

MINNESOTA • REVENUE

PROPERTY TAX State Levy Based on Land Value

March 26, 2004

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

Department of Revenue
Analysis of H.F. 1033 (Abrams)/ S.F. 996 (Rest), 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)		
General Fund	\$0	\$0	\$0	\$0

Assumed effective for taxes payable in 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: The state general tax is levied on commercial and industrial property and seasonal recreational residential property, including both land and buildings. The state tax base includes personal property subject to taxation, including tools, machinery and power lines owned by public utilities. A uniform state levy tax rate is calculated by the Commissioner of Revenue and applied uniformly to all of the property in the tax base.

The state general tax base is not subject to adjustments for tax increment financing (TIF), fiscal disparities, or the 10% transmission line tax base exclusion. The entire state general property is for state general fund purposes only. The state tax on a business property located in a TIF district does not provide any taxes for the TIF district.

Proposed Law: An additional state general tax base is defined to include the tax capacity of commercial-industrial property land only. The new additional tax base is not subject to adjustment for TIF, fiscal disparities, or transmission lines. For taxes payable in 2005, the current state levy tax base will first be divided so that the regular commercial-industrial tax base share of the total is the same as existed in 2004. For taxes payable in 2006, 90% of the pay 2005 commercial-industrial share is apportioned to the regular commercial-industrial tax base and 10% is apportioned to the new commercial-industrial land tax base. For each subsequent year, an additional ten percentage points of the original commercial-industrial tax base will be shifted from the regular commercial-industrial tax base to the new commercial-industrial land tax base, until by 2015 the entire commercial-industrial share of the state tax base is shifted to the new land-only basis.

REVENUE ANALYSIS DETAIL

- The proposal will gradually shift the burden of the state general tax on commercial-industrial property away from improvements to land (and personal property) to land only, and will hold constant the share of the state levy paid by seasonal recreational residential property to a fixed percentage regardless of the relative statewide growth of market values among the tax bases. Three uniform tax rates will be required to achieve the required shares of state levy among the two current parts of the tax base and the new land-only part until the year 2015.
- Although the proposal will change the distribution of the state general levy, the total state revenue will not change from current law because the tax rates will be calculated to raise the same total state levy as under current law.

Number of Taxpayers Affected: All commercial-industrial and seasonal recreational residential property owners will be affected.

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