MINNESOTA · REVENUE

April 02, 2013

PROPERTY TAX
Disparity Reduction Credit Annual Adjustment

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 1638 (Lien) / S.F. 1500 (Eken) as introduced

	Fund Impact			
	FY2014	**FY2015**	**FY2016**	**FY2017**
	(000's)			
Additional Credit	$0	($2,900)	($3,000)	($3,000)
Corporate and Income Tax Interactions	$0	$0	$90	$90
General Fund	$0	($2,900)	($2,910)	($2,910)

Effective for taxes payable 2014 and thereafter.

EXPLANATION OF THE BILL

The bill modifies the disparity reduction credit (DRC) for North Dakota border cities. The credit applies to class 3a commercial-industrial, railroad, and public utility property, and class 4a and 4d apartments. The statutory threshold of 2.3% effective tax rate (ETR) is replaced annually by the lowest ETR of the corresponding city across the river from the 4 qualifying Minnesota cities if less than 2.3%. The calculation of North Dakota effective tax rates must include the 5% early payment discount.

REVENUE ANALYSIS DETAIL

- The proposal was modeled on a payable 2013 simulation.
- The proposal would decrease taxes on business homestead property by $3.0 million.
- Lower business property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections by $90,000 beginning in FY 2016.

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

Transparency, Understandability, Simplicity & Accountability	Decrease	Additional step in calculation of credit.
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Decrease	Credit amount is dependent on North Dakota taxes.
Competitiveness for Businesses	Increase	Overall business taxes decrease.
Responsiveness to Economic Conditions	Increase	Benefit brings MN taxes to level of competitor cities.

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
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

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