

**PROPERTY TAX  
Governor's Tax Bill  
Article 4**

March 1, 2023

*Property Taxes and Local Aids Only --  
See Separate Analysis for State Taxes  
Revised for February 2023 Forecast*

|                                  | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | X   |    |

Department of Revenue

Analysis of S.F. 1811 (Rest) as proposed to be amended by A23-0028

**Fund Impact**

|  | <u>F.Y. 2024</u> | <u>F.Y. 2025</u> | <u>F.Y. 2026</u> | <u>F.Y. 2027</u> |
|--|------------------|------------------|------------------|------------------|
|  | (000's)          |                  |                  |                  |

**Article 4: Property Taxes**

|  |                    |                   |                   |                   |
|--|--------------------|-------------------|-------------------|-------------------|
| ITIN for Homestead Classification Allowed  | \$0                | (\$2,000)         | (\$2,000)         | (\$2,000)         |
| School Building Bond Credit Increased      | \$0                | \$0               | (\$17,100)        | (\$23,200)        |
| Property Tax Refund Interaction            | \$0                | \$0               | (\$490)           | (\$990)           |
| Income Tax Interaction                     | \$0                | \$0               | \$490             | \$470             |
| Senior Deferral Income Threshold Increased | \$0                | (\$210)           | (\$520)           | (\$520)           |
| LGA Appropriation Increase                 | \$0                | (\$30,000)        | (\$30,000)        | (\$30,000)        |
| Mahnomen Reimbursement Aid                 | \$0                | (\$160)           | (\$160)           | (\$160)           |
| Property Tax Refund Interaction            | \$0                | \$820             | \$820             | \$820             |
| Income Tax Interaction                     | \$0                | \$300             | \$300             | \$300             |
| CPA Appropriation Increase                 | \$0                | (\$30,000)        | (\$30,000)        | (\$30,000)        |
| Property Tax Refund Interaction            | \$0                | \$820             | \$820             | \$820             |
| Income Tax Interaction                     | \$0                | \$300             | \$300             | \$300             |
| Soil and Water Conservation District Aid   | (\$12,000)         | (\$12,000)        | (\$12,000)        | (\$12,000)        |
| Public Safety Aid                          | (\$300,000)        | \$0               | \$0               | \$0               |
| Tribal Nation Homelessness Aid             | (\$44,000)         | \$0               | \$0               | \$0               |
| General Fund Total                         | <u>(\$356,000)</u> | <u>(\$72,130)</u> | <u>(\$89,540)</u> | <u>(\$96,160)</u> |

Various Effective Dates

## REVENUE ANALYSIS DETAIL

The revenue estimate is based on the February 2023 forecast.

### **Article 4: Property Taxes**

#### **ITIN for Homestead Classification Allowed (Sections 1-8)**

*Effective for homestead applications filed in 2023 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 13,500 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 1,900 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 \$2.0 million beginning in FY 2025.

#### **School Building Bond Credit Increased (Section 9)**

*Effective beginning with taxes payable in 2025.*

Under current law, all class 2a, 2b, and 2c property, other than the house, garage, and surrounding one acre of land of an agricultural homestead, is eligible for the school building bond credit. The credit is equal to the credit percent of the property's eligible net tax capacity multiplied by the school debt tax rate. The credit percent is 60% for taxes payable 2022 and 70% for taxes payable 2023 and after.

The proposal would increase the credit percent to 80% for taxes payable 2025 and after.

- Under current law, the credit is estimated to total \$88.0 million for taxes payable in 2023, \$99.4 million for taxes payable in 2024, \$105.0 million for taxes payable in 2025, and \$107.9 million for taxes payable in 2026. Under the proposal, increasing the credit percentage to 80% would increase state general fund costs beginning in fiscal year 2026.
- According to the Department of Education, it is estimated that the portion of the school district levy that is levied for debt service under current law is \$1.2 billion statewide for taxes payable 2023 and is assumed to grow statewide by 2% per year in taxes payable 2024, 2025,

and 2026. Due to behavioral changes for levying, if the credit increase is enacted, levies eligible for the credit are assumed to increase beginning in taxes payable 2025 compared to the current law forecast.

- Properties eligible for the school building bond credit pay approximately 10% of school district debt service levies under current law prior to the credit being applied.
- Under the proposal, the statewide cost of the school building bond credit would increase beginning in taxes payable 2025.
- Lower property taxes for property owners receiving the credit would reduce deductions on income tax returns, increasing state tax collections beginning in fiscal year 2026.
- Behavioral changes for levying affect the amount of property taxes paid by all property types, including homesteads. Higher debt service levies increase property tax burdens, increasing costs to the state general fund for property tax refunds and income tax deductions beginning in fiscal year 2026.
- The overall income tax savings to the state is net of these costs.

### **Senior Property Tax Deferral Program Income Threshold and Tenure Changes (Sections 10-13)**

*Effective beginning for applications received for deferral of taxes payable 2024.*

This proposal would make two changes to the senior deferral program:

1) Under current law, the eligibility requirements for participation in the senior citizen property tax deferral program include owning and living in their homestead for at least 15 years.

The proposal would modify the number of years a senior citizen would be required to live in their home from 15 to 5 years to be eligible for a property tax deferral.

2) Under current law, the 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 level from \$60,000 to \$75,000 to be eligible for a property tax deferral.

- According to U.S. Census data, approximately three-quarters of senior citizen homeowners have lived in their homes for at least 15 years.
- Under the proposal, reducing the requirement from 15 years to 5 years would increase eligibility for the senior citizen property tax deferral program.
- According to the U.S. Social Security Administration, approximately three-quarters of senior citizen homeowners have incomes under \$60,000.
- Under the proposal, increasing the requirement from \$60,000 to \$75,000 years would increase eligibility for the senior citizen property tax deferral program.
- It is assumed that participation would increase approximately 28% under the proposal, increasing state general fund costs during the forecast period.
- The first partial year of impact is assumed to be fiscal year 2025. Applications received between June 2023 and October 2023 would be eligible for deferral under the new

requirement beginning for taxes payable in 2024. The first full year of impact would be fiscal year 2026.

### **LGA Appropriation Increase and Formula Modifications (Sections 14-19, 20-22, 25-26, 29)**

*Effective beginning for aids payable in calendar year 2024.*

Under current law, the appropriation for Local Government Aid (LGA) is \$564,398,012 for aids payable in 2024 and thereafter.

The bill would increase the LGA appropriation by \$30 million for aids payable in 2024 and thereafter. The proposal would also modify the LGA distribution formulas and increase the city of Mahanomen property tax reimbursement.

- Increasing the appropriation for LGA to cities would increase state general fund costs by \$30 million in calendar year 2024 and thereafter.
- The proposal would also increase the annual property tax reimbursement to the city of Mahanomen by \$160,000.
- It is assumed that the permanent increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2025, resulting in a savings to the state general fund.

### **CPA Appropriation Increase (Section 23)**

Under current law, the appropriation for county program aid (CPA) is \$118,795,000 for need aid and \$145,873,444 for tax base equalization aid for aids payable in 2024 and thereafter.

The proposal would increase the CPA appropriation by \$30 million for aids payable in 2024 and thereafter. The appropriation increase would be split with need aid increasing \$13.3 million and tax base equalization aid increasing \$16.7 million.

- Increasing the appropriation for CPA would increase state general fund costs by \$30 million in calendar year 2024 and thereafter.
- It is assumed that the permanent increase in aid to counties would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2025, resulting in a savings to the state general fund.

### **Soil and Water Conservation District Aid Program Established (Section 24)**

*Effective beginning for aids payable in calendar year 2023.*

The proposal would create an aid program for soil and water conservation districts. The aid program would have a \$12 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.

- 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. Hennepin and Ramsey Counties have special legislative authority to carry out soil and water conservation district authorities and would therefore be included in aid payments.
- The new aid program would increase annual state general fund costs by \$12 million for fiscal year 2024 and thereafter.

### **Public Safety Aid (Section 27)**

*Effective beginning for aids payable in calendar year 2023.*

The proposal would create a one-time \$300 million appropriation for public safety in aids payable year 2023. 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 one-time appropriation would increase state general fund costs by \$300 million in fiscal year 2024.

### **Tribal National Housing and Homelessness Aid (Section 28)**

*Effective beginning the day following final enactment.*

The proposal would create a one-time \$44 million aid for Tribal Nations. All eleven Minnesota Tribal Nations would be eligible for the aid and would receive the same amount. The aid would need to be spent on homelessness prevention and housing instability.

- The one-time appropriation would increase state general fund costs by \$44 million in fiscal year 2024.
- There would be no property tax or income tax interactions as tribes do not levy property taxes.

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

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