MINNESOTA · REVENUE

March 17, 2014

**PROPERTY TAX**

**Disparity reduction credit property tax class rate reduction authorization**

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

Department of Revenue

Analysis of S.F. 2599 (Eken) / H.F. 3037 (Lien) as introduced.

| | Fund Impact | | | |
|---|---|---|---|---|
| | **FY2014** | **FY2015** | **FY2016** | **FY2017** |
| | (000's) | | | |
| Disparity Reduction Credit | $0 | $0 | ($2,900) | ($3,000) |
| Tax Interactions | $0 | $0 | $90 | $90 |
| General Fund Total | $0 | $0 | ($2,810) | ($2,910) |

Effective beginning with taxes payable in 2015.

## EXPLANATION OF THE BILL

The proposal lowers the effective tax rate threshold for calculating disparity reduction credit (DRC) from 1.9% under current law to 1.5%.

## REVENUE ANALYSIS DETAIL

- The proposal was modeled on payable 2014 data.
- DRC would increase by $2.9 million in FY 2016, and by $3.0 million in FY 2017. The slightly lower increase in the first year is due to the school levy recognition shift.
- Lower property taxes on apartments and commercial property would decrease income and corporate franchise tax deductions. Collections on those taxes would therefore increase by $90,000 in beginning in FY 2016.

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

| | |
|---|---|
| *Transparency, Understandability, Simplicity & Accountability* | Neutral |
| *Efficiency & Compliance* | Neutral |
| *Equity (Vertical & Horizontal)* | Neutral |
| *Stability & Predictability* | Neutral |
| *Competitiveness for Businesses* | Neutral |
| *Responsiveness to Economic Conditions* | 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
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

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