PROPERTY TAX
House Property and Local Tax
Division Report
Articles 1-4

May 13, 2020

	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. 346 (Carlson), 1st division engrossment

	Fund Impact			
	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
		(000's)		
Article 1: Property Taxes and Aids				
Tribal Land Exemption				
Refund of State General Tax	$0	($10)	$0	$0
Property Tax Refund Interactions	$0	$0	($10)	($10)
Qualifying Relatives for Ag Homestead				
Property Tax Refund Interaction	$0	$0	(unknown)	(unknown)
Ag Homestead Market Value Credit	$0	$0	(unknown)	(unknown)
Property Tax Refund Interaction	$0	$0	(unknown)	(unknown)
Elderly Living Facility Deferral	$0	$0	(negligible)	(negligible)
Classification of Short-Term Rental Property	$0	$0	unknown	unknown
Exclusion for Veterans with a Disability				
Surviving Spouse One-Time Transfer Allowed	$0	$0	$70	$90
Property Tax Distributions Modified	$0	$0	$0	$0
LGA Penalty Forgiveness – Sargaent	$0	$0	$0	$0
LGA Penalty Forgiveness – Roosevelt	$0	$0	$0	$0
Article 2: Miscellaneous				
TIF Temporary Use of Increment Allowed	$0	$0	$0	$0
TIF Five-Year Rule Extended	$0	$0	$0	$0
Local Lodging Taxes Modified	$0	$0	$0	$0
Temporary Use of Special Tax Revenues Allowed	$0	$0	$0	$0

Local Option Sales Tax Working Group	$0	$0	$0	$0
Articles 3-4: Department Policy and Technical Provisions				
Policy and Technical Provisions	$0	$0	$0	$0
General Fund Total	**$0**	**($10)**	**$60**	**$80**

Various Effective Dates

REVENUE ANALYSIS DETAIL

Article 1: Property Taxes and Aids

Property Tax Exemption for Tribal Land (Section 1)
The retroactive effective date is beginning with assessment year 2019.
The proposal would exempt property in Cass County that is used exclusively for tribal purposes, including noncommercial tribal government activities, or for institutions of purely public charity. In addition, because the proposal is retroactive from assessment year 2019, the county would refund the 2020 tax payments of all eligible parcels by August 1, 2020.

- According to a list of eligible parcels provided by Cass County, approximately 30 parcels would qualify for the exemption.
- Taxes paid by the eligible properties in 2020 would be refunded by the county, including state general tax payments. This would reduce state general tax collections in payable year 2020 by approximately $10,000.
- There would be no impact on state general tax collections in payable year 2021 and thereafter because the tax rate would be adjusted to yield the amount of revenue required by statute. The tax reduction for parcels receiving the exemption would be shifted onto the other properties subject to the state levy.
- Beginning with taxes payable in 2021, the proposal would shift approximately $170,000 in local property taxes onto other property types, including homesteads, resulting in an increase in state-paid homeowner refunds.
- Tax year impact is allocated to the following fiscal year.

Agricultural Homestead Qualifying Relatives Modified (Section 2)
The effective date is beginning with taxes payable 2021.
Under current law, agricultural relative homestead may be granted if a grandchild, child, sibling, or parent of the owner was occupying or farming the property.

The proposal expands qualifying relatives for agricultural relative homestead to include grandparents, stepparents, stepchildren, uncles, aunts, nephews, and nieces.

- By expanding the list of qualifying relatives, it is assumed that the number of properties qualifying as agricultural relative homestead would increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural relative homestead land would change from 1.00% to 0.50% for the first $1.9 million of value and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural relative homestead and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by an unknown amount beginning in fiscal year 2022.
- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2021.
- Adequate data is not available to estimate the impact of the proposal on estate taxes. Since the additional property that would be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue would be small. However, it is likely that the impact could be significant for a small number of taxpayers.

Property Tax Deferral Allowed for Elderly Living Facility (Section 3)
The effective date is beginning with taxes payable 2021.
The proposal would allow an elderly living facility to defer its property taxes if:

- the facility is located in a first class city with a population less than 110,000;
- the facility is owned and operated by a 501(c)(3) nonprofit organization;
- construction of the facility was completed between January 1, 1963 and January 1, 1964;
- the facility has a chapter 144D housing with services license, and a chapter 144A comprehensive home care license;
- residents are at least 62 years of age or disabled;
- and at least 30 percent of the units are occupied by persons whose annual income does not exceed 50 percent of the median family income for the area.

The qualifying facility would be treated as exempt property. However, the value of the property would be assessed every year and property taxes would be calculated and recorded. If a portion of the benefiting facility is sold, transferred, or no longer qualifies for the deferral, then the calculated taxes on that portion, for the current payable year and the four previous years, would become due.

To receive exempt treatment and a property tax deferral, an application must be filed by December 1 of the assessment year.

- Saint Ann's Seniors' Residence in the city of Duluth would be eligible for the property tax deferral and would be treated as exempt property.
- For taxes payable in 2021 and thereafter, a property tax exemption would reduce the amount of taxable market value, shifting property taxes away from the exempted elderly living facility 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 2022.

Short-Term Rental Properties Classified as Class 4b(1) (Section 4)
The effective date is beginning with assessment year 2020.
Under current law, class 4b(1) includes non-homestead residential real estate containing less than four units that does not qualify as class 4bb, other than seasonal residential recreational.

The proposal expands class 4b(1) to include non-homestead residential property rented as a short-term rental for more than 14 days in the preceding year. In order to qualify for class 4b(1), the rental period must be less than 30 consecutive days.

- 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 newly qualify as class 4b(1) 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 do not reflect all possible classifications of these properties.
    - The 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 fiscal year 2022.

Exclusion for Veterans with a Disability Modified (Section 5)
The effective date is beginning with taxes payable 2021.
Under current law, the homestead exclusion for veterans with a disability may not be transferred to a different property by a surviving spouse who moves after the veteran has died.

The proposal would allow a surviving spouse a once-per-lifetime transfer of the full-disability (100% and permanent) veterans exclusion to a different property, provided that on the date of sale of the original property, the estimated market value of the new property is less than or equal to the estimated market value of the property that originally received the exclusion.

- It is estimated that 5% of surviving spouse homeowners move each year.
- For surviving spouses who move prior to calendar year 2021, a participation rate of 25% is assumed. For surviving spouses moving in calendar year 2021 or later, a participation rate of 50% is assumed.
- It is estimated that approximately 120 surviving spouses would benefit from the proposal in taxes payable year 2021.
- The bill would shift an estimated $310,000 in property tax (payable in 2021) onto all other properties, including other homesteads. This would increase state-paid homeowner refunds. The overall savings to the state is net of these costs.
- The transfer of the exclusion would result in a net savings to the state due to a reduction in homeowner refunds paid to veteran homesteads. The net savings to the state general fund would be an estimated $70,000 in fiscal year 2022.

Property Tax Distributions Modified (Section 6)
The effective date is the day following final enactment.
Under current law, property tax payments made after the first settlement day in May are distributed by counties to local taxing jurisdictions at the time of the second half payment distributions in October and November. For payments made after the second half distribution, the final full settlement distribution occurs by January 25th.

The proposal would allow counties to distribute first half property tax payments received after the May settlement day on an alternative date. For taxes payable year 2020 only, county boards would have the option to set a date when county treasurers would need to distribute late first half payments to local taxing jurisdictions. Distribution of the state general tax would also be determined on the same date and transmitted by counties to the state as soon as practical.

- Under the proposal, counties could select an alternative date to distribute first half property tax payments that were received after the May settlement date. Creating an additional settlement date for local property tax distributions would have no impact on the state general fund.
- For the state general tax, it is assumed that any first half payments received after the settlement date in May would continue to be transmitted to the state in fiscal year 2021. There would be no annual fiscal year impact to the state general fund. If some of the payment was remitted to the state before July 1, revenues would shift from fiscal year 2021 to 2020.

Local Government Aid Penalty Forgiveness - Sargaent (Section 7)
The effective date is the day following final enactment.
The bill would allow the city of Sargeant in Mower County to receive payment for the amount of its 2019 Local Government Aid (LGA) that was withheld for failing to meet financial reporting requirements with the state auditor. Up to $9,280 of the current LGA appropriation would be available for the payment to be made before the end of fiscal year 2020 by June 30, 2020.

For aid payable year 2020, the city of Sargeant's first half LGA payment would be withheld until the city filed its 2018 and 2019 financial reports with the state auditor. If the financial reports are not filed by December 1, 2020 the city would receive no LGA payment for the 2020 payable year.

- Under the proposal there would be no additional costs to the state general fund in fiscal year 2020 because the money for payment is already appropriated for LGA. Any unpaid LGA payment would not cancel to the state general fund until after June 30, 2020.
- It is assumed that the city of Sargeant would submit its 2018 and 2019 financial reports with the state auditor by the December 1, 2020 deadline and receive its LGA payment for 2020. If the city did not meet financial reporting requirements, its LGA payment for 2020 would cancel to the state general fund.

Local Government Aid Penalty Forgiveness - Roosevelt (Section 8)
The effective date is the day following final enactment.
The bill would allow the city of Roosevelt in Roseau County to receive payment for the amount of its 2019 Local Government Aid (LGA) that was withheld for failing to meet financial reporting requirements with the state auditor. The city must file its 2018 and 2019 financial reports by June 1, 2020. As proposed to be amended, up to $25,410 of the current LGA appropriation would be available for the payment to be made before the end of fiscal year 2020 by June 30, 2020.

- Under the proposal there would be no additional costs to the state general fund in fiscal year 2020 because the money for payment is already appropriated for LGA. Any unpaid LGA payment would not cancel to the state general fund until after June 30, 2020.

<u>Article 2: Miscellaneous</u>

Temporary Use of Increment Allowed (Section 1)
The effective date is the day following final enactment.
Under current law, there are a number of restrictions on how tax increment financing (TIF) authorities can spend any tax increment generated by a TIF district.

The proposal allows unobligated increment to be transferred from the authority to the municipality's general fund. The municipality would be able to use transferred increments for any purpose the municipality's general fund permits. The maximum transfer amount would be the excess increment remaining after the required payments of obligations that would come due in the six months following the transfer. This section would be effective the day following enactment and applies to unobligated increments from any district, regardless of when the request for certification was made. The authority to transfer increments would expire on December 31, 2021.

- The proposed changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Five-Year Rule for Certain TIF Districts Extended (Sections 2-3)
The effective date is the day following final enactment.
The five-year rule essentially requires development activity for a TIF district to be finished within a five-year period that begins with certification of the district's original tax capacity. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period or to the extent permitted under the pooling rules. When these obligations are paid or enough money has been collected to pay them, the district must be decertified.

The proposal would extend the five-year rule to ten years for redevelopment districts located outside the defined metropolitan area that are certified after June 30, 2020. For districts whose five-year rule is extended under the proposal, the six-year rule that requires increment to be used for decertification is extended to 11 years.

- The proposed changes to the general TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Local Lodging Taxes Modified (Sections 4-5)
The effective date is the day following final enactment.
A city or town may impose a tax of up to three percent on the gross receipts from the furnishing of lodging for up to 30 days. The bill clarifies that the local option lodging tax applies to the entire consideration paid for lodging including services provided by accommodation intermediaries. Accommodation intermediaries are entities that facilitate the sale of lodging and make the room charge to the customer. An exemption is allowed for cities and towns with ten or fewer lodging establishments.

The bill allows certain local governments to limit the required filing and remittance of the tax by accommodation intermediaries to once per calendar year. Local governments would be responsible for providing accommodation intermediaries with geographic and zip code information needed to correctly collect the tax.

- The proposal would have no impact on state taxes.

Temporary Use of Special Tax Revenues Allowed (Section 6)
The effective date is the day following final enactment.
The bill allows the use of local sales tax revenues for municipal purposes other than originally intended. The local sales and use taxes include local transportation taxes, local general taxes imposed by special law, and local selective taxes imposed by special law.

The amount available for other uses is limited to excess revenues and a municipal spending plan is required. The spending plan requires public notice and approval at a public hearing. The provisions expire on December 31, 2021. The bill could delay the date that some local taxes expire.

- The proposal would have no impact on state taxes.

Local Option Sales Tax Working Group Created (Section 7)
The effective date is the day following final enactment.
The bill would create a working group to develop definitions and criteria for evaluating local sales tax proposals. Goals of the working group include identifying types of capital projects that could be deemed regionally significant and develop a set of criteria that can be applied to future capital project proposals to determine regional significance.

A report to the legislature is due July 31, 2021, containing: 1) a recommended list of the types of capital projects that could meet a definition of regional significance for the purposes of funding with a local sales tax, 2) a list of the types of projects that would not be considered regionally significant, 3) a recommended set of data and documentation that can be used to indicate the level of regional significance for each type of capital project, and 4) proposed statutory language to incorporate the above recommendations.

The working group expires December 31, 2021, or upon submission of the legislative report, whichever is earlier.

- The proposal would have no impact on state taxes.

Article 3-4: Department Policy and Technical Provisions

Article 3 of the bill makes modifications to certain property tax and miscellaneous provisions. Changes include:

- Combining required Board of Assessor reports,
- Clarifying ownership for wind and solar energy production taxes,
- Adjusting the deadline for clerical error corrections for solar energy production tax,
- Fixing statutory cross-references,
- Clarifying assessor education requirements,
- Clarifying the mortgage registry tax exemption,
- Clarifying changes to the property tax refund index, and
- Removing the requirement for charging fees to local governments for system development costs.

Article 4 of the bill makes a number of policy changes to recodify fire and police state aids.

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

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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