

Revised for February 2022 Forecast

March 4, 2022

**PROPERTY TAX
Governor's Tax Bill
Articles 4-6**

**Property Taxes and Local Aids Only --
See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3669 (Marquart) as proposed to be amended

Fund Impact

<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
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(000's)

Article 4: Property Taxes

ITIN for Homestead Classification Allowed	\$0	\$0	(\$1,800)	(\$1,800)
Hemp Included as Agricultural Product				
Property Tax Refund Interaction	\$0	\$0	\$0	(\$30)
Ag Homestead Market Value Credit	\$0	\$0	\$0	(\$10)
School Bond Credit	\$0	\$0	\$0	(\$20)
Senior Deferral Income Threshold Increased	\$0	\$0	(\$50)	(\$130)

Article 5: Public Safety Aid

Public Safety Aid	\$0	(\$100,000)	(\$100,000)	(\$100,000)
Property Tax Refund Interaction	\$0	\$0	\$2,610	\$2,610
Income Tax Interaction	\$0	\$0	\$1,020	\$1,020

Article 6: Soil and Water Conservation District Aid

Soil and Water Conservation District Aid	\$0	(\$22,000)	(\$22,000)	(\$22,000)
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General Fund Total	\$0	(\$122,000)	(\$120,220)	(\$120,360)
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Various Effective Dates

***Non-General Fund Impacts**

Clean Water Fund

Soil and Water Conservation District Aid	\$0	\$12,000	\$0	\$0
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REVENUE ANALYSIS DETAIL

Article 4: Property Taxes

ITIN for Homestead Classification Allowed (Sections 1-7, 9)

Effective for homestead applications filed in 2022 and thereafter.

Under current law, only property owners with a valid Social Security number (SSN) can apply for homestead classification. Under the proposal, property owners with a valid individual taxpayer identification number (ITIN) issued by the Internal Revenue Service would also be allowed to apply for homestead classification.

- By expanding the identification documents allowed to apply for homestead classification, it is assumed that the number of homesteads in the state will increase.
- The proposal would cause a shift in property taxes away from properties newly qualifying for homestead and onto all other properties, including other homesteads.
- An increase in the number of properties eligible for homestead status would result in an increase in property tax refunds paid by the state.
- According to Minnesota individual income tax return filing summaries, there would be approximately 13,000 returns filed by resident households with only an ITIN and no SSN.
- Based on U.S. Census Bureau information on Minnesota homeownership rates by income range and citizenship, it is estimated that approximately one-quarter of filers using an ITIN would be homeowners and receive homestead status under the proposal.
- It is assumed that approximately 1,800 additional homeowners would become eligible and file for a property tax refund under the proposal, resulting in an increase in state general fund costs of \$1.8 million beginning in FY 2024.

Hemp Included in Agricultural Product Definition (Section 8)

Effective beginning with assessment year 2023.

Under current law, land that is used for agricultural purposes, as defined in statute, is classified as 2a agricultural land. The proposal expands the definition of agricultural purposes to include hemp.

- According to the Minnesota Department of Agriculture, hemp was planted in over 6,000 acres of land in Minnesota in 2021. Additionally, 350,000 square feet of greenhouse space was dedicated to producing hemp.
- Under the proposal, land used to produce hemp would qualify as class 2a homestead or non-homestead agricultural land. Land qualifying as class 2a under the proposal would receive lower classification rates than under current law.
- The proposal would shift property taxes away from properties newly qualifying as agricultural and onto all other properties, including homesteads.
- The shift in taxes onto homesteads would increase state-paid property tax refunds by \$30,000 beginning in fiscal year 2025.
- Properties newly classified as 2a agricultural homestead would be eligible for the agricultural homestead market value credit, increasing the credit by \$10,000 beginning in fiscal year 2025. Properties newly classified as 2a agricultural homestead or non-homestead would also be eligible for the school building bond credit, increasing the credit by \$20,000 beginning in fiscal year 2025.

Senior Citizen Property Tax Deferral Household Income Threshold Increased (Sections 10-13)

Effective for applications received for deferral of taxes payable 2023.

Under current law, eligibility requirements for participation in the senior citizen property tax deferral program include having a household income of \$60,000 or less.

The proposal would increase the household income eligibility threshold from \$60,000 to \$75,000 beginning with applications for deferral of property taxes payable in 2023.

- According to the U.S. Social Security Administration, approximately three-quarters of senior citizen homeowners have household incomes below \$60,000.
- Under the proposal, increasing the household income threshold from \$60,000 to \$75,000 would increase eligibility for the senior citizen property tax deferral program.
- There are approximately 400 participants currently enrolled in the senior deferral program. Under the proposal it is assumed that participation would increase approximately 7% annually due to more senior homeowners being eligible to apply for the program.
- The proposal would increase property tax deferrals paid by the state general fund in the short term. Over the long term, property tax deferrals are repaid to the state when the homeowner leaves the program.
- The first partial year of impact is assumed to be fiscal year 2024 based on increased applications received between June 2022 and October 2022 for deferral of taxes payable in 2023. The first full year of impact would be fiscal year 2025.

Article 5: Public Safety Aid

Public Safety Aid Established (Section 1)

Effective beginning with aids payable in 2022.

The proposal would create a public safety aid program with an annual \$100 million appropriation. Cities with law enforcement agencies would receive 70% percent of the appropriation based on their population share, and 30% of the apportionment would be apportioned between counties and tribes based on their population share excluding cities with law enforcement agencies.

- The new aid program would increase annual state general fund costs by \$100 million for fiscal year 2023 and thereafter.
- It is assumed that local governments receiving the new aid would reduce property tax levies by a portion of the aid increase. Lower levies would reduce property taxes on all property.
 - Lower property taxes would result in lower homeowner property tax refunds, reducing costs to the state general fund beginning in FY 2024.
 - Lower property taxes would result in lower income tax deductions, increasing revenues to the state general fund beginning in FY 2024.

Article 6: Soil and Water Conservation District Aid

Soil and Water Conservation District Aid Established (Sections 1-2)

Effective beginning with aids payable in 2022.

The proposal would create an aid program for soil and water conservation districts. The aid program would have a \$22 million appropriation. 70% of the appropriation would be split evenly between all soil and water conservation districts with the remaining 30% apportioned based on a soil and water conservation district's share of nonpublic lands.

The proposal would also amend the clean water fund appropriation in fiscal year 2023.

- There are 88 soil and water conservation districts in Minnesota, with at least one district in each of the 87 counties except for Hennepin and Ramsey Counties. Three of the larger counties have two districts: Otter Tail, Polk, and St. Louis.
- The new aid program would increase annual state general fund costs by \$22 million for fiscal year 2023 and thereafter.
- The proposal would decrease funding to the clean water fund by \$12 million in fiscal year 2023 that was to be used for payments to soil and water conservation districts.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
<https://www.revenue.state.mn.us/revenue-analyses>

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