PROPERTY TAX
Limited Market Value Phase-out Delay

February 21, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 370 (Cohen) / H.F. 432 (Paymar)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
Market Value Homestead Credit	$0	$280	$500	$2,200
Market Value Farmland Credit	$0	($760)	($1,400)	($6,000)
Homeowner Property Tax Refund	$0	$350	$650	$2,700
Targeting	$0	$660	$1,200	$5,200
General Fund Total	$0	$530	$950	$4,100

Effective for assessment year 2007, taxes payable in 2008, and thereafter.

EXPLANATION OF THE BILL

Current Law: For each of assessment years 2004 through 2008, 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 nonhomestead, farm homestead, farm nonhomestead, timberland, and noncommercial seasonal recreational property. For assessment year 2007, the amount of increase may not exceed the greater of 15% of the value in the preceding assessment, or 33% of the difference between the current assessment and the preceding assessment. For assessment year 2008, the amount of increase may not exceed the greater of 15% of the value in the preceding assessment, or 50% of the difference between the current assessment and the preceding assessment. The program sunsets in assessment year 2009.

Proposed Law: The bill would delay the LMV program phase-out and sunset schedule by two years. For assessment years 2007 and 2008, the amount of increase would not exceed the greater of 15% of the value in the preceding assessment, or 25% of the difference between the current assessment and the preceding assessment. For assessment year 2009, the amount of increase would not exceed the greater of 15% of the value in the preceding assessment, or 33% of the difference between the current assessment and the preceding assessment. For assessment year 2010, the amount of increase would not exceed the greater of 15% of the value in the preceding assessment, or 50% of the difference between the current assessment and the preceding assessment. The program would sunset in assessment year 2011.

REVENUE ANALYSIS DETAIL

- The proposal was analyzed on a taxes payable 2007 property tax simulation model.
- Because the homestead market value credit decreases as a property's market value exceeds $76,000, increases in market value cause a drop in credit. Delay of the phase-out lowers the market value of a homestead, thereby increasing the credit for residential homestead properties over $76,000 compared to current law. However, the growth in total farm homestead market value under $76,000 was sufficient to decrease the total credit for residential and agricultural homesteads combined. Market value credit for homesteads would decrease by $300,000 in pay 2008, $500,000 in pay 2009, and $2.2 million in pay 2010 if the phase-out were delayed. Due to the school aid recognition shift, the fiscal year estimates are $280,000 for FY 2009, $500,000 for FY 2010, and $2.2 million for FY 2011.
- 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 $775,000 in pay 2008, $1.4 million in pay 2009, and $6.1 million in 2010. Due to the school aid recognition shift, the fiscal year estimates are $760,000 for FY 2009, $1.4 million for FY 2010, and $6.0 million for FY 2011.
- Due to the delay of the LMV phase-out, net taxes are shifted from homestead property. Property tax refunds will decrease $350,000 in pay 2008, $650,000 in 2009, and $2.7 million in 2010.
- Targeting refunds will decrease $660,000 in pay 2008 and $1.2 million in pay 2009 due to the delay of the LMV phase-out. Targeting refunds will decrease $5.2 million in pay 2010 reflecting the larger impact of not sunsetting the LMV program in that year.

Number of Taxpayers: All property tax payers would be affected.

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

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