

MINNESOTA • REVENUE

PROPERTY TAX Homestead Bracket Indexed

May 3, 2006

Department of Revenue
Analysis of H.F. 4038 (Erhardt)

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | | X |

| | Fund Impact | | | |
|--------------|------------------|------------------|------------------|------------------|
| | <u>F.Y. 2006</u> | <u>F.Y. 2007</u> | <u>F.Y. 2008</u> | <u>F.Y. 2009</u> |
| | | (000's) | | |
| General Fund | \$0 | \$0 | (\$200) | (\$400) |

Effective for assessment year 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: Class 2a agricultural homestead house, garage, and one acre, and residential homestead class 1a property up to \$500,000 in market value has a class rate of 1.0%. The remaining homestead value over \$500,000 in market value has a class rate of 1.25%.

Proposed Law: The proposal would annually adjust the homestead tier break by an amount based on the annual percentage change in statewide average taxable market value of homestead property from assessment year 2005, rounded to the nearest \$10,000.

Note: The proposal would be effective beginning with assessment year 2006. The adjustment to the tier break is based on the ratio of the average value in the preceding assessment year to assessment year 2005, which means that there would be no adjustment for assessment year 2006. The analysis assumes that the language would be changed so that the adjustment for assessment year 2006 would be based on the average value for 2006 compared to 2005.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on a taxes payable 2006 property tax simulation model.
- The tier break was estimated to be at \$550,000 for pay 2007.
- Net taxes will increase by \$3.0 million on lower tier homestead property in the first year due to the decrease in net taxes on the value between \$500,000 and \$550,000. Net taxes will also shift onto other property types.
- Property tax refunds will increase by \$200,000 in pay 2007 and by \$400,000 in pay 2008.

Number of Taxpayers Affected: Primarily owners of large homesteads.

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