DEPARTMENT OF REVENUE

PROPERTY TAX
Income and corporate franchise, special taxes and property taxes modification
Article 1

June 16, 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 2020, 1st Special Session S.F. 0008 (Chamberlain), as introduced

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
		(000's)		
Article 1: Property Taxes and Aids and Credits				
School Referendum Equalization Aid	$0	$0	($16,980)	($16,965)
Property Tax Refund Interaction	$0	$0	$880	$880
Income Tax Interaction	$0	$0	$380	$380
Class 4d Low Income Rental Housing Class Rate Modified	$0	$0	($2,590)	($2,590)
State General Tax Deadline Extended	$0	$0	$0	$0
Moratorium on Class Changes for Short-Term Rental Properties	$0	$0	($40)	($40)
General Fund Total	**$0**	**$0**	**($18,350)**	**($18,335)**

Various Effective Dates

REVENUE ANALYSIS DETAIL

Article 1: Property Taxes and Aids and Credits

School District Equalized Referendum Levies Modified (Section 1)
The effective date is beginning with taxes payable in 2021.
The proposal increases school referendum aid by adjusting the factors used to calculate the tiers of referendum equalization levies.

- The proposal would increase state aid to school districts by $16.980 million in FY 2022 and $16.965 million in FY 2023.

- The increase in referendum aid to independent school districts would reduce existing school district levies beginning in taxes payable 2021. Lower levies would reduce property taxes on all property.
- The lower property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2022, resulting in a savings to the state general fund.

Class 4d Low Income Rental Housing Class Rate Modified (Section 2)
The effective date is beginning with taxes payable in 2021.
Under current law, each unit of class 4d qualifying low-income rental housing has a classification rate of 0.75% for the first tier of market value and 0.25% for the remaining market value. The first tier market value limit is adjusted annually by the average statewide change in estimated market value of property classified as 4a apartments and 4d low-income rental housing properties, excluding new construction. The first tier market value limit per unit is $150,000 for assessment year 2019 and $162,000 for assessment year 2020.

The proposal would remove the tiered classification rates and set the classification rate at 0.25% for all class 4d property. The proposal also reduces the referendum market value of class 4d property by reducing the classification rate.

- In assessment year 2019, there were approximately 2,900 parcels statewide containing class 4d low-income rental housing. The market value for class 4d property in the same year was approximately $6.1 billion statewide.
- The proposal would shift property taxes away from class 4d properties and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by $2.59 million beginning in fiscal year 2022.

State General Property Tax Deadline Extended (Section 3)
The effective date is retroactive from May 15, 2020.
Under current law, the first half of annual property taxes, including state general taxes, are due on or before May 15.

For taxes payable in 2020 only, the proposal would change the due date for the first half payment of state general taxes to July 15, 2020. Penalties would not begin to accrue on the first half payment of state general taxes until July 16, 2020. The proposal also sets a deadline of July 30, 2020 for counties to remit to the state any remaining state general taxes from the first half payment.

- Because the deadline of May 15 for the first half property tax payment has passed, it is assumed the proposal would have no impact on the collection of state general taxes.

Moratorium on Classification Changes for Short-Term Rental Properties (Section 4)
The effective date is for assessment years 2020 and 2021.
Under current law, a property's classification may change due to a change in use.

The proposal would not allow properties used as short-term rentals to change classification in assessment years 2020 and 2021. The property's classification in assessment year 2019 would be the classification used for assessment years 2020 and 2021, unless there is a change in primary use or a clerical error.

- Because classifications have already been determined for assessment year 2020, the proposal would change the classification of some properties back to their assessment year 2019 classification.
- According to a survey of county assessors, approximately 800 properties statewide were changed to commercial classification from another property type between assessment years 2019 and 2020 due to their use as short-term rentals.
    - Most of these properties were classified as class 4b(1) residential non-homestead 1-3 units, 4bb(1) residential non-homestead single unit, or 4c(12) seasonal residential recreational non-commercial in assessment year 2019.
- The proposed change in classification from commercial to their assessment 2019 classification would reduce the net tax capacity for these properties.
- Due to the reduction in net tax capacity, property taxes would shift away from these properties and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by $40,000 in fiscal years 2022 and 2023.

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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