MINNESOTA · REVENUE

**PROPERTY TAX**

**State General Levy Exemption & Phase-Out for Businesses, PTR Modifications, LGA Distribution**

February 08, 2012

**Property Taxes and Local Aids Only -- See Separate Analysis for State Taxes**

| | Yes | No |
|---|---|---|
| **DOR Administrative Cost/Savings** | x | |

Department of Revenue
Analysis of H.F. 1914 (Davids)
as proposed to be amended (H1914A12, H1914A13 and oral amendment)

| | Fund Impact | | | |
|---|---|---|---|---|
| | **FY2012** | **FY2013** | **FY2014** | **FY2015** |
| | (000's) | | | |
| State General Levy | $0 | ($66,300) | ($158,800) | ($230,800) |
| Increase Homeowner Property Tax Refund | $0 | ($4,700) | ($4,900) | ($5,100) |
| Targeted Refund | $0 | ($3,500) | $0 | $0 |
| Reduce Renter Property Tax Refund | $0 | $70,200 | $76,700 | $82,000 |
| Reduce Local Government Aid | $0 | $0 | $1,200 | $1,200 |
| Property Tax Refund Interactions | $0 | $0 | ($30) | ($30) |
| Income Tax Interactions | $0 | $0 | $3,590 | $5,670 |
| General Fund Total* | $0 | ($4,300) | ($82,240) | ($147,060) |

*Under the proposal, $4.3 million of the balance in the Revenue Department service and recovery special revenue fund would be canceled to the general fund. The impact of this provision is not included in this analysis.

Various effective dates.

## EXPLANATION OF THE BILL

***State General Levy***

The bill makes several changes to the state general levy. The levy total for seasonal recreational residential (cabin) property is set at $41.797 million in 2013, and subject to inflation thereafter. The levy total for commercial-industrial property is set at $673.552 million in 2013. For taxes payable in 2014 and later, the levy is reduced by 8.33 percent of the base amount per year, so that the levy phases out in 2025. The proposal excludes the first $150,000 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 state general levy total for payable 2013 is more than $80 million lower than current law to prevent shifting from the excluded first $150,000 of property value to other commercial-industrial property.
- The state general levy would decrease by $66.3 million in FY 2013, $158.8 million in FY 2014,

and by $230.8 million in FY 2015.

- Lower commercial taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by $3.62 million in FY 2014 and by $5.70 million in FY 2015.

### *Increase Homeowner PTR*

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

- 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*

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.

- 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.

### *Reduce Renter Property Tax Refund*

The proposal would change the percentage from 17% to 15% starting with tax year 2011 (fiscal year 2013). The proposal would also create a separate refund table for senior/disabled renters, and modify the maximum household income for eligibility, copay percentage and maximum refund amounts for both refund tables. Annual inflation indexing would also be eliminated for both refund tables.

- Effective beginning with 2011 returns filed in 2012.
- The estimates are based on the November 2011 forecast.
- Lowering the percentage of rent constituting property taxes and maximum household income would reduce refunds to almost every claimant. Approximately 74,000 renters, or about 23%, would no longer be eligible for a refund beginning in FY 2013.
- Under the proposal, the average renter property tax refund would be reduced by $221.

**Note: returns submitted for rent paid in 2011 or 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.**

### *Reduce Local Government Aid*

Beginning for aids payable in 2013 and thereafter, the proposal would set LGA payments at the 2012 distribution amounts.

- Under current law, cities were certified to receive $425.2 million in 2012 and estimated to receive $426.4 million in 2013 and thereafter.
- Under the proposal, the net reduction in aid would be $1.2 million beginning in 2013.
- It is assumed that the net reduction in aid to cities would increase property tax levies by a

portion of the reduction. This would increase property taxes on all property classes including homesteads.

- The increased property tax burden would increase state-paid homeowner property tax refunds and income tax deductions beginning in FY 2014, resulting in a cost to the state general fund.

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

hf1914_pt_2/lam, nrg