DEPARTMENT OF REVENUE

PROPERTY TAX

Facilities used as retreat houses or craft houses classified as seasonal-recreational property

April 24, 2018

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of S.F. 3661 (Koran) as proposed to be amended by SCS3661a-1

	Fund Impact			
	FY2018	**FY2019**	**FY2020**	**FY2021**
	(000's)			
General Fund	$0	$0	(negligible)	(negligible)

Effective beginning with taxes payable 2019.

EXPLANATION OF THE BILL

Under current law, a number of requirements must be met in order to qualify for seasonal residential recreational commercial (resort) classification. Some of these requirements include, but are not limited to: being devoted to temporary and seasonal residential occupancy for recreation purposes for less than 250 days a year, containing three or more rental units, providing activities, and having 40% of annual gross lodging receipts come from business conducted during 90 consecutive days.

The bill would expand these qualifications to allow retreat homes and craft houses to qualify for resort classification. In order to qualify as a resort, the facility cannot have more than five sleeping rooms, must provide an area to prepare meals, and must provide an area to conduct indoor craft or hobby activities.

REVENUE ANALYSIS DETAIL

- Under this bill, some properties that are currently classified as commercial would be reclassified as resort property. These properties would have their classification rate decreased from 1.50% for the first $150,000 of value and 2.00% for remaining value to a classification rate of 1.25%.
- It is assumed that some scrapbook and craft retreats, bed and breakfasts that do not meet the owner occupancy requirement for property tax purposes, and vacation home rentals would be reclassified under the bill and receive a reduced classification rate.
- The bill would cause a shift in property taxes away from properties newly qualifying as resorts and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by less than $5,000 beginning in fiscal year 2020.
- Some properties that change classification under the bill would either no longer pay state general property tax or would pay less state general property tax. This would shift state general tax onto other commercial-industrial properties.

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

Transparency, Understandability, Simplicity & Accountability	Decrease	Increases the complexity of the classification system.
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Neutral	Some businesses will pay less taxes; some will pay more.
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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