

PROPERTY TAX
Redevelopment Area Homestead
Credit Established

January 28, 2025

Department of Revenue
 Analysis of S.F. 199 (Klein) as introduced

	Yes	No
DOR Administrative Costs/Savings	X	

Fund Impact

	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(000's)			
Redevelopment Area Homestead Credit	\$0	(\$210)	(\$90)	(\$90)
Property Tax Refund Interaction	\$0	\$70	\$30	\$30
Income Tax Interaction	\$0	negligible	negligible	negligible

Effective beginning with taxes payable in 2026.

EXPLANATION OF THE BILL

The proposal would create a new property tax credit for homestead properties located in certain redevelopment areas. Only class 1a and class 1b homestead properties located in a city of the second class that was designated as a redevelopment area under the Public Works and Economic Development Act of 1965 are eligible for the credit. The credit would equal 70 percent of the property's net tax capacity multiplied by the city capital debt tax rate.

Each city containing property eligible for the credit would have to certify to the county auditor the portion of the city levy that is levied for repayment of capital improvement bonds. County auditors would calculate the credit and certify the total credit amount in their county to the commissioner of revenue, who would reimburse each local jurisdiction for the credit.

REVENUE ANALYSIS DETAIL

- As understood, only homestead properties in the City of South St. Paul would qualify for the proposed property tax credit.
- According to the City of South St. Paul, the portion of the city levy that is levied for the repayment of capital improvement bonds is approximately \$480,000 in taxes payable 2025, or about 3% of the city's total levy. This portion of the city's levy is expected to decrease in the forecast window as the maturity date is reached for some of these capital improvement bonds.
- Class 1a and 1b residential homestead properties pay approximately 60% of the city's net tax capacity-based levies.
- The credit for residential homestead properties is estimated to be \$210,000 in taxes payable year 2026. The credit amount is expected to decrease to \$90,000 in taxes payable 2027 as the portion of the city levy for the repayment of capital improvement bonds decreases.
- Lower property taxes for property owners receiving the credit would reduce property tax refunds paid by the state by \$70,000 in fiscal year 2027, \$30,000 in fiscal year 2028, and \$30,000 in fiscal year 2029.

- Lower property taxes for property owners receiving the credit would reduce deductions on individual income tax returns, increasing state tax collections by less than \$5,000 beginning in fiscal year 2027.

Number of Taxpayers: About 5,600 homesteads would qualify for the proposed credit.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	Decrease in simplicity: creating a new credit, credit is only for a specific portion of some city levies
<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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