MINNESOTA · REVENUE

PROPERTY TAX
Homesteads at 1.5% of Household Income

March 18, 2004

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

Department of Revenue
Analysis of H.F. 1209 (Pugh), S.F. 1188 (Murphy), Preliminary Analysis

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
	(000's)			
New Supplemental Aid	$0	$0	($269,200)	($280,000)
Repeal MV Homestead Credit	$0	$0	$316,292	$313,165
Property Tax Refunds	$0	$0	$9,700	$9,700
General Fund Total	$0	$0	$56,792	$42,865

Effective for taxes payable in 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: Residential homesteads, and the house, garage, and one acre of farm homesteads, currently have a class rate of 1% on the first $500,000 of market value, with a class rate of 1.25% on the remainder. Seasonal commercial 1c property currently has a class rate of 1%. Local levies are spread on the net tax capacities that are computed from multiplying the class rates and market values. Referendum levies are spread on market value for residential homesteads, and on the market value of the house, garage, and one acre for farm homestead classes. A market value homestead credit applies to homesteads and is equal to 0.4% of market value, up to a maximum of $304 at $76,000 of market value and decreasing to zero at $414,000.

Proposed Law: The proposal establishes a new tax base for homestead property. For local levies, the tax base is 1.5% of the household income of all persons residing in the homestead. For referendum levies, the base is 150% of household income. Counties will report all homestead parcels to the Department of Revenue (DOR), and homeowners will be required to submit a form self reporting their household income. DOR will compute the tax bases and report them back to the county auditors. Tax bills will be sent by DOR to homeowners, and DOR will collect the tax. The current market value homestead credit would be abolished. A new annual supplemental aid provision will apply to jurisdictions. For each jurisdiction whose net tax capacity or referendum market value was reduced, the DOR shall determine the revenue loss attributable to the reduction by multiplying the amount lost by the jurisdiction's tax capacity tax rate or referendum market value tax rate for taxes payable in 2004. The annual aid of $280 million is appropriated from the general fund.

REVENUE ANALYSIS DETAIL

- The proposal was simulated on a payable 2004 property tax model. Residential homestead net taxes would decline 16% statewide, while commercial-industrial classes would experience tax increases of 15-17% statewide due to shifting among classes. Income data for homesteads was based on the 2000 file which matches records for the homestead property tax, individual income tax, and property tax refund.
- The new annual supplemental aid is $280 million each payable year ($269.2 million in fiscal 2006, due to the school recognition shift, and $280 million in fiscal 2007.)
- The repeal of market value homestead credit for real property saves $316.3 million in fiscal 2006 and $313.2 million in fiscal 2007 based on the February 2004 forecast.
- Taxes would be shifted onto other classes of property. Lower homestead taxes would result in a PTR savings of $9.7 million in fiscal years 2006 and 2007.
- No changes in LGA or school equalization aids were made for years following the initial year.

Number of Taxpayers: All Minnesota property tax payers.

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

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