes.
- ? Targeting refunds will decrease \$2.6 million in pay 2005 and \$2.8 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/taxes/legal_policy

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