

**PROPERTY TAX
State General Tax Exemption for
Qualified Businesses**

April 06, 2021

	Yes	No
DOR Administrative Cost/Savings	X	

Department of Revenue

Analysis of S.F. 1432 (Nelson) as proposed to be amended by SCS1432A-1

	Fund Impact			
	FY2022	FY2023	FY2024	FY2025
	(000's)			
State General Levy	(\$16,960)	(\$32,000)	(\$15,040)	\$0
Income Tax Interaction	\$0	\$960	\$960	\$0
General Fund Total	(\$16,960)	(\$31,040)	(\$14,080)	\$0

Effective beginning with taxes payable in 2022.

EXPLANATION OF THE BILL

The proposal would provide a state general property tax exemption for certain qualifying businesses for taxes payable in 2022 and 2023. Businesses must have been classified as one of the following North American Industry Classification System (NAICS) codes on November 1, 2020 in order to qualify:

- 31212 - Breweries,
- 31213 - Wineries,
- 31214 - Distilleries,
- 71395 - Bowling centers,
- 72111 - Hotels and motels,
- 7223 - Specialty foods,
- 7224 - Drinking places (alcoholic beverages), or
- 7225 - Restaurants.

Property owners must apply to the commissioner of revenue by July 1 the year prior to each taxes payable year in which an exemption is sought. The certified commercial-industrial levy would be reduced for taxes payable in 2022 and 2023 based on the tax capacity of businesses qualifying for the exemption.

REVENUE ANALYSIS DETAIL

- Based on data from the Department of Employment and Economic Development, about 11,700 businesses were listed under the qualifying NAICS codes on November 1, 2020. It is assumed that all qualifying businesses would apply for the proposed state general tax exemption.
- Due to the exemption, the commercial-industrial state general property tax levy would be reduced by an estimated \$32 million in taxes payable years 2022 and 2023. These numbers have been converted to fiscal years for the purpose of this estimate.

- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections in FY 2023 and FY 2024.
- Because the exemption for qualifying businesses is combined with a decrease in the state general levy amount, all other non-qualifying class 3 commercial, industrial, railroad, and public utility property that pay state general taxes would not be affected by the proposal.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral	
<i>Efficiency & Compliance</i>	Decrease	Administratively complex to determine qualifying state taxes for leased properties and/or properties with more than one business.
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Neutral	Tax exemption is temporary.
<i>Competitiveness for Businesses</i>	Increase	Taxes on some businesses would decrease.
<i>Responsiveness to Economic Conditions</i>	Neutral	Provides relief to businesses impacted by recent COVID-19-related restrictions.

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

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