

**PROPERTY TAX
Deferment of Tax on Homestead Resorts**

February 11, 2003

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

Department of Revenue
Analysis S.F. 322 (Sams) / H.F. 331(Howes)

	Revenue Gain or (Loss)			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>FY2007</u>
		(000's)		
General Fund	0	(Negligible)	(Negligible)	(Negligible)

Effective for taxes payable in 2004 and thereafter.

EXPLANATION OF THE BILL

Current Law: Small seasonal resort property that includes the homestead of the owner is classified as class 1c and has a class rate of 1%. To qualify as class 1c, the resort must not exceed 100 feet of shoreline per cabin, up to a total of 800 feet of shoreline and 500 feet in depth.

Generally, market value is based on the potential selling price of the property for its highest and best use.

Proposed Law: County officials would determine the value of eligible class 1c resort property in two ways: 1) at its potential selling price, and 2) under its current use as resort property, ignoring any other factors that add value to the property. Taxes would be based on the lower value. If part of the resort were not classified as class 1c, the proposal would apply only to the portion classified as class 1c.

When the property no longer qualifies for deferment, additional taxes would be imposed equal to the deferred tax for the previous three years. Both the tax imposed on the lower value and the additional tax imposed if the property no longer qualifies for deferment would be a lien against the property in the same way as other taxes. Special assessments also could be deferred under this proposal. Owners must file an application to qualify, and new owners could continue the deferment upon application.

REVENUE ANALYSIS DETAIL

- The proposal involves a deferment of tax on small seasonal resorts where the market value at its highest and best use is greater than its use as a small resort. It is assumed that the number of such resorts is small, that the local reduction of tax base would be small, and any increase in state-paid homeowner property tax refunds resulting from the shift would be negligible.

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Number of Taxpayers Affected: Unknown, but probably a small number statewide.

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

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