PROPERTY TAX
Property Tax Exemption Limit and Tax Shelter Transactions Prohibited

March 22, 2004

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

Department of Revenue
Analysis of S.F. 2651 (Pogemiller) / H.F. 2838 (Clark)

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
		(000's)		
General Fund	$0	Unknown	Unknown	Unknown

Property tax exemption limit effective for property taxes payable in 2005 and thereafter.
Tax shelter transaction prohibition effective the day following final enactment.

EXPLANATION OF THE BILL

Under the proposal, a tax would be imposed on property which is exempt from the property tax, such as public schools, public hospitals, educational and public charity institutions, and property used for public purpose if it is leased or otherwise subject to legal arrangements that permit an individual, corporation, or other entity to claim the income tax benefits of ownership, such as depreciation and cost recovery allowances. The tax imposed would be the same amount as the property tax due if the private individual, corporation, or other entity was the owner of the property.

Effective the day following enactment, the proposal would prohibit tax shelter transactions in which a political subdivision enters into a lease, sublease, sale-leaseback, service contract, or similar ownership, use, or legal arrangement governing property or facilities of the political subdivision with a private person if the arrangement:

1) is intended to transfer the tax title to the private person, permitting it to claim the income tax benefits of ownership or similar benefits under the federal and state income or corporate income taxes;
2) permits or requires the political subdivision to continue operating or using the property or facilities for ten or more years in substantially the same manner as it did prior to the effective date of the arrangement; and
3) considering the totality of the legal and financial arrangements, does not impose the risk of loss, obsolescence, or other incidents of equity ownership on the private person for a period of 20 years or more.

REVENUE ANALYSIS DETAIL

- The League of Minnesota Cities and the Association of Minnesota Counties did not know of any city or county in Minnesota currently using leaseback arrangements with private parties. It is assumed no other political subdivisions have leaseback deals with private parties so that the imposition of the property tax would have no impact.
- At least eight Minnesota cities are exploring the possibility of future leaseback deals. Final decisions by each city on whether to pursue these arrangements have not been made.
- Assuming these arrangements went through, private parties leasing public assets would benefit from certain tax deductions under current law. The proposal would produce some increase in revenue by preventing such arrangements and the tax deductions. Information on which to base an estimate was not available.

Number of Taxpayers: Unknown.

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

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