DEPARTMENT OF REVENUE

PROPERTY TAX
Various policy and technical changes to property tax and other miscellaneous provisions

February 4, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Property Taxes and Local Aids Only --
See Separate Analysis for State Taxes

Department of Revenue
Analysis of H.F. 567 (Loeffler) as proposed to be amended by H0567A1

	Fund Impact				
	F.Y 2019	**F.Y. 2020**	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
			(000's)		
Article 1: Property Taxes					
Ag Historical Society Exemption		$0	(negligible)	(negligible)	(negligible)
Exemption for Pharmacy Owned by Indian Tribe		$0	(negligible)	(negligible)	(negligible)
Exclusion for Veterans with a Disability Application Due Date Modified		$0	$600	negligible	negligible
Senior Deferral Modified, Reconsideration Provided		$0	($60)	negligible	negligible
Cloquet Area Fire and Ambulance Taxing District Modified					
Property Tax Refund Interaction		$0	$0	($10)	($20)
Income Tax Interaction		$0	$0	(negligible)	($10)
Melrose Fire Remediation Grants Modified	($615)	$0	$0	$0	$0
Mazeppa Fire Remediation Grants		$5	$0	$0	$0
General Fund Total	($615)	$5	$540	($10)	($30)

Various Effective Dates

REVENUE ANALYSIS DETAIL

Agricultural Historical Society Exemption Increased (Section 1)
The effective date is beginning with assessment year 2019.
Under current law, property owned by a 501(c)(3) agricultural historical society is exempt from property taxes if:

1. the property is primarily used for storing and exhibiting tools, equipment, and artifacts relating to local or regional agricultural history;
2. the property is not used for a revenue-producing activity for more than ten days in each calendar year;
3. the property is not used for residential purposes on either a temporary or permanent basis; and
4. the exemption (which includes land, buildings, and personal property) is limited to no more than 20 acres per owner per county.

Under the bill, the maximum acreage eligible for the exemption would be increased from 20 acres to 40 acres.

- It is estimated that approximately 10 parcels would receive a larger exemption due to the higher acreage limit.
- For taxes payable in 2020 and thereafter, the larger exemption would reduce the amount of taxable market value on these parcels, shifting property taxes away from the exempted property and onto all other property, including homesteads.
- The additional property tax burden on homesteads caused by the larger exemption would increase state-paid homeowner refunds by less than $5,000 beginning in fiscal year 2021.
- Tax year impact is allocated to the following fiscal year.

Property Tax Exemption for Pharmacy Owned by Indian Tribe (Section 2)
The effective date is beginning with taxes payable in 2020.
The bill would exempt property that is located in a first class city with a population of more than 380,000, owned by a federally recognized Indian tribe, and used exclusively as a pharmacy. Property qualifying for the exemption would be limited to parcels and structures that do not exceed a total of 4,000 square feet. The exemption would expire with taxes payable in 2029.

- The Fond Du Lac Band's Mashkiki Waakaaigan Pharmacy in Minneapolis would be eligible for the property tax exemption.
- For taxes payable in 2020 and thereafter, a property tax exemption would reduce the amount of taxable market value, shifting property taxes away from the exempted pharmacy and onto all other property, including homesteads.
- The additional property tax burden on homesteads caused by the exemption would increase state-paid homeowner refunds by less than $5,000 beginning in fiscal year 2021.
- The exemption from the state property tax levy would have no impact on state revenues in payable year 2020 and thereafter because the tax rates would be adjusted to yield the amount of revenue required by statute. The tax reduction for the pharmacy would be shifted onto the other commercial and industrial properties subject to the state levy.

Exclusion for Veterans with a Disability Modified (Sections 3)
The effective date is beginning with assessments in 2019, for taxes payable in 2020.
Under current law, the homestead of a veteran with a disability becomes eligible for a valuation exclusion in the current assessment year if the application is received by July 1. For applications received after July 1, the exclusion becomes effective for the following assessment year.

Under the bill, the due date for applications would be changed to December 15, and all approved applications filed by December 15 would receive the exclusion for the current assessment year.

- The bill would allow veterans who move after July 1 to reapply for the exclusion in the same assessment year as the move occurred.
- In addition, the later application date would allow newly eligible veterans to apply after July 1 of the current year and receive the exclusion for the current assessment year, rather than the following assessment year (as under current law).
- Changing the application deadline for the exclusion creates a shift in net state savings due to property tax refund interactions.
    - The main impact occurs in the initial fiscal year. A portion of the state-paid property tax refund that under current law is saved in one fiscal year would now be shifted into the previous fiscal year.
    - The impact of the shift in subsequent years is the difference between forecasted refund savings under current law and the effect of shifting those amounts into the previous fiscal year.
    - The first year the state general fund would be impacted under the bill would be for applications filed in 2019 for taxes payable in 2020 (state-paid property tax refunds in fiscal year 2021).
- It is assumed that approximately 1,000 applications will be received in calendar year 2019 between July 2 and December 15.
- Beginning with taxes payable in 2020, the later application deadline would result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads. The average savings per homestead (with either a 70% or a 100% disability rating) is an estimated $560, assumed to grow annually at a 3% rate.
- At the same time, the bill would shift an estimated $2 million in property tax (for taxes payable in 2020) onto all other property types, including other homesteads. This would increase homeowner property tax refunds. The overall property tax refund savings to the state is net of these costs.
- Under the bill, an estimated $600,000 of property tax refund savings currently projected for fiscal year 2022 would shift into fiscal year 2021.
- For subsequent years (beginning in fiscal year 2022) the net impact on the state general fund is estimated to be less than $5,000.

Senior Citizens' Property Tax Deferral Modified, Reconsideration Provided (Section 4)
The effective date is beginning with assessments in 2019.
Under current law, applications received prior to July 1 of a calendar year are eligible for a property tax deferral beginning in the following taxes payable year. Applications received on or after July 1 are required to wait an additional taxes payable year before receiving their first property tax deferral

(e.g. applications received on or after July 1, 2019, would first be eligible for a property tax deferral beginning with taxes payable in 2021).

The bill would modify the application deadline for the senior citizen property tax deferral program by changing the application deadline from July 1 to November 1. In addition, taxpayers would be able to request an early notification of approval or denial. If an applicant received a denial, the department would need provide the reason and the applicant could reapply before the normal deadline.

- Under the bill, applicants filing after July 1 but before November 1 would become eligible for a property tax deferral one year earlier than under current law.
- Changing the application deadline for the senior citizen property tax deferral program creates a shift in state expenditures.
  - The main impact occurs in the initial fiscal year. A portion of the deferral payments that under current law would be paid in one fiscal year are now shifted into the previous fiscal year.
  - The impact of the shift in subsequent years is the difference between forecasted payments under current law and the effect of shifting those amounts to the previous fiscal year.
- The first year impacted under the bill would be applications filed in 2019 for taxes payable in 2020 (state deferral payment in fiscal year 2021).
- Under the bill, an estimated $60,000 in deferral payments projected to be paid by the state in fiscal year 2022 would now be paid in fiscal year 2021.
- For subsequent years (beginning in fiscal year 2022) the net impact on the state general fund is estimated to be less than $5,000.

Cloquet Area Fire and Ambulance Taxing District Modified (Sections 5-9)
The effective date is after local compliance.
Under current law, is unclear if the Cloquet Area Fire and Ambulance Taxing District has authority to incur debt. The bill would allow the Cloquet Area Fire and Ambulance Special Taxing District to issue certificates of indebtedness or capital notes. The district would be allowed to levy debt in the same manner as municipalities.

- According to a local official with the taxing district, under the bill, bonds would be issued for the construction of a new fire station in taxes payable 2021. The bonds would increase the levy for taxpayers by $155,000 in taxes payable 2021, $310,000 in taxes payable 2022, and $466,000 in taxes payable 2023 and thereafter.
- Higher levies will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2022.
- Higher levies will result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2022.

Melrose Fire Remediation Grants Extension (Section 10)
The effective date is the day following final enactment.
The 2017 tax bill appropriated $1,392,258 from the state general fund to the city of Melrose and Stearns County in response to a 2016 fire. The appropriation for grants was available until June 30, 2018, at which point any unspent amount canceled to the general fund.

This proposal would reopen that deadline to June 30, 2021 and would move some of the appropriation from Stearns County to the City of Melrose.

- There was $615,228 unspent from the original appropriation. It is assumed this money will be appropriated from the state general fund in FY2019.

Mazeppa Fire Remediation Grants (Section 11)
The effective date is July 1, 2019.
The bill provides an appropriation of $5,000 in fiscal year 2020 for grants to the city of Mazeppa and Wabasha County that may be used for property tax abatements or other costs incurred as a result of the fire on March 11, 2018. The city of Mazeppa would receive a grant of $2,600 and Wabasha County would receive a grant of $2,400.

- The grants would result in a cost to the state general fund of $5,000 in fiscal year 2020.

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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