DEPARTMENT OF REVENUE

PROPERTY TAX
Governor's Tax Bill
Articles 4-6

March 11, 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. 2125 (Marquart) as proposed to be amended

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
	(000's)			
Article 4: Property Taxes				
Threshold for eCRV Filing Increased	$0	$0	$0	$0
ITIN for Homestead Classification Allowed	$0	($1,100)	($1,100)	($1,100)
Ag Homestead Market Value Credit Clarification	$0	unknown	unknown	unknown
Income Tax Interaction	$0	(unknown)	(unknown)	(unknown)
Riparian Buffer Credit Established	$0	($15,800)	($15,800)	($15,800)
Income Tax Interaction	$0	$550	$550	$550
Appropriation to BWSR	($2,045)	$0	$0	$0
Senior Deferral Tenure Decreased	$0	($110)	($260)	($260)
Senior Deferral Deadline Changed	$0	($60)	negligible	negligible
Article 5: Local Government Aids				
LGA Appropriation Increased	$0	($30,593)	($30,593)	($30,593)
Property Tax Refund Interaction	$0	$740	$740	$740
Income Tax Interaction	$0	$580	$580	$580
CPA Appropriation Increased	$0	($30,356)	($30,356)	($30,356)
Property Tax Refund Interaction	$0	$730	$730	$730
Income Tax Interaction	$0	$570	$570	$570
Article 6: Revenue Stability				
Inflation Added to State General Levy	$13,540	$39,840	$67,480	$96,510
Income Tax Interaction	$0	($740)	($1,570)	($2,400)
General Fund Total	$11,495	($35,749)	($9,029)	$19,171

Various Effective Dates

EXPLANATION OF THE BILL

See summary prepared by the Appeals and Legal Services Division of the Department of Revenue.

REVENUE ANALYSIS DETAIL

Article 4: Property Tax

Threshold for eCRV Filing Increased (Section 1)
The effective date is for certificates of value filed after December 31, 2019.

- The proposal would have no impact on the state general fund.

Allow ITIN for Homestead Classification (Sections 2-6, 8)
The effective date is for homestead applications filed in 2019 and thereafter.

- By expanding the identification documents allowed to apply for homestead classification, it is assumed that the number of homesteads in the state will increase.
- The proposal would cause a shift in property taxes away from properties newly qualifying for homestead and onto all other properties, including other homesteads.
- An increase in the number of properties eligible for homestead status would result in an increase in property tax refunds paid by the state.
- According to Minnesota individual income tax return filing summaries, there are approximately 8,100 returns filed by resident households with only an ITIN and no SSN.
- Based on U.S. Census Bureau information on Minnesota homeownership rates by income range and citizenship, it is estimated that approximately 28% of filers using an ITIN would be homeowners and receive homestead status under the proposal.
- It is assumed that approximately 1,200 additional homeowners would become eligible and file for a property tax refund under the proposal, resulting in an increase in state general fund costs of $1.1 million beginning in fiscal year 2021.
- This analysis assumes the size of the qualifying population under the proposal will remain steady during the forecast period.

Agricultural Homestead Market Value Credit Clarification (Sections 7, 9)
The effective date is beginning with taxes payable in 2020.

- By fractionalizing the maximum credit amount for fractional homesteads, the proposal would decrease the agricultural homestead market value credit for some property owners.
- The statewide savings for the changes to the credit is unknown beginning in taxes payable 2020.
- Higher property taxes for property owners receiving a smaller credit amount under the proposal would increase deductions on income tax returns, decreasing state tax collections beginning in fiscal year 2021.

Riparian Buffer Credit Established (Sections 10-14, 18)
The effective date is beginning with taxes payable in 2020.

- Based on data from the Department of Natural Resources, it is estimated that there are approximately 708,000 acres of riparian buffer land in the state.
- It is assumed that, of that total, approximately 317,000 acres would be eligible for the proposed credit.
- The credit is estimated to be $15.8 million annually beginning with taxes payable in 2020.
- Lower property taxes for property owners receiving the credit would reduce deductions on income tax returns, increasing state tax collections by $550,000 beginning in fiscal year 2021.
- The administrative appropriation to the Board of Water and Soil Resources would be $2,045,000 in fiscal year 2020.

Tenure Requirement Decreased for Senior Deferral Program (Section 16)
The effective date is beginning with applications received for taxes payable in 2020.

- According to U.S. Census data, approximately three-quarters of senior citizen homeowners have lived in their homes for at least 15 years.
- Under the proposal, reducing the requirement from 15 years to 5 years would increase eligibility for the senior citizen property tax deferral program.
- It is assumed that participation would increase approximately 20% under the proposal, increasing state general fund costs.
- The first partial year of impact is assumed to be fiscal year 2021. Applications received between June 2019 and October 2019 would be eligible for deferral under the new requirement beginning for taxes payable in 2020. The first full year of impact would be fiscal year 2022.
- This estimate assumes the proposal to extend the application deadline is changed to November 1.

Deadline Changed for Senior Deferral Program (Section 17)
The effective date is beginning with applications received for taxes payable in 2020.

- Under the proposal, applicants filing after July 1 would become eligible for property tax deferral one year earlier than compared to current law.
- The first year impacted under the proposal would be applications filed in 2019 for taxes payable in 2020 (state deferral payment in fiscal year 2021). It is estimated that approximately $60,000 in deferral payments that would have first been made in fiscal year 2022 would now be made in fiscal year 2021 under the proposal.
- The state general fund net impact in subsequent years is estimated to be less than $5,000 beginning in fiscal year 2022.

Article 5: Local Government Aids

Local Government Aid Appropriation Increased (Section 1)
The effective date is beginning with aids payable in 2020.

- Increasing the appropriation for LGA to cities would increase costs to the state general fund by $30.6 million in calendar year 2020 and thereafter.
- It is assumed that the increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property classes including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2021, resulting in a savings to the state general fund.

County Program Aid Appropriation Increased (Section 2)
The effective date is beginning with aids payable in 2020.

- Increasing the appropriation for CPA to counties would increase costs to the state general fund by $30.4 million in calendar year 2020 and thereafter.
- It is assumed that the increase in aid to counties would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property classes including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2021, resulting in a savings to the state general fund.

Article 6: Revenue Stability

Inflation Added to State General Property Tax Levy (Section 1)
The effective date is beginning with taxes payable in 2020.

- By adding the annual inflation, the proposal would increase the state general levy by $24.61 million in taxes payable 2020, $52.30 million in taxes payable 2021, $79.89 million in taxes payable 2022, and $110.11 million in taxes payable 2023. These numbers have been converted to fiscal years for the purpose of this estimate.
- Higher commercial taxes would increase deductions on corporate and individual income tax returns, decreasing state tax collections beginning in fiscal year 2021.

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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