

MINNESOTA • REVENUE

DEED TAX Rate Increase

March 30, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3516 (Cohen) / H.F. 3912 (Lanning)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
Increase in Deed Tax Rate	\$0	\$60,800	\$59,400	\$59,500
Appropriations to Housing Development Fund	<u>\$0</u>	<u>(\$62,700)</u>	<u>(\$61,200)</u>	<u>(\$61,300)</u>
General Fund Net Impact	\$0	(\$1,900)	(\$1,800)	(\$1,800)
Housing Development Fund	\$0	\$62,700	\$61,200	\$61,300

Effective July 1, 2006

EXPLANATION OF THE BILL

Current Law: When real property is transferred pursuant to a consolidation, or merger, or designated transfer, the transfer is subject to the minimum deed tax of \$1.65. In addition, the deed tax is \$1.65 when there is no consideration for the transfer, or the net consideration is \$500 or less. When the net consideration exceeds \$500 and the property is not transferred pursuant to a consolidation, or merger, or designated transfer, the deed tax is .0033 of the net consideration. The deed tax collected by each county, and 97% is apportioned to the state general fund and 3% to the county revenue fund.

Proposed Law: If the net consideration exceeds \$500, and if the property is not transferred pursuant to a consolidation, or merger, or designated transfer, the deed tax is increased to .005 of the net consideration. In addition, for those same deed tax proceeds where the minimum tax does not apply, the proposal appropriates .0017 of the net consideration from the general fund to the housing development fund. The housing trust fund account receives .000709 of the net consideration, the economic development and housing challenge program receives .000566 of the net consideration, and a new account created by the proposal, the housing account for leverage opportunity, receives .000425 of the net consideration.

REVENUE ANALYSIS DETAIL

- The February 2006 forecast of the deed tax was used as a starting point for this analysis.
- From the amount of the deed tax, the total net considerations for the transfers were estimated.
- A source in the Special Taxes Division of the Department of Revenue estimated that, for fiscal year 2006, about 5,000 transfers per month statewide will be subject the minimum deed tax of \$1.65. That is equivalent to about \$100,000 per year.
- The total net considerations not subject to the minimum tax were estimated.
- The new tax rate of .005 was applied to the total net considerations not subject to the minimum tax.
- Ninety-seven percent of the total net considerations under the proposal were apportioned to the state general fund. Three percent of the total net considerations were apportioned to county revenue funds.
- Appropriations from the general fund to the housing development fund were .0017 of the net considerations.
- Under the proposal as written, the amount of revenue lost by the state general fund is equal to the amount of revenue gained by the county revenue funds. The reason for this is that, while the amount appropriated from the general fund to the housing development fund is equal to all of the additional revenue raised by the proposal (both state and county), the state only receives 97% of the additional revenue. The counties receive the remaining 3% of the additional revenue.

Number of Taxpayers: About 70,000 transfers would be affected by the proposal.

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

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