MINNESOTA · REVENUE

April 26, 2016

PROPERTY TAX
Reducing fiscal disparities contribution

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 2427 (Atkins) / S.F. 2354 (Metzen) as introduced

	Fund Impact			
	FY2016	**FY2017**	**FY2018**	**FY2019**
	(000's)			
State Payment for Metro Fiscal Disparities	$0	($7,300)	($14,800)	($15,100)
Property Tax Refund Interactions	$0	$0	$590	$600
Income Tax Interactions	$0	$0	$440	$460
General Fund Total	$0	($7,300)	($13,770)	($14,040)

Effective for taxes payable 2017 and thereafter.

EXPLANATION OF THE BILL

The bill modifies the metropolitan fiscal disparities contribution net tax capacity calculation for cities with a population of less than 15,000. For cities below the population threshold, the contribution percentage would be lowered to 30 percent of the growth in commercial-industrial property rather than the current law 40 percent. To account for the lower contribution net tax capacity from certain cities, the state of Minnesota would make payments to the fiscal disparities pool to make up for the difference.

REVENUE ANALYSIS DETAIL

- There are 92 cities in the metropolitan area with a population of less than 15,000 that would benefit under this provision. Under the proposal these cities would retain more local tax base.
- It is assumed that total property tax levies would remain the same under the proposal, with a smaller fiscal disparities levy share being replaced by a state payment.
- The proposal was modeled using pay 2016 data.
- Reducing the contribution percentage from 40 percent to 30 percent for cities under 15,000 population would reduce the amount of local tax base contributed to the fiscal disparities pool.
- The state payment to cover the reduction in tax base is estimated at $14.6 million beginning in payable year 2017. The first installment payment on June 1, 2017 would increase state costs beginning in fiscal year 2017. The state payment is assumed to grow two percent annually.
- Cities under 15,000 population would contribute less local tax base to the fiscal disparities pool, which would increase the amount of tax base subject to tax at the local level. Additional local tax base would be assumed to reduce local tax rates that apply to all property including homesteads.
- The reduced local property tax burden would lower state-paid homeowner property tax refunds and income tax deductions beginning in FY 2018, resulting in a savings to the state general fund.

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

Transparency, Understandability, Simplicity & Accountability	Decrease	Additional steps in calculation of distribution levies.
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

hf2427(sf2354)_pt_1/nrg