

MINNESOTA • REVENUE

PROPERTY TAX New Substantially Underutilized Classification

March 30, 2004

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

Department of Revenue
Analysis of S.F. 1506 (Tomassoni) / H.F. 1562 (Lanning)

	<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

Effective for taxes payable in 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: Commercial, industrial, railroad, and most public utility and personal property, is subject to the state general levy. The levy is the state rate multiplied by the property's net tax capacity. Non-commercial seasonal recreational and commercial seasonal recreational property is also subject to the state general levy. The levy is the state rate multiplied by the seasonal recreational property's net tax capacity, except that the first \$76,000 of market value has a class rate modified by a multiplier of 40%, so that 60% of the first \$76,000 of value is exempt. Non-commercial 4c(1) seasonal recreational property is not subject to referendum market value levies. Class 4bb residential non-homestead property is assessed at 1.0% of market value for the first \$500,000, and at 1.25% above \$500,000. Class 4a apartment and 4b residential non-homestead property is assessed at 1.25% of market value.

Proposed Law: Commercial, industrial, or class 4 residential property would be classed as 3c if it has been substantially underutilized or vacant, and a blighting influence for at least two years before the assessment date. The class rate for 3c property would be 5%. Substantially underutilized is defined as at least 50% of its area unoccupied, illegally occupied, or occupied by tenants who pay less than 50% of the typical rent for a comparable property. Vacant is defined as unoccupied and unsecured, condemned, or unoccupied for over 365 days with nuisance violations. Blighting influence is defined as having a negative affect on the value of surrounding properties. Owners can appeal by providing evidence of good-faith effort to sell the property. Maintenance records, code compliance records, income tax records, rent records, and appraisals may be submitted to verify occupancy and rental rates.

REVENUE ANALYSIS DETAIL

- The total amount of state general levy would remain the same as current law.
- Local property taxes would be shifted to the new class 3c property from all other property due to its higher classification rate. Property tax refunds would decrease slightly due to lower homeowner taxes.

Number of Taxpayers: Property owners in areas with 3c property.

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

sf1506(hf1562)-1 / LM