

MINNESOTA • REVENUE

PROPERTY TAX Make LMV Permanent

April 12, 2005

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

Department of Revenue
Analysis of S.F. 57 (Cohen)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
Market Value Homestead Credit	\$0	(\$6,900)	(\$8,700)	(\$8,900)
Market Value Farmland Credit	\$0	(\$460)	(\$570)	(\$590)
Homeowner Property Tax Refund	\$0	\$600	\$1,500	\$2,400
Targeting	<u>\$0</u>	<u>\$1,870</u>	<u>\$2,860</u>	<u>\$9,680</u>
General Fund Total	\$0	(\$4,890)	(\$4,910)	\$2,590

Effective for assessment year 2005 and thereafter.

EXPLANATION OF THE BILL

Current Law: For each of the assessment years 2002 through 2006, there is a phase-out schedule for the limited market value (LMV) program. The LMV program limits the increase in value of residential homestead, residential non-homestead, farm homestead, farm non-homestead, timberland, and non-commercial seasonal recreational property. For assessment 2002, the increase may not exceed the greater of 10% of the value in the preceding assessment, or 15% of the difference between the current assessment and the preceding assessment. The phase-out schedule increases the 10% factor to 12% in assessment 2003, and 15% until sunset. The phase-out schedule also increases the 15% factor to 20% in assessment 2003, 25% in assessment 2004, 33% in assessment 2005, and 50% in assessment 2006. The program sunsets in assessment 2007.

Proposed Law: The proposal would repeal the phase-out schedule and sunset. The LMV program would be retained at assessment year 2002 levels.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on a taxes payable 2005 property tax simulation model and February 2005 forecast baseline.
- Market value credit for homesteads would increase by \$8.5 million in pay 2006, \$8.7 million in pay 2007, and \$9.0 million in pay 2008 if the phase-out were repealed. Because the homestead MV credit decreases as a property's market value exceeds \$76,000, increases in market value cause a drop in credit. Repeal of the phase-out lowers the market value of a homestead, thereby increasing the credit for properties over \$76,000 compared to current law. Due to the school aid recognition shift, the fiscal year estimates are \$6.9 million for 2007, \$8.7 million for 2008, and \$8.9 million for 2009.
- Farmland market value credit will increase with the decrease in market values compared to current law attributable to the retention of LMV. Although there is a reduction factor in the formula, it plays a less significant role in the total than does the reduction factor for the homestead market value credit. The credit will increase by \$560,000 in pay 2006, \$580,000 in pay 2007, and \$600,000 in 2008. Due to the school aid recognition shift, the fiscal year estimates are \$460,000 for 2007, \$570,000 for 2008, and \$590,000 for 2009.
- Property tax refunds will decrease \$600,000 in pay 2006, \$1.5 million in pay 2007, and \$2.4 million in pay 2008 due to decreases in homestead net taxes.
- Targeting refunds will decrease \$1.87 million in pay 2006, \$2.86 million in pay 2007, and \$9.68 million in pay 2008 due to decreases in homestead net taxes.

Number of Taxpayers Affected: All property taxpayers.

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