

MINNESOTA • REVENUE

PROPERTY TAX

State General Levy Exemption & Phase-Out for Businesses; Homeowner PTR Increased

January 30, 2012

	Yes	No
DOR Administrative Cost/Savings	X	

Department of Revenue

Analysis of H.F. 1914 (Davids) / S.F. 1596 (Ortman) as introduced

Fund Impact

	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>
	(000's)			
Targeted Refund	\$0	(\$3,500)	\$0	\$0
Property Tax Refund	\$0	(\$4,700)	(\$4,900)	(\$5,100)
State General Levy	\$0	(\$41,600)	(\$103,600)	(\$156,200)
Income Tax Interactions	\$0	\$0	\$2,270	\$3,790
General Fund Total	\$0	(\$49,800)	(\$106,230)	(\$157,510)

Various effective dates.

EXPLANATION OF THE BILL

The bill makes several changes to the state general levy. The levy total for seasonal recreational residential (cabin) property is permanently set at \$40.871million in 2013 and thereafter. The levy total for commercial-industrial property is set at \$719.252 million in 2013. For taxes payable in 2014 and later, the levy is reduced by five percent of the base amount per year, so that the levy phases out in 2033. The proposal excludes the first \$100,000 of commercial and industrial market value from the state general levy. State general levy totals for commercial-industrial and seasonal recreational residential property are stated separately for taxes payable 2013, and the 95% apportionment percentage in current law is removed.

The bill would increase the homeowner maximum property tax refund by 20% for homeowners with household incomes greater than \$37,280.

Under current law, the special refund formula amount is 60% of the property tax increase greater than 12%, subject to a maximum refund of \$1,000 and a minimum tax change over \$100. The bill proposes to change the 60% factor to 90% for taxes payable 2012 only.

Note: returns submitted for taxes payable in 2012 would require an adjustment after the claim has been filed by the taxpayer to reflect the increased refund amount. This would result in increased administrative costs.

REVENUE ANALYSIS DETAIL

State General Levy

- The state general levy total for payable 2013 is more than \$56.3 million lower than current law to prevent shifting from the excluded first \$100,000 of property value to other commercial-industrial property.
- The state general levy would decrease by \$41.6 million in FY 2013, \$103.6 million in FY 2014, and by \$156.2 million in FY 2015.
- Lower commercial taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by \$2.27 million in FY 2014 and by \$3.79 million in FY 2015.

Property Tax Refunds

- The estimates are based on the November 2011 forecast.
- Approximately 34,000 claimants currently receive the maximum homeowner property tax refund.
- The proposal would increase refunds to approximately 21,000 claimants with household incomes above \$37,280 and currently at the maximum refund.
- The average homeowner property tax refund increase would be \$225.

Targeting (Special Supplemental) Refund

- The estimates are based on the November 2011 forecast.
- Additional administrative costs may be incurred if passed in late Spring of 2012.
- Due to the formula change, the targeting (special supplemental) refund would increase by \$3.5 million for payable 2012.

Number of Taxpayers: All commercial-industrial property owners, some residential taxpayers would be directly affected.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	New tier break for commercial property at \$100k.
<i>Efficiency & Compliance</i>	Neutral	
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Decrease	Change to targeted refund program is temporary.
	Increase	For taxpayers, mitigates unexpected tax changes.
<i>Competitiveness for Businesses</i>	Increase	Net decrease in property taxes for business properties statewide.
<i>Responsiveness to Economic Conditions</i>	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

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

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