

PROPERTY TAX
Modifying the first tier valuation limit
for agricultural homestead property

April 05, 2021

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
 Analysis of H.F. 1574 (Anderson) / S.F. 2233 (Weber) as introduced

	Fund Impact			
	FY2022	FY2023	FY2024	FY2025
	(000's)			
Property Tax Refund Interaction	\$0	\$0	(\$110)	(\$110)
School Building Bond Credit	\$0	\$0	\$140	\$160
General Fund Total	\$0	\$0	\$30	\$50

Effective beginning with assessment year 2022.

EXPLANATION OF THE BILL

Under current law, the first tier valuation limit for agricultural homestead property was set at \$1.14 million in 2010. Since then, the tier limit has changed annually by the ratio of the average taxable market value per acre of deeded farm land in the preceding year to the average taxable market value per acre of deeded farm land in the second preceding year. For assessment year 2021, the first tier valuation limit is \$1.89 million.

The proposal would set the first tier valuation limit at exactly \$2 million for assessment year 2022. The tier limit would continue to change annually using the same method as under current law.

REVENUE ANALYSIS DETAIL

- In assessment year 2020, there were approximately 77,000 agricultural homesteads statewide. About 12,000 of those agricultural homesteads had a taxable market value greater than the assessment year 2020 tier limit of \$1.90 million.
- By increasing the first tier valuation limit for agricultural homesteads, the classification rate for a portion of the value currently above the limit would change from the second tier rate of 1.00% to the first tier rate of 0.50%.
- Based on assessment year 2020 data, it is estimated that approximately 6%, or \$1.2 billion, of agricultural homestead value currently in the second tier would qualify for the first tier under the proposal.
- For agricultural homesteads that have value newly qualifying for the first tier classification rate, the average tax decrease would be approximately \$360.
- The proposal would cause a shift in property taxes away from properties newly qualifying for the first tier classification rate and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto other homesteads, property tax refunds paid by the state would increase by \$110,000 beginning in fiscal year 2024.
- Because some agricultural homestead land would change from the 1.00% class rate to

the 0.50% class rate, state payments of the school building bond credit would decrease by \$160,000 beginning in taxes payable 2023. These numbers have been converted to fiscal years for the purpose of this estimate.

- The proposal would have no effect on the agricultural homestead market value credit.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral
<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.

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)

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