

**PROPERTY TAX
First tier valuation
modification for agricultural
homestead property**

March 14, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3706 (Weber) / H.F. 4058 (Anderson) as introduced

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Property Tax Refund Interaction	\$0	\$0	\$0	(\$360)
School Building Bond Credit	\$0	\$0	\$0	\$360
General Fund Total	\$	\$0	\$0	\$0

Effective beginning with assessment year 2023.

EXPLANATION OF THE BILL

Under current law, the first tier valuation limit for agricultural homestead property was set at \$1.14 million in 2010. Since then, the tier limit has changed annually by the ratio of the average taxable market value per acre of deeded farm land in the preceding year to the average taxable market value per acre of deeded farm land in the second preceding year. For assessment years 2021 and 2022, the first tier valuation limit was \$1.89 million.

The proposal would increase the first tier valuation limit to \$2.5 million for assessment year 2023. Beginning with assessment year 2024, the tier limit would continue to be changed annually in the same manner as under current law.

REVENUE ANALYSIS DETAIL

- In assessment year 2021, there were approximately 77,000 agricultural homesteads statewide. About 8,000 of those agricultural homesteads have a taxable market value greater than the assessment year 2021 tier limit of \$1.89 million. Approximately \$18.8 billion of market value is currently in the second tier.
- By increasing the first tier valuation limit for agricultural homesteads, the classification rate for a portion of the value currently above the limit would change from the second tier rate of 1.00% to the first tier rate of 0.50%.
- Based on assessment year 2021 data, it is estimated that approximately 19%, or \$3.5 billion, of agricultural homestead value currently in the second tier would qualify for the first tier under the proposal.
- For agricultural homesteads that have value newly qualifying for the first tier classification rate, the average tax decrease would be approximately \$1,200.

- The proposal would cause a shift in property taxes away from the properties newly qualifying for the first tier classification rate and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto other homesteads, property tax refunds paid by the state would increase by \$360,000 beginning in fiscal year 2025.
- Because some agricultural homestead land would change from the 1.00% class rate to the 0.50% class rate, state payments of the school building bond credit would decrease by \$400,000 beginning in taxes payable 2024. These numbers have been converted to fiscal years for the purpose of this estimate.
- The proposal would have no effect on the agricultural homestead market value credit.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral
<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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