

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

February 4, 2019

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

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
 Analysis of H.F. 632 (Loeffler) as proposed to be amended by H0632A2

	Fund Impact			
	<u>F.Y. 2020</u>	<u>F.Y. 2021</u>	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>
	(000's)			
<u>Article 1: Property Taxes</u>				
Historical Society Expenditures for Cities/Towns	\$0	\$0	\$0	\$0
Exclusion for Veterans with a Disability Data Sharing	\$0	\$0	\$0	\$0
Tax Forfeited Land Sale Requirements Modified	\$0	\$0	\$0	\$0
Border City Enterprise Zone Clarification of Restrictions	\$0	\$0	\$0	\$0
Ag Preserves Termination for Parks or Trails	\$0	\$0	\$0	\$0
Housing and Redevelopment Levy Authority Extended	\$0	\$0	\$0	\$0
SFIA Trail Clarification	\$0	\$0	\$0	\$0
<u>Article 2: Department Policy Provisions</u>				
Policy Provisions	\$0	\$0	\$0	\$0
Increase Threshold for Deed Tax (negligible)		(\$5)	(\$5)	(\$10)
<u>Article 3: Department Technical Provisions</u>				
Technical Provisions	\$0	\$0	\$0	\$0
Ag Market Value Credit Clarification	\$0	unknown	unknown	unknown
Income Tax Interaction	\$0	(unknown)	(unknown)	(unknown)

General Fund Total	\$0	(\$5)	(\$5)	(\$10)
---------------------------	-----	-------	-------	--------

Various Effective Dates

REVENUE ANALYSIS DETAIL

Article 1: Property Tax

Historical Society Expenditures Authorized for Cities and Towns (Section 1)

The effective date is the day following final enactment.

Under current law, cities and towns may levy up to 0.02418 percent of their estimated market value (EMV) for their respective county historical societies. The bill would allow cities and towns to appropriate that money for not just their county historical societies, but also their own city/town historical societies. Historical societies must be affiliated with the Minnesota Historical Society.

- This provision would have no impact on the state general fund. It is assumed that any additional money levied as a result of the bill would be shifted away from other levies.

Exclusion for Veterans with a Disability Modified (Sections 2-3)

The effective date is the day following final enactment.

The bill would allow the county veterans service officer and the assessor to exchange data needed for determining a person's eligibility for the exclusion.

- This provision would have no impact on the state general fund

Tax-Forfeited Land Sale Requirements Modified (Section 4)

The effective date is for conveyances issued after December 31, 2019.

Under current law, the purchase price of tax-forfeited property must be paid in full before the state will issue a deed for the property.

Under the bill, a deed would also be issued to the county auditor for mortgage-financed sales of tax-forfeited property before closing of the sale has occurred, with the following requirements:

1. For a deed to be issued under these circumstances, the county auditor would approve the sale based upon a written commitment from a licensed closing agent, title insurer, or title insurance agent that the funding of the purchase is held in an escrow account and available for disbursement upon receipt of the deed.
2. The county auditor would hold the deed until it is requested by a licensed closing agent, title insurer, or title insurance agent to settle and close on the purchase of the property. If not requested within 30 days, the county auditor would return the deed to the state for cancellation.
3. If the deed is delivered to a licensed closing agent, title insurer, or title insurance agent, but the closing does not occur within 10 days, the deed would be returned to the county auditor, who, upon receipt, would return the deed to the state for cancellation.

- The bill may have an impact on the sales of tax-forfeited property.
- It is assumed that there would be no impact on the state general fund.

Border City Enterprise Zone Clarification of Restrictions (Section 5)

The effective date is the day following final enactment.

The bill clarifies language restricting what types of property can qualify for border city enterprise zone tax reductions.

- There would be no impact to the state general fund.

Agricultural Preserves Termination Allowed for Parks or Trails (Sections 6-8)

The effective date is the day following final enactment.

Under current law, agricultural preserve status is allowed to expire no earlier than eight years after notice has been given by either the landowner or the local authority for planning and zoning.

Under the bill, agricultural preserve status would expire immediately if a state agency or other governmental unit purchases the property or obtains an easement over the property for the purpose of creating or expanding a public trail or park. However, agricultural preserve status would expire only on the portion of the property that is acquired for trail or park purposes.

The bill would apply only to agricultural preserve land in the seven-county metropolitan area.

- If a state agency or other governmental unit purchases the property, the property would become exempt and removing the land's status as an agricultural preserve would have no impact on property taxes.
- If a state agency or other governmental unit obtains an easement over a portion of the property, it is assumed that the property would receive the same valuation assessment as under current law, and that the property would continue to receive the same amount of agricultural preserve credit as under current law.
- It is assumed that there would be no impact on the state general fund.

Levy Authority Extended for Northwest Minnesota Multicounty Housing and Redevelopment Authority (Section 9)

The effective date is beginning with taxes payable in 2020.

Under current law, the Northwest Minnesota Multicounty Housing and Redevelopment Authority (HRA) is a special taxing district operating in Kittson, Polk, Marshall, Pennington, Red Lake and Roseau counties. Levy amounts are limited to 0.0185 percent of the taxable market value within the district. The HRA authority to levy without approval by the governing bodies of the above counties and their cities is 25 percent of the total permitted amount. The 25 percent levy authority provision expires after taxes payable 2019.

The bill would authorize the Northwest Minnesota Multicounty House and Redevelopment Authority to levy 25 percent of the total permitted amount without the approval of counties and cities through taxes payable 2025.

- There would be no assumed state revenue impact. Increasing the special taxing district levy authority causes an equal reduction in its governing bodies levy authority, so the net change in levy authority is zero.

Clarification of SFIA for Paved Trails (Section 10)

The effective date is the day following final enactment.

Under current law, forest land enrolled in the Sustainable Forest Incentive Act (SFIA) program is generally prohibited from making improvements to the land, including residential structures and roads. Current law allows land to be improved with a paved trail under easement, lease, or terminable license to the state of Minnesota or a political subdivision beginning with applications made in 2018.

The bill would clarify the eligibility of land with a paved trail by modifying the effective date to retroactively include certifications made in 2018 and thereafter.

- The proposed clarification of SFIA eligibility would have no impact on the state general fund.

Article 2: Department Policy Provisions

The bill makes modifications to certain property tax provisions. Changes include requiring the commissioner of transportation certify the aid amount for the Small Cities Assistance program by June 1, specifying the process for the commissioner of revenue to make recommendations to the Board of Assessors for sanctions and how applicants or licensees can dispute these, and increasing the minimum value threshold for filing a Certificate of Real Estate Value.

- There is no impact to the state general fund from these changes.

Increase Threshold for Deed Tax (Section 4)

The effective date is for deeds recorded after December 31, 2019.

Except for the exemptions listed in Minnesota Statutes, section 287.22, a deed tax is imposed when real property is transferred or conveyed from one party to another. In some cases, a minimum deed tax of \$1.65 is imposed. For those situations where the minimum tax does not apply, the tax rate is 0.0033 of the net consideration. The minimum tax applies in the following situations:

1. The transfer is made as a result of a consolidation or merger.
2. The transfer is a designated transfer.
3. There is no consideration associated with the transfer.
4. The net consideration associated with the transfer is less than or equal to \$500. (Note that $\$1.65 = 0.0033 \times \500 .)

Under the proposal, the fourth provision on the list would be changed and the minimum tax of \$1.65 would apply when the net consideration associated with the transfer is less than or equal to \$3,000.

- Information provided to the Department of Revenue for 2015, 2016, and 2017 indicated that the following transfers occurred where the purchase amount was between \$500 and \$3,000:
 - 2015 – 899 sales for a total of \$1,780,000
 - 2016 – 655 sales for a total of \$1,287,000

- 2017 – 847 sales for a total of \$1,656,000
- 3-yr average – 800 sales for an average of \$1,574,333.
- Average actual deed tax collections for FY 2015, FY 2016, and FY 2017 were \$109,663,333.
- A ratio of $\$1,574,333 / \$109,663,333 = 1.44\%$ was calculated.
- The above ratio was applied to the estimated deed tax collection for fiscal year 2020 through fiscal year 2023 to arrive at the total estimated sales where the transferred value is between \$500 and \$3,000.
- The tax was calculated based on the rate of 0.0033.
- A total minimum tax based on a tax of \$1.65 per individual sale was subtracted.
- The state portion of 97% was calculated.
- The February 2018 forecast for the deed tax was used for the estimate.
- The fiscal year 2020 total was reduced by 50% because the proposed effective date is half-way through fiscal year 2020.

Article 3: Department Technical Provisions

The bill makes a number of technical and clarifying changes to update out-of-date references to abstracts for property tax data reporting.

- There is no impact to the state general fund from these changes.

Agricultural Homestead Market Value Credit Clarification (Section 11)

The effective date is beginning with taxes payable in 2020.

Under current law, each fractional agricultural homestead and each owner of an agricultural homestead is eligible for the maximum credit amount.

The proposal clarifies that a single agricultural homestead can receive a maximum credit of \$490. A fractional homestead would also receive a fractional maximum credit amount. For example, under the proposal a 50% homestead could receive a maximum credit of \$245, or half of the \$490 maximum for a full homestead. The proposal also clarifies that a single homestead owned by multiple owners is also subject to the maximum credit of \$490 per homestead.

- By fractionalizing the maximum credit amount for fractional homesteads and multiple owners of a single homestead, the proposal would decrease the agricultural homestead market value credit for some property owners. The number of agricultural homesteads affected by this proposal is unknown.
- The proposal would decrease the statewide agricultural homestead market value credit by an unknown amount beginning in taxes payable 2020.
- Higher property taxes would increase deductions on income tax returns, decreasing state tax collections by an unknown amount beginning in FY 2021.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx