

MINNESOTA • REVENUE

PROPERTY TAX Market Value Credit Changes

April 4, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3509 (Marquart)/ S.F. 3547 (Skoe)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
			(000's)	
Homestead MV Credit	\$0	\$0	(\$89,900)	(\$91,700)
Agricultural MV Credit	\$0	\$0	(\$9,700)	(\$9,900)
2006 Reimbursement Restoration	\$0	(\$16,645)	\$0	\$0
Property Tax Refunds	<u>\$0</u>	<u>\$0</u>	<u>\$5,800</u>	<u>\$6,000</u>
General Fund Total	\$0	(\$16,645)	(\$93,800)	(\$95,600)

Effective for taxes payable in 2007 and thereafter.

EXPLANATION OF THE BILL

Current Law: The homestead market value credit is 0.4% of the first \$76,000 of homestead market value, to a maximum credit of \$304. For market value in excess of \$76,000, there is a subtraction factor of 0.09% of market value. The agricultural market value homestead credit is equal to 0.3% of the first \$115,000 of farm land market value, with a maximum credit 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: This bill changes the homestead and agricultural market value credit formulas. The homestead formula would be 0.5% of the first \$76,000 of homestead market value, to a maximum credit of \$380. For market value in excess of \$76,000, there is a subtraction factor of 0.1% of market value. The agricultural market value homestead credit would be equal to 0.4% of the first \$115,000 market value, with a maximum credit of \$460. The credit is reduced by 0.05% of market value in excess of \$115,000, subject to a maximum reduction of \$115.

The bill also would restore the full reimbursement to cities for agricultural and homestead market value credit for 2006. The reduction in the reimbursement enacted in 2005 would be repealed.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on a taxes payable 2006 property tax simulation model.
- The homestead market value credit is estimated to increase by \$91.7 million for taxes payable 2007 and 2008. The school share is subject to a levy recognition shift, so the fiscal year costs are \$89.9 million for FY 2008 and \$91.7 million for FY 2009.

REVENUE ANALYSIS DETAIL, continued

- The agricultural market value credit is estimated to increase by \$9.9 million for taxes payable 2007 and 2008. The school share is subject to a levy recognition shift, so the fiscal year costs are \$9.7 million for FY 2008 and \$9.9 million for FY 2009.
- The increase in credits will reduce homestead net taxes, and result in lower property tax refunds of \$5.8 million in FY 2008 and \$6 million in FY 2009.
- The credit reimbursement cuts are estimated to be \$16,570,000 for homestead market value credit in 2006 and \$75,000 for agricultural homestead credit. Cuts were to city reimbursements only.

Number of Taxpayers: Most homeowners.

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