DEPARTMENT OF REVENUE

**PROPERTY TAX**
**Omnibus Tax Bill**
**Article 8**

October 22, 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 5th Special Session Laws 2020, Chapter 3, Article 8, Sections 1-3

| | Fund Impact | | | |
|---|---|---|---|---|
| | **F.Y. 2020** | **F.Y. 2021** | **F.Y. 2022** | **F.Y. 2023** |
| | | (000's) | | |
| **Article 8: Miscellaneous Taxes** | | | | |
| Structure Removal Allowed Before Tax Payment | $0 | $0 | $0 | $0 |
| Classification of Short-Term Rental Property | $0 | $0 | $0 | unknown |
| Exclusion for Veterans with a Disability Surviving Spouse One-Time Transfer Allowed | $0 | $0 | $70 | $90 |
| **General Fund Total** | **$0** | **$0** | **$70** | **$90** |

Various Effective Dates

## REVENUE ANALYSIS DETAIL

### Article 8: Miscellaneous Taxes

**Structure Removal Allowed Before Tax Payment (Section 1)**
*The effective date is the day following final enactment.*
Under current law, structures may not be removed from any tract of land until all taxes have been fully paid.

The new law allows the removal of a structure if the county auditor determines that the removal of the structure is in the public interest and will not impair the collection of property taxes.

- It is assumed that this provision will have no impact on the state general fund.

**Short-Term Rental Properties Classified as Class 4b(1) (Section 2)**
*The effective date is beginning with assessment year 2021.*
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 new law 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 will newly qualify as class 4b(1) under the new law 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 new law reduces the net tax capacity for properties currently classified 3a Commercial due to a reduced class rate. It also reduces the state general tax base for commercial/industrial property, as 4b properties do not pay the state general tax.
  - The new law increases the net tax capacity for properties currently classified as 4c(12) Seasonal Residential Recreational Non-Commercial due to an increased class rate. It also reduces 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 also changes under the bill.
  - The new law increases the net tax capacity for properties currently classified as 4bb(1) Residential Non-Homestead Single Unit due to an increased class rate.
  - The new law does not change net tax capacity or referendum market value of properties currently classified as 4b(1) Residential Non-Homestead 1-3 Units.
- Property taxes will shift away from properties with a reduced class rate under the new law and onto all other properties, including homesteads. Property taxes will also shift onto properties with an increased class rate under the new law and away from all other properties, including homesteads.
- The shift in taxes onto/away from homesteads will cause property tax refunds paid by the state to change by an unknown amount beginning in fiscal year 2023.

**Exclusion for Veterans with a Disability Modified (Section 3)**
*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 new law allows 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 will benefit from the new law in taxes payable year 2021.
- The new law shifts an estimated $310,000 in property tax (payable in 2021) onto all other properties, including other homesteads. This increases state-paid homeowner refunds. The overall savings to the state is net of these costs.
- The transfer of the exclusion results 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 is an estimated $70,000 in fiscal year 2022.

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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