DEPARTMENT OF REVENUE

PROPERTY TAX
Miscellaneous property tax provisions modified

February 14, 2023

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 973 (Weber) as proposed to be amended by SCS0973A-1

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
Ag Homestead First Tier Limit Increased				
Property Tax Refund Interaction	$0	$0	($640)	($640)
School Building Bond Credit	$0	$0	$1,250	$1,420
Homestead Resort Tier Limits Increased				
Property Tax Refund Interaction	$0	$0	($10)	($10)
Homestead Market Value Exclusion Modified				
Property Tax Refund Interaction	$0	$0	$6,080	$6,080
State General Levy Reduced				
State General Levy	($18,550)	($35,000)	($35,000)	($35,000)
Income Tax Interaction	$0	$1,050	$1,050	$1,050
General Fund Total	**($18,550)**	**($33,950)**	**($27,270)**	**($27,100)**

EXPLANATION OF THE BILL

First Tier Valuation Limit Increased for Agricultural Homestead Land (Section 1)

Effective beginning with assessment year 2024.
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 year 2023, the first tier valuation limit is $2.15 million.

The proposal would increase the first tier valuation limit to $3.5 million for assessment year 2024. Beginning with assessment year 2025, the tier limit would continue to be changed annually in the same manner as under current law.

Tier Limits Increased for Homestead Resort Properties (Section 2)

Effective beginning with assessment year 2024.
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 taxes.

The proposal would increase the classification tier limits for class 1c homestead resorts. The first tier would include the first $850,000 of value, the second tier would include value between $850,000 and $3.1 million, and the third tier would include value over $3.1 million. The classification rates for each tier would not change. The third tier would remain subject to state general taxes.

Homestead Market Value Exclusion Modified (Section 3)
Effective beginning with assessment year 2024.
Under current law, the homestead market value exclusion reduces the taxable market value for all homesteads valued below $413,800. The exclusion is 40% of the first $76,000 of market value, yielding a maximum exclusion of $30,400. For homestead value between $76,000 and $413,800, the exclusion is $30,400 minus 9% of the value over $76,000. Homesteads valued at $413,800 or more do not receive the exclusion.

The proposal would increase the homestead market value exclusion for most homesteads. The exclusion would equal 40% of the first $95,000 of market value, yielding a maximum exclusion of $38,000. For homesteads valued between $95,000 and $517,200, the exclusion would be $38,000 minus 9% of the value over $95,000. Homesteads valued at $517,200 or more would not receive the exclusion.

State General Property Tax Levy Reduced (Section 4)
Effective beginning with taxes payable in 2024.
Under current law, the state general levy for commercial-industrial property is $716,990,000 and the state general levy for seasonal recreational property is $41,690,000 for taxes payable in 2023 and thereafter.

The proposal would reduce the state general levy for commercial-industrial property to $683,913,000 and the state general levy for seasonal recreational property to $39,767,000 for taxes payable 2024 and thereafter.

REVENUE ANALYSIS DETAIL

- The estimate is based on the November 2022 forecast.

First Tier Valuation Limit Increased for Agricultural Homestead Land (Section 1)

- In assessment year 2022, there were approximately 76,000 agricultural homesteads statewide. About 9,000 of those agricultural homesteads have a taxable market value greater than the assessment year 2022 tier limit of $1.89 million. Approximately $24.9 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%.

- It is estimated that approximately 27%, or $6.8 billion, of agricultural homestead value currently in the second tier would qualify for the first tier under the proposal.
- For agricultural homesteads that are valued higher than the proposed tier limit of $3.5 million, the average tax decrease would be approximately $2.400.
- 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 $640,000 beginning in fiscal year 2026.
- 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 $1.4 million beginning in taxes payable 2025. 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.

Tier Limits Increased for Class 1c Homestead Resort Properties (Section 2)

- For taxes payable in 2023, about 2,000 parcels contain class 1c homestead resort property. The total statewide taxable market value for class 1c property is $723.9 million and the total net tax capacity is $5.5 million.
- Of the 2,000 parcels containing class 1c property, about 390 have a taxable market value higher than the current first tier limit of $600,000.
- Under current law, 51% of the total class 1c taxable market value statewide is in the first tier, 42% is in the second tier, and 7% 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 63% of total class 1c taxable market value statewide would be in the first tier, 32% in the second tier, and 5% 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 8%.
- 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 $10,000 beginning in fiscal year 2026.
- Number of Taxpayers: Approximately 390 parcels would have a reduced net tax capacity under the proposal.

Homestead Market Value Exclusion Modified (Section 3)

- Under current law, 1.18 million homesteads qualify for the homestead market value exclusion for taxes payable 2023. The total exclusion statewide is $16.63 billion.
- Under the proposal, all homesteads over $76,000 and less than $413,800 of market value would receive an increased homestead market value exclusion. This represents 96% of homesteads that currently receive the exclusion.

- An additional 184,000 homesteads would qualify for the homestead market value exclusion under the proposal due to the increase in maximum qualifying market value from $413,800 to $517,200.
- The total homestead market value exclusion would increase by $11.20 billion statewide.
- The proposal would reduce the taxable market value and net tax capacity for homesteads newly qualifying for the exclusion and those receiving a larger exclusion. Property taxes would shift away from these homestead properties and onto all other properties, including other homesteads.
- The net impact of property taxes shifting away from and onto homesteads would be a $52.88 million decrease in homestead taxes statewide.
- As a result of property taxes shifting away from homesteads, property tax refunds paid by the state would decrease by $6.08 million beginning in fiscal year 2026.
- Number of Taxpayers: Approximately 1.31 million homesteads would newly qualify or receive a larger homestead market value exclusion under the proposal.

State General Property Tax Levy Reduced (Section 4)

- The state general levy would decrease by $35 million per year beginning in taxes payable 2024. These numbers have been converted to fiscal years for the purpose of this estimate.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections beginning in fiscal year 2025.

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

Transparency, Understandability, Simplicity & Accountability	Neutral	
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Increase	Taxes on businesses would decrease.
Responsiveness to Economic Conditions	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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