

**PROPERTY TAX
Agricultural homestead
determinations modified**

March 15, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3808 (Weber) as proposed to be amended by SCS3808A-1

Fund Impact

	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	<i>(000's)</i>			
Property Tax Refund Interaction	\$0	\$0	\$0	(negligible)
Ag Homestead Market Value Credit	\$0	\$0	\$0	(negligible)
Estate Tax	\$0	\$0	\$0	(unknown)

Effective beginning with assessment year 2023.

EXPLANATION OF THE BILL

Under current law, non-homestead agricultural land may use remaining first tier value from a shareholder's, member's, or partner's 2a agricultural homestead property if it meets all the requirements. The remaining first tier value applied to this land receives the first tier classification rate of 0.50%, but does not qualify for homestead classification. As understood, the proposal would allow this land to receive agricultural homestead classification.

Additionally, current law states that a qualifying person must actively farm unoccupied agricultural property owned by a farming entity in order to receive agricultural homestead classification. As understood, the proposal would add language to clarify this requirement.

REVENUE ANALYSIS DETAIL

- The proposal would allow agricultural land that currently only receives the first tier classification rate to receive all the benefits of agricultural homestead classification, including eligibility for the Green Acres assessment and tax deferral program and the agricultural homestead market value credit.
- If land newly classified as agricultural homestead under the proposal is enrolled in the Green Acres program, its taxable market value and net tax capacity would be reduced. It is assumed that a small number of newly eligible properties would be enrolled.
- The proposal would cause a shift in property taxes away from properties newly enrolling in the Green Acres program and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would be assumed to increase by less than \$5,000 in the first year.
- Land newly qualifying as agricultural homestead under the proposal may also qualify for the agricultural homestead market value credit. This would result in the credit increasing by a negligible amount in the first year.

- The land eligible for agricultural homestead classification under the proposal may expand in future years. This estimate only reflects impacts through fiscal year 2025.
- Adequate data is not available to estimate the impact of the proposal on estate taxes. Since the additional property that would be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue would be small. However, it is likely that the impact could be significant for a small number of taxpayers.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	Increases complexity for special agricultural homestead classification.
<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
<https://www.revenue.state.mn.us/revenue-analyses>

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