PROPERTY TAX
Senate Early Tax Bill
Articles 2-4

	Yes	No
DOR Administrative Costs/Savings		X

March 17, 2025

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

Department of Revenue
Analysis of S.F. 132 (Rest) 1st engrossment

	Fund Impact				
	F.Y. 2025	**F.Y. 2026**	**F.Y. 2027**	**F.Y. 2028**	**F.Y. 2029**
			(000's)		
Article 2: Property Taxes					
Leased Conservation Land Exemption		$0	(negligible)	(negligible)	(negligible)
Cooperative Distribution Systems Exemption		$0	($40)	($40)	($40)
Leech Lake Band Exemption		$0	$0	($10)	($10)
Grand Portage Band Exemption					
Property Tax Refund Interaction		$0	$0	(negligible)	(negligible)
School Bond Credit Interaction		$0	$0	negligible	negligible
Ag Homestead Shareholder Limit Increased					
Property Tax Refund Interaction		$0	(unknown)	(unknown)	(unknown)
Ag Market Value Credit Interaction		$0	(unknown)	(unknown)	(unknown)
Estate Tax Interaction		$0	(unknown)	(unknown)	(unknown)
Ag Homestead Qualifying Relatives Expanded					
Property Tax Refund Interaction		$0	$0	(unknown)	(unknown)
Ag Market Value Credit Interaction		$0	$0	(unknown)	(unknown)
Estate Tax Interaction		$0	$0	(unknown)	(unknown)
Homestead Resort Tier Limits Modified		$0	$0	($40)	($40)
Article 3: Aids and Credits					
Public Safety Aid Reporting Requirements		$0	$0	$0	$0
LGA Penalty Forgiveness – Stewart	($88)	$0	$0	$0	$0
Article 4: Public Finance					
Local Government Debt Financing Modified		$0	$0	$0	$0
General Fund Total	**($88)**	**$0**	**($40)**	**($90)**	**($90)**

Various Effective Dates

REVENUE ANALYSIS DETAIL

Article 2: Property Taxes

Leased Conservation Land Exemption (Section 1)
The effective date is beginning with taxes payable in 2026.
Under current law, when property that is exempt from property taxes is leased, loaned, or otherwise made available and used by a private individual, association, or corporation in connection with a business conducted for profit, then property taxes are imposed to the same extent as though the lessee or user was the owner of the property, with some exceptions.

Under the proposal, exempt property that is leased, loaned, or otherwise made available to a private individual, corporation, or association would remain exempt from property taxes if: 1) the property is owned by a nonprofit conservation organization; and 2) the private individual, corporation, or association is using the property for grazing activities that further the nonprofit conservation organization's conservation objectives.

- Property owned by The Nature Conservancy would be eligible for the proposed exemption.
- Beginning with taxes payable in 2026, the exemption would shift property taxes away from the exempted conservation land and onto all other properties, including homesteads, increasing homeowner property tax refunds by less than $5,000 in FY 2027.

Cooperative Distribution Systems Exemption (Sections 2, 8-9)
The effective date is beginning with assessment year 2025.
Under current law, Rural Electric Association (REA) cooperatives pay a tax of $10 for each 100 members in lieu of all personal property taxes on distribution lines – and attachments and appurtenances of those distribution lines – located in a rural area.

Under the proposal, this sentence in statute:

> "The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon *distribution lines and the attachments and appurtenances thereto of such associations*, located in rural areas."

would be replaced with the following clarification:

> "The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon <u>that part of the association's distribution system, not including substations, or transmission or generation equipment</u>, located in rural areas."

- The $10-per-100-members tax is already being paid by REA cooperatives, meaning the proposal would, in effect, create an exemption for the newly eligible personal property.
- Under the proposal, metering and streetlighting equipment would be eligible for exemption from property taxes.
- For taxes payable in 2026, the exemption would shift an estimated $750,000 in local property taxes away from cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by $40,000 in fiscal year 2027.

- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2026 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.
- Tax year impact is allocated to the following fiscal year.

Leech Lake Band Exemption (Section 3)
The effective date is beginning with assessment year 2026.
The proposal would create a property tax exemption for property that:
(1) was classified as class 3a for taxes payable in 2025;
(2) is located in a city of the first class with a population greater than 400,000 (as of the 2020 federal census);
(3) was on January 1, 2024, and is for the current assessment, owned by a federally recognized Indian Tribe that is located within the state of Minnesota; and
(4) is used exclusively for Tribal purposes or institutions of purely public charity.
Eligible property would be limited to one parcel that does not exceed 40,000 square feet. Property used for single-family housing, market-rate apartments, agriculture, or forestry would not qualify for the exemption.

- Property in Minneapolis owned by the Leech Lake Band of Ojibwe would be eligible for the proposed exemption.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible parcel and onto all other properties, including homesteads, increasing homeowner property tax refunds by $10,000 in FY 2028.
- For taxes payable in 2027 and thereafter, the exemption from the commercial-industrial state general tax would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Grand Portage Band Exemption (Section 4)
The effective date is beginning with assessment year 2026.
The proposal would create a property tax exemption for property that:
(1) was classified as class 2b for taxes payable in 2025;
(2) is located in a county with a population greater than 5,580 but less than 5,620 (according to the 2020 federal census);
(3) is located in an unorganized territory with a population less than 800 (according to the 2020 federal census); and
(4) was on January 2, 2023, and is for the current assessment, owned by a federally recognized Indian Tribe located within the state of Minnesota.

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- Property in Cook County owned by the Grand Portage Band of Chippewa would be eligible for the proposed exemption.
- Beginning with taxes payable in 2027, the eligible parcels would no longer receive the School Building Bond Credit, resulting in a savings to the state general fund of less than $5,000 in FY 2028.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible parcels and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by less than $5,000 in FY 2028.

Agricultural Homestead Shareholder Limit Increased (Section 5)
The effective date is beginning with homestead applications in 2025.
Under current law, a "family farm corporation," "family farm," or "partnership operating a family farm" may not have more than 12 shareholders, members, or partners in order to receive agricultural homestead classification.

The proposal would increase the number of allowable shareholders, members, or partners from 12 to 18. This limit reflects both the maximum number of shareholders, members, or partners in an entity for the entity to qualify for agricultural homestead classification as well as the maximum number of agricultural homesteads that may be established by the entity under special agricultural homestead laws.

- By increasing the number of shareholders, members, or partners allowed, it is assumed that the number of properties qualifying as agricultural homestead would increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural relative homestead land would change from 1.00% to 0.50% for the tier of value ($3.8 million for assessment year 2025) and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural homestead 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 increase by an unknown amount beginning in fiscal year 2027.
- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2026.
- 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.

Agricultural Homestead Qualifying Relatives Expanded (Section 6)
The effective date is beginning with assessment year 2026.
Under current law, agricultural relative homestead may be granted if a grandchild, child, sibling, or parent of the owner was occupying or farming the property.

The proposal expands qualifying relatives for agricultural relative homestead to include grandparents, stepparents, stepchildren, uncles, aunts, nephews, and nieces.

- By expanding the list of qualifying relatives, it is assumed that the number of properties qualifying as agricultural relative homestead would increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural relative homestead land would change from 1.00% to 0.50% for the tier of value ($3.8 million for assessment year 2025) and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural relative homestead 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 increase by an unknown amount beginning in fiscal year 2028.

- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2027.
- 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.

Homestead Resort Tier Limits Modified (Section 7)
The effective date is beginning with assessment year 2026.
Under current law, class 1c homestead resort property has three classification tiers.
The first tier includes the first $600,000 of value and has a classification rate of 0.50%, the second tier includes value over $600,000 and below $2.3 million and has a classification rate of 1.00%, and the third tier includes value over $2.3 million and has a classification rate of 1.25%. Only the third tier is subject to state general property taxes.

The proposal would increase the classification tier limits for class 1c homestead resorts.
The first tier would include the first $1.5 million of value, the second tier would include value between $1.5 million and $4.5 million, and the third tier would include value over $4.5 million. The classification rates for each tier would not change. The third tier would remain subject to state general property taxes.

- For taxes payable in 2025, about 1,900 parcels contain class 1c homestead resort property. The total statewide taxable market value for class 1c property is $813 million and the total net tax capacity is $6.5 million.
- Of the 1,900 parcels containing class 1c property, about 440 have a taxable market value greater than the current first tier limit of $600,000.
- Under current law, 45% of the total class 1c taxable market value statewide is in the first tier, 45% is in the second tier, and 10% is in the third tier.
- The proposal would shift class 1c market value from the higher tiers to the lower tiers. Under the proposal, approximately 72% of total class 1c taxable market value statewide would be in the first tier, 22% in the second tier, and 6% in the third tier.
- By increasing the classification tier limits for homestead resorts, the classification rate for a portion of the value currently above the first tier limit would change from the second tier rate of 1.00% to the first tier rate of 0.50%. Likewise, a portion of the value currently above the second tier limit would change from the third tier rate of 1.25% to the second tier rate of 1.00%. The total statewide net tax capacity for class 1c property would be reduced by approximately 18%.
- The proposal would cause a shift in property taxes away from properties newly qualifying for a lower tier classification rate and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by $40,000 beginning in fiscal year 2028.

Article 3: Aids and Credits

Public Safety Aid Reporting Requirements Modified (Section 1)

The effective date is day following final enactment.
The bill would establish a reporting requirement for recipients of public safety aid. Local units that received over $10,000 in aid, counties, and Tribal governments would be required to submit a report by January 15, 2026, to the commissioner of public safety. The report would include the amount of aid received and the ways the aid was used or will be used.

- The provision would not impact the state general fund.

LGA Penalty Forgiveness – City of Stewart (Section 2)

The effective date is day following final enactment.
The bill would allow the city of Stewart to receive payment for the portion of its 2023 Local Government Aid (LGA) payment withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2022 by June 1, 2025.

A onetime appropriation from the general fund is provided in fiscal year 2025 for a payment of $87,501.50 to be made by June 30, 2025.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The bill provides a onetime appropriation for payment of the withheld amount at a cost to the state general fund.
- The city of Stewart would receive a payment of $87,501.50 in FY 2025.

Article 4: Public Finance

Local Government Debt Financing Modified (Sections 1-4)

The effective date is assumed July 1, 2025.
The proposal makes several modifications to local government debt financing. It would add construction of a court house or justice center to debt obligations for which the state provides a guarantee, clarify which obligations fall under bond allocation act rules, and adjust the deadline for issuers that receive an allocation from the unified pool to issue obligations.

- There is no assumed impact to the state general fund.

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

sf0132(hf0506) Senate Early Tax Bill/nrg, wms, css, jtb