MINNESOTA · REVENUE

PROPERTY TAX
House Omnibus Tax Bill
Articles 1 and 4

March 13, 2012

	Yes	No
DOR Administrative Costs/Savings	X	

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

Department of Revenue
Analysis of H.F. 2337 (Davids), as proposed to be amended by H2337DE1

	Fund Impact			
	F.Y. 2012	F.Y. 2013	F.Y. 2014	F.Y. 2015
	(000's)			
Article 1: Property Taxes				
State General Levy	$0	($40,300)	($117,400)	($199,000)
Reduce Renter Property Tax Refund	$0	$70,200	$76,700	$82,000
Senior Citizen Property Tax Deferral Program	$0	$0	($180)	($190)
Reduce Local Government Aid	$0	$0	$1,188	$0
Payment for city of Tamarack	$0	($12)	$0	$0
Targeting Refund	$0	($3,500)	$0	$0
Article 4: Miscellaneous				
Aggregate Materials Tax – City of Vergas	$0	$0	$0	$0
Additional Border City Allocation	$0	($150)	$0	$0
Property Tax Refund Interactions	$0	$0	($30)	$0
Income Tax Interactions	$0	$0	$2,170	$4,600
General Fund Total*	$0	$26,238	($37,552)	($112,590)

*Under the proposal, $4.3 million of the balance in the Revenue Department service and recovery special revenue fund would be transferred to the general fund in fiscal year 2012. The impact of this provision is not included in this analysis.

Various effective dates.

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Article 1: Property Taxes

State General Levy (Sections 1-3)
The proposal makes several changes to the state general levy. The proposal sets the state general levy at $721.752 million for class 3a commercial, industrial, railroad, and public utility property. The state general levy is set at $40.871 million for seasonal recreational residential property. For pay 2014 and thereafter, each levy is reduced from the previous year's levy by 8.33% (a 12 year phase out.) For taxes payable in 2025, the two levies would be zero. The tax capacity of the first $150,000 of market value for the spreading the state general levy for class 3a property is reduced to 30% of the amount used for local levies.

- Data is from the February, 2012 forecast.
- The state general levy total for payable 2013 is $73.3 million lower than current law.
- The state general levy would decrease by $40.3 million in FY 2013, $117.4 million in FY 2014, and by $199 million in FY 2015.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by $2.2 million in FY 2014 and by $4.6 million in FY 2015.

Reduce Renter Property Tax Refund (Sections 4-9, 17)
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.

Senior Citizen Property Tax Deferral Program (Sections 10-11)
Under current law, property taxes deferred through the senior deferral program accrue interest annually. The proposal would eliminate the accrual of interest on deferred property tax beginning with property taxes payable in 2013.

- The senior property tax deferral program had 288 participants who deferred property taxes in 2011. The total amount deferred was approximately $1.1 million, or $3,800 per participant.
- With the elimination of the accrual of interest, it is assumed program participation would increase an additional 15%. Using the average amount deferred in the current program, the estimated total cost increase would be approximately $180,000 beginning in FY 2014.
- The state cost from eliminating the accrual of interest on deferred property taxes would be negligible in the short term but would grow in the future.

Reduce Local Government Aid (Sections 12-15)
For aids payable in 2013, the proposal would set LGA payments at the 2012 distribution amounts and provide a $12,000 increase to the city of Tamarack.

- 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 $1.188 million in 2013. The appropriation would be unchanged for 2014 and thereafter.
- 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 in FY 2014, resulting in a cost to the state general fund.

Targeting (Special Supplemental) Refund (Section 16)
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.
- Due to the formula change, the targeting (special supplemental) refund would increase by $3.5 million for payable 2012.

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.

Article 4: Miscellaneous

Aggregate Materials Tax – City of Vergas in Otter Tail County (Section 3)
The bill allows the city of Vergas in Otter Tail County to impose an aggregate materials tax if Otter Tail County does not. The city of Vergas would be deemed to be the county for purposes of collecting the tax, except that all tax must be retained by the city. If Otter Tail County imposes an aggregate materials tax, the tax imposed by the city of Vergas would be repealed on the effective date of the Otter Tail County tax.

- The bill would have no impact on any state funds. Revenue from the proposed tax would go to the city of Vergas.

Additional Border City Allocation (Section 4)
The bill provides a one-time additional allocation of $150,000 for border city zones in 2012.

- The state cost impact would be $150,000 in FY 2013.

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

hf2337_pt_2/lam,nrg