

MINNESOTA • REVENUE

PROPERTY TAX

State General Levy on CI Land Value

February 22, 2005

Department of Revenue
Analysis of S.F. 978 (Moua)/ H.F. 1035 (Abrams)

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

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective for taxes payable in 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: The state general property tax is levied on commercial and industrial property and seasonal recreational residential property, including both land and buildings. The state tax base includes personal property subject to taxation, including tools, machinery and power lines owned by public utilities. Electric generating property is exempt. The total amount of the state general levy is determined by statute. The state levy was \$592 million for taxes payable in 2002 and is adjusted annually for inflation. The state levy tax rate is calculated each year to yield the required amount and is applied uniformly to all property in the tax base.

The state general tax base is not subject to adjustments for tax increment financing (TIF), fiscal disparities, or the 10% transmission line tax base exclusion. The entire state general property is for state general fund purposes only. The state tax on a business property located in a TIF district does not provide any taxes for the TIF district.

Proposed Law: A new state general property tax base is defined as the tax capacity of commercial-industrial property land only. The new tax base is not subject to adjustment for TIF, fiscal disparities, or transmission lines. For taxes payable in 2006, the current state general levy will first be divided so that the regular commercial-industrial levy share and seasonal recreational levy share of the total are the same as existed in 2005. For taxes payable in 2007, 90% of the pay 2006 commercial-industrial share is apportioned to the regular commercial-industrial tax base and 10% is apportioned to the new commercial-industrial land tax base. For each subsequent year, an additional ten percentage points of the original commercial-industrial tax base will be shifted from the regular commercial-industrial levy to the new commercial-industrial land tax base, until by 2016 the entire commercial-industrial share of the state levy is shifted to the new land-only basis.

REVENUE ANALYSIS DETAIL

- The proposal will gradually shift the burden of the state general tax on commercial-industrial property away from improvements and land to land only and will hold constant the share of the state levy paid by seasonal recreational residential property to a fixed percentage, regardless of the relative statewide growth of market values among the tax bases. Three uniform tax rates will be required to achieve the required shares of state levy among the two current parts of the tax base and the new land-only part until the year 2016.
- Although the proposal will change the distribution of the state general levy, the total state revenue will not change from current law because the tax rates will be calculated to raise the same total state levy as under current law.

Number of Taxpayers Affected: All commercial-industrial and seasonal recreational residential property owners will be affected.

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