

# MINNESOTA • REVENUE

## PROPERTY TAX REFUND State general tax refund for certain businesses

May 04, 2016

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

Department of Revenue

Analysis of S.F. 3447 (Hawj) / H.F. 3869 (Bernardy) as introduced

### Fund Impact

|              | <u>FY2016</u> | <u>FY2017</u> | <u>FY2018</u> | <u>FY2019</u> |
|--------------|---------------|---------------|---------------|---------------|
|              | (000's)       |               |               |               |
| General Fund | \$0           | (\$9,600)     | (\$19,900)    | (\$20,600)    |

Effective for applications filed in 2016 for refunds payable in 2016 through 2026.

### EXPLANATION OF THE BILL

The proposal would create a refund of state general property tax for certain businesses located in areas with higher unemployment rates. The eligible areas, referred to as job creation zones, would be defined as one or more contiguous census tracts where the three-year average unemployment rate is at least 75 percent higher than the statewide average unemployment rate.

Businesses eligible for a refund must:

1. be located in a job creation zone
2. pay at least 50 percent of its wages to employees who reside either within the job creation zone where the business is located or any contiguous census tract
3. be a for-profit business

For businesses located outside the seven-county metropolitan area and not in a city with a population greater than 40,000, an eligible employer need not be located in a job creation zone but 50% of the business's total wages must be paid to employees who reside in any job creation zone not located in the seven-county metropolitan area or a city with a population greater than 40,000.

The owner of an eligible business would be required to apply annually to the commissioner of employment and economic development (DEED) by July 1. The refund amount for an eligible business would be equal to the state general tax payable on the property multiplied by the percentage of the property's total area that is occupied by the eligible business. The commissioner of DEED would notify the commissioner of revenue by September 1, who would pay the refunds by December 1.

A business that no longer qualifies for a refund after receiving a refund in the preceding year would be eligible to apply for a onetime refund in the current year equal to one-half the refund amount in the preceding year. A business that relocates outside of a job creation zone would not qualify for this refund.

The bill requires DEED to report the number and amount of refunds issued, the identification and location of businesses receiving a refund, and employment data used to determine eligibility. The report would be due January 15, 2023.

**REVENUE ANALYSIS DETAIL**

- Based on data from the U.S. Census Bureau's American Community Survey, the statewide three-year average unemployment rate in Minnesota was 6.9 percent. Of the 1,338 census tracts in Minnesota, 122 had an average unemployment rate 75% higher than the statewide average (that is, exceeding 12.0 percent).
- The 122 census tracts currently qualifying as job creation zones are located throughout 25 counties statewide and include an estimated 9,300 for-profit businesses. These businesses would be eligible for a state general property tax refund if at least 50% of their wages are paid to employees who reside within the zone or any contiguous census tract.
- The annual refund of state general property tax under the proposal is projected to be approximately \$19 million. The state general fund impact in the first year is assumed to be half due to lower participation as businesses learn about the new refund.
- Businesses that become ineligible after receiving a refund could receive a onetime refund for one-half the previous year's amount, which is estimated to total \$1.4 million annually. The state general fund impact in the second year (fiscal year 2018) is assumed to be half due to lower participation in the first year of the program.

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

|   |          |  |
|---|----------|--|
| <i>Transparency, Understandability, Simplicity &amp; Accountability</i> | Neutral  |  |
| <i>Efficiency &amp; Compliance</i>                                      | Decrease | Determining eligibility could be complicated for taxpayers when considering combined contiguous census tracts. |
| <i>Equity (Vertical &amp; Horizontal)</i>                               | Neutral  |  |
| <i>Stability &amp; Predictability</i>                                   | Neutral  |  |
| <i>Competitiveness for Businesses</i>                                   | Increase | Certain businesses would pay lower state general property taxes in some years.                                 |
| <i>Responsiveness to Economic Conditions</i>                            | Neutral  | Eligibility for a refund would be based on unemployment rates.   |

*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](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

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