

MINNESOTA • REVENUE

PROPERTY TAX Class Rate Reduction for Land Bordering Public Waters

April 4, 2003

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

Department of Revenue
Analysis of S.F. 368 (Rest) / H.F. 372 (Howes)

	<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)			
General Fund	\$0	(\$45)	(\$51)	(\$58)

Effective for taxes payable in 2004 and thereafter.

EXPLANATION OF THE BILL

Current Law: Current law provides that unimproved land must be classified according to its current use. If not in use, the land must be classified according to its highest and best use under local zoning ordinance or its potential highest and best use if no zoning ordinance exists. Unimproved land near public waters may be classified as seasonal recreational residential land, which is subject to the state levy in addition to the local levy.

Proposed Law: The proposal establishes a new property class 2c for unimproved land, excluding agricultural land, that has at least 200 contiguous feet that borders a meandered lake, that is located within 400 feet of the ordinary high water elevation of public waters, and has been in the possession of the owner, owner's spouse, or son or daughter of the owner or spouse for at least seven years or is the homestead of the owner, owner's spouse, or son or daughter of the owner or spouse. A covenant must be signed by the owner agreeing to keep the land undeveloped for the duration of the covenant. The covenant is binding on the owner's successor and runs with the land. In order to terminate the covenant, the owner must submit an expiration notice at least eight years prior to the date of the expiration. The proposal sets a class rate of 0.6% of market value for class 2c property. Because the property is in another class, it would be exempt from the state levy.

REVENUE ANALYSIS DETAIL

- It is not known to what extent owners of eligible property would choose to have their property reclassified under the provisions of this bill.
- If the amount of property converted to class 2c were equal to 3% of total noncommercial seasonal recreational property, then \$288 million of market value would be affected. It is assumed that this amount would increase 14% annually.
- A class rate of 0.6% would result in a 40% decrease from the current class rate of 1.0%. The reduced tax capacity is multiplied by the average local tax rate to calculate the tax shifted from the eligible land to all other property. The property tax that is shifted to farm and residential homesteads will produce an increase in state-paid property tax refunds beginning in FY 2005.
- The exemption from the state levy would have no impact on state revenue because the tax rate would be adjusted to yield the amount of revenue required by statute. The tax reduction for the new class 2c property would be shifted to the other properties subject to the state levy.

Number of Taxpayers Affected: Unknown.

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

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