

# MINNESOTA • REVENUE

## PROPERTY TAX

### Ag. Homestead Land Bracket at 640 Acres

March 31, 2006

Department of Revenue

Analysis of H.F. 2903 (Seifert) / S.F. 2804 (Kubly)

	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	(\$380)	(\$380)

Effective for taxes payable in 2007 and thereafter.

## EXPLANATION OF THE BILL

**Current Law:** Class 2a agricultural homestead land up to \$600,000 in market value has a class rate of 0.55%. Agricultural homestead land over \$600,000 in market value has a class rate of 1.0%. The agricultural market value homestead credit is equal to 0.3% of the first \$115,000 market value, with a maximum of \$345. The credit is reduced by 0.05% of market value in excess of \$115,000, subject to a maximum reduction of \$115.

**Proposed Law:** The bill would change the class 2a farmland tier break from \$600,000 to 640 acres. The terms of the agricultural homestead market value credit are also changed to \$3 per acre on the first 115 acres, with a reduction of \$0.50 per acre in excess of 115 acres. The maximum credit remains \$345 and the maximum reduction remains \$115.

## REVENUE ANALYSIS DETAIL

- The proposal was analyzed on a taxes payable 2006 property tax simulation model.
- On a value basis, the tier break varies from farm to farm. Farms with a high market value per acre will benefit from this bill.
- The agricultural market value credit changes are assumed to be revenue neutral.
- Net taxes will decrease by \$10.8 million on homestead farmland and increase by \$5.8 million on farm homesteads (house, garage, and one acre) and residential homesteads in the first year.
- Net taxes will shift from class 2a farmland property to other property types, including homesteads. Property tax refunds will increase \$380,000 in pay 2007 and pay 2008 due to net tax shifts onto homestead property.

**Number of Taxpayers Affected:** Primarily owners of large farms.

Source: Minnesota Department of Revenue  
Tax Research Division

[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)