

PROPERTY TAX

School building bond agricultural credit modified

March 15, 2019

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 1391 (Marquart) / S.F. 1512 (Eken) as introduced

	Fund Impact			
	FY2020	FY2021	FY2022	FY2023
	(000's)			
School Building Bond Credit	\$0	(\$67,260)	(\$89,320)	(\$106,310)
Property Tax Refund Interaction	\$0	(\$1,210)	(\$2,510)	(\$3,880)
Income Tax Interaction	\$0	\$1,670	\$1,220	\$740
General Fund Total	\$0	(\$66,800)	(\$90,610)	(\$109,450)

Effective beginning with taxes payable in 2020.

EXPLANATION OF THE BILL

Under current law, all class 2a, 2b, and 2c property, other than the house, garage, and surrounding one acre of land of an agricultural homestead, is eligible for the school building bond credit. The credit is equal to 40 percent of the property's eligible net tax capacity multiplied by the school debt tax rate.

The proposal would increase the credit amount to 100 percent of the property's eligible net tax capacity multiplied by the school debt tax rate.

REVENUE ANALYSIS DETAIL

- According to the Department of Education, it is estimated that the portion of the school district levy that is levied for debt service under current law is \$998 million statewide for taxes payable 2019. Under current law, it is assumed that debt service levies grow statewide by 4% in taxes payable 2020, 3% in taxes payable 2021, and 3% in taxes payable 2022. Due to behavioral changes for levying, if the credit increase is enacted, levies eligible for the credit are assumed to increase beginning in taxes payable 2020 compared to the current law forecast.
- Under current law, properties eligible for the school building bond credit pay approximately 10% of school district debt service levies. The credit is estimated to be \$39.6 million for taxes payable 2019.
- Under the proposal, the statewide cost of the school building bond credit is estimated to increase by \$75 million in taxes payable 2020, \$91 million in taxes payable 2021, and \$108 million in taxes payable 2022. The fiscal year credit estimates reflect the 90/10 school levy recognition shift.
- Lower property taxes for property owners receiving the credit will reduce deductions on income tax returns, increasing state tax collections by \$2.62 million in fiscal year 2021.
- Behavioral changes for levying affects the amount of property taxes paid by all property types,

including homesteads. Higher debt service levies increase property tax burdens, increasing costs to the state general fund for property tax refunds and income tax deductions beginning in fiscal year 2021. The overall income tax savings to the state is net of these costs.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral
<i>Efficiency & Compliance</i>	Neutral
<i>Equity (Vertical & Horizontal)</i>	Neutral
<i>Stability & Predictability</i>	Neutral
<i>Competitiveness for Businesses</i>	Neutral
<i>Responsiveness to Economic Conditions</i>	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](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

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