

PROPERTY TAX

Expanding properties eligible for class 4b classification

March 13, 2020

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 3826 (Ecklund) / S.F. 3931 (Bakk) as introduced

Fund Impact

	FY2020	FY2021	FY2022	FY2023
	(000's)			
Property Tax Refund Interaction	\$0	\$0	\$0	unknown

Effective beginning with assessment year 2021.

EXPLANATION OF THE BILL

The proposal creates a new property tax classification, class 4b(5), for residential property rented for periods of less than 30 consecutive days or advertised as a short-term rental. The proposal covers properties with less than four residential units. Properties classified as 4b(5) under this proposal would have a classification rate of 1.25%.

REVENUE ANALYSIS DETAIL

- Under current law, properties used as short-term rentals are usually classified as class 3a Commercial, class 4b(1) Residential Non-Homestead 1-3 Units, class 4bb(1) Residential Non-Homestead Single Unit, or class 4c(12) Seasonal Residential Recreational Non-Commercial. Classification is dependent on the primary use of the property.
- The number of properties that would qualify as class 4b(5) under the proposal is unknown.
- The effect of a change in classification on a property's tax base depends on how the property is currently classified. The changes below reflect the current classifications of the majority of short-term rental properties, but does not reflect all possible classifications of these properties.
 - This proposal would reduce the net tax capacity for properties currently classified 3a Commercial due to a reduced class rate. It would also reduce the state general tax base for commercial/industrial property, as 4b properties do not pay the state general tax.
 - The proposal would increase the net tax capacity for properties currently classified as 4c (12) Seasonal Residential Recreational Non-Commercial due to an increased class rate. It would also reduce the state general tax base for seasonal recreational property, as 4b properties do not pay the state general tax. Class 4c(12) properties are currently not subject to referendum market value taxes, which would also change under the bill.
 - The proposal would increase the net tax capacity for properties currently classified as 4bb (1) Residential Non-Homestead Single Unit due to an increased class rate.
 - The proposal would not change net tax capacity or referendum market value of properties currently classified as 4b(1) Residential Non-Homestead 1-3 Units.
- Property taxes would shift away from properties with a reduced class rate under the proposal and onto all other properties, including homesteads. Property taxes would also shift onto properties with an increased class rate under the proposal and away from all other properties,

including homesteads.

- The shift in taxes onto/away from homesteads would cause property tax refunds paid by the state to change by an unknown amount beginning in FY 2023.

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)

hf3826(sf3931)_pt_1/wkm

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	Creating another property classification decreases simplicity.
<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.