

Tax Supplement to the

State of the State Message

January 13, 1982

A summary of the overall tax impact
of legislation proposed for adoption
by Governor Albert H. Quie

PROPERTY TAXES PAYABLE IN 1982

	<u>Current Law</u>	<u>Governor's Proposal</u>
Market Value Basis		
Homestead Base: Base - Standard	Estimated Farm \$54,000; Res \$27,000/\$27,000A	Estimated Farm \$54,000; Res \$27,000/\$27,000A
Class 3cc	\$35,000A	\$35,000A
Classification Percentages		
Agricultural Homestead: Base - Standard	14%	4%
Class 3cc	5%B	2%
Excess - 1st 240 Acres	19%	10%
Over 240 Acres	19%	15%
Agricultural Non-Homestead	19%	16%
Timberlands	19%	17%
Seasonal Recreational Residential	21%	18%
Residential Homestead: Base - Standard	1st \$27,000-16%; 2nd \$27,000-22%A	1st \$27,000-7%; 2nd \$27,000-9%A
Class 3cc	5%B	2%
Excess	28%	25%
Commercial	1st \$50,000-40%, Excess 43%D	1st \$50,000 30%, Excess 43%D
Industrial	1st \$50,000-40%, Excess 43%D	1st \$50,000 30%, Excess 43%D
Seasonal Recreational Commercial: Class 3a	12%	12%
Class 3	21%	21%
Public Utility: Land and Buildings	1st \$50,000-40%, Excess 43%D	1st \$50,000 30%, Excess 43%D
Machinery	33 1/3%	33 1/3%
Tax Credits		
Ag. Mill Rate Credit: Homestead	1st 320 Acres - 18 Mills, 2nd 320 A.-10 Mills, Excess-8 Mills	Property tax credits are replaced by direct aid distributions to all governmental units with additional aid to prevent a tax shift that results from decreasing the commercial and industrial classification percentages
Non-Homestead	1st 320 A.-10 Mills, Excess-8 Mills	
Seas. Rec. Res.	10 Mills	
Timber	8 Mills	
Homestead Credit: Percent	58%	
Maximum	\$650	
Acreage Limit	240 Acres	

- A - Flexible homestead base is determined annually.
- B - Under current law, this percentage is used to determine the amount of the reduced assessment credit.
- C - 34% for taxes payable in 1983 and subsequent years.
- D - The \$50,000 assessment preference base is limited to one parcel per entity per county except state assessed property which is limited to one parcel per entity statewide.

January 12, 1982

**PROJECTED TOTAL ASSESSED VALUES BY PROPERTY TYPE
UNDER CURRENT LAW AND THE GOVERNOR'S PROPOSAL
FOR TAXES PAYABLE 1982**

	1982 Projection		
	Current Law (000)	Governor's Proposal	
		Amount (000)	Difference**
Farm: Homestead	\$ 3,535,588	\$ 1,757,495	-50.3%
Non-Homestead*	2,047,789	1,724,744	-15.8
Total	<u>5,583,377</u>	<u>3,482,239</u>	-37.6
Seasonal Recreational Residential	490,140	420,120	-14.3
Residential: Homestead	9,410,549	5,078,984	-46.0
Non-Homestead	1,057,560	1,057,560	-
Total	<u>10,468,109</u>	<u>6,136,544</u>	-41.4
Apartment	1,508,779	1,394,104	-7.6
Vacant Land	400,000	400,000	-
Commercial	3,570,000	3,390,000	-5.0
Industrial	1,453,500	1,380,000	-5.1
Seasonal Recreational Commercial	26,371	26,371	-
Public Utility	749,755	749,755***	***
Mineral	38,500	38,500	-
Railroad	117,820	117,820***	***
Personal	<u>655,200</u>	<u>655,200</u>	-
Total	\$25,061,551	\$18,190,653	-27.4%

* Includes timberlands.

** Percent difference from current law.

*** No appreciable difference from current law.

**PROJECTED TOTAL TAXES BY PROPERTY TYPE
UNDER CURRENT LAW AND THE GOVERNOR'S PROPOSAL
FOR TAXES PAYABLE 1982**

	1982 Projection	
	<u>Current Law</u> (000)	<u>Governor's Proposal</u> (000)
Farm: Homestead	\$ 122,728	\$ 122,728**
Non-Homestead*	120,392	120,392
Total	<u>243,120</u>	<u>243,120</u>
Seasonal Recreational Residential	36,584	36,584
Residential: Homestead	481,572	481,572**
Non-Homestead	105,298	105,298
Total	<u>586,870</u>	<u>586,870</u>
Apartment	140,511	140,511
Vacant Land	38,277	38,277
Commercial	356,434	334,396
Industrial	144,946	135,984
Seasonal Recreational Commercial	2,220	2,220
Public Utility	62,496	62,496***
Mineral	3,747	3,747
Railroad	10,585	10,585***
Personal	<u>62,209</u>	<u>62,209</u>
Total	\$1,688,000	\$1,657,000

* Includes timberlands.

** Reflects the deduction of the taconite and supplemental homestead credits.

*** No appreciable difference from current law.

January 12, 1982

**Impact of the Governor's Proposal on Selected Homes
for Property Tax Payable in 1982**

	<u>Present</u>	<u>Proposal</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Estimated Market Value	20,000	20,000		
Assessed Value	3,200	1,400		
Tax Before Homestead Credit	310	136		
Homestead Credit	176	-		
Total Tax	134	136	+2	+1.5%
Total Tax as a Percent of Market Value	0.67%	0.68%		
Estimated Market Value	30,000	30,000		
Assessed Value	4,980	2,160		
Tax Before Homestead Credit	482	209		
Homestead Credit	274	-		
Total Tax	208	209	+1	+0.5%
Total Tax as a Percent of Market Value	0.69%	0.70%		
Estimated Market Value	40,000	40,000		
Assessed Value	7,180	3,060		
Tax Before Homestead Credit	695	296		
Homestead Credit	395	-		
Total Tax	300	296	-4	-1.3%
Total Tax as a Percent of Market Value	0.75%	0.74%		
Estimated Market Value	50,000	50,000		
Assessed Value	9,380	3,960		
Tax Before Homestead Credit	908	383		
Homestead Credit	516	-		
Total Tax	392	383	-9	-2.3%
Total Tax as a Percent of Market Value	0.78%	0.77%		
Estimated Market Value	100,000	100,000		
Assessed Value	23,140	15,820		
Tax Before Homestead Credit	2,240	1,531		
Homestead Credit	650	-		
Total Tax	1,590	1,531	-59	-3.7%
Total Tax as a Percent of Market Value	1.59%	1.53%		
Estimated Market Value	150,000	150,000		
Assessed Value	37,140	28,320		
Tax Before Homestead Credit	3,595	2,741		
Homestead Credit	650	-		
Total Tax	2,945	2,741	-204	-6.9%
Total Tax as a Percent of Market Value	1.96%	1.83%		
Estimated Market Value	200,000	200,000		
Assessed Value	51,140	40,820		
Tax Before Homestead Credit	4,950	3,951		
Homestead Credit	650	-		
Total Tax	4,300	3,951	-349	-8.1%
Total Tax as a Percent of Market Value	2.15%	1.98%		

January 12, 1982

**Impact of the Governor's Proposal on Selected Farms
for Property Tax Payable in 1982**

	<u>Present</u>	<u>Proposal</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Estimated Market Value	100,000	100,000		
Acres	78	78		
Assessed Value	16,300	6,760		
Tax Before Credits	1,293	536		
Agricultural Credit	293	-		
Homestead Credit	568	-		
Total Tax	432	536	+104	+24.1%
Total Tax as a Percent of Market Value	0.43%	0.54%		
Estimated Market Value	200,000	200,000		
Acres	155	155		
Assessed Value	35,300	16,760		
Tax Before Credits	2,799	1,329		
Agricultural Credit	635	-		
Homestead Credit	650	-		
Total Tax	1,514	1,329	-185	-12.2%
Total Tax as a Percent of Market Value	0.76%	0.66%		
Estimated Market Value	500,000	500,000		
Acres	385	385		
Assessed Value	92,300	56,160		
Tax Before Credits	7,319	4,453		
Agricultural Credit	1,538	-		
Homestead Credit	650	-		
Total Tax	5,131	4,453	-678	-13.2%
Total Tax as a Percent of Market Value	1.03%	0.89%		
Estimated Market Value	1,000,000	1,000,000		
Acres	770	770		
Assessed Value	187,300	131,160		
Tax Before Credits	14,853	10,401		
Agricultural Credit	2,430	-		
Homestead Credit	650	-		
Total Tax	11,773	10,401	-1,372	-11.7%
Total Tax as a Percent of Market Value	1.18%	1.04%		

January 12, 1982

**Impact of the Governor's Proposal on Selected Businesses
for Property Tax Payable in 1982**

	<u>Present</u>	<u>Proposal</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Estimated Market Value	50,000	50,000		
Assessed Value	20,000	15,000		
Mill Rate (Cities)	96.8	96.8		
Total Tax	1,936	1,452	-484	-25.0%
Total Tax as a Percent of Market Value	3.87%	2.90%		
Estimated Market Value	100,000	100,000		
Assessed Value	41,500	36,500		
Mill Rate (Cities)	96.8	96.8		
Total Tax	4,017	3,533	-484	-12.0%
Total Tax as a Percent of Market Value	4.02%	3.53%		
Estimated Market Value	500,000	500,000		
Assessed Value	213,500	208,500		
Mill Rate (Cities)	96.8	96.8		
Total Tax	20,667	20,183	-484	-2.3%
Total Tax as a Percent of Market Value	4.13%	4.04%		
Estimated Market Value	1,000,000	1,000,000		
Assessed Value	428,500	423,500		
Mill Rate (Cities)	96.8	96.8		
Total Tax	41,479	40,995	-484	-1.2%
Total Tax as a Percent of Market Value	4.15%	4.10%		

January 12, 1982

PROPOSED CHANGE IN THE METHOD OF MAKING
PAYMENTS OF AIDS AND CREDITS TO LOCAL GOVERNMENTS

Under the current system, the state budgets and "guarantees" payment of aids and credits. Recent economic conditions demonstrate clearly, however, that the state cannot guarantee its revenue.

Thus, the state and local partnership means that, while the state will continue to budget large amounts of money for local government, local government must recognize that payment of the budgeted amounts must be tied to state income.

Therefore, a new payment procedure is proposed.

Certain payments to local governments would be appropriated in the normal way. However, actual payment of those amounts would be made based on the actual General Fund Collections compared to the estimated General Fund Collections.

For example, if \$1,000,000 had been appropriated for a particular aid, but General Fund revenues were 3% short of estimates, then 3% or \$30,000 of the aid would not be paid.

On the other hand, if General Fund revenues exceeded estimates by 3%, then 3% or \$30,000 extra would be paid out.

Shortfalls or gains under this system would be limited to 5% in the following way.

A Local Government Reserve Fund is established. When the General Fund Collections exceed estimates by more than 5%, money is put into the reserve. When General Fund Collections fall short of estimates by more than 5%, money is used from the reserve to keep the payment loss at 5%.

If reserve funds are insufficient to keep the reduction at 5%, the funds shall be prorated as necessary.

The reserve fund would be limited to a maximum of 10% of the sum of the amounts appropriated and subject to the prorated payment provisions.

Payments subject to this payment provision are Local Government Aid, Homestead Credit Replacement Aid and Commercial/Industrial Replacement Aid.

The following pages are background material that may prove useful
for budget and tax discussions.

**AMOUNTS OF STATE AID AND PROPERTY TAX CREDITS,
FISCAL YEARS 1979 - 1983**

Type of State Aid or Property Tax Credit	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983
Homestead Credit	\$238.2	\$246.1	\$ 362.5	\$ 436.8	\$ 469.6
Agricultural Credit	35.2	37.0	50.8	68.6	77.3
Wetlands Credit	-	-	-	3.1	3.8
Native Prairie Credit	-	-	-	.1	.1
Reduced Assessment Credit	-	-	-	10.0	12.4
Supplemental Homestead Credit	-	-	-	.2	.5
Taconite Aid Reimbursement	-	-	-	.6	.6
Attached Machinery Aid	11.5	11.4	11.5	11.2	11.2
Natural Resources Aid	-	4.9	5.2	0.0	4.7
Property Tax Refunds and					
Special Property Tax Refunds	211.3	210.7	191.3	205.3	131.6
Local Government Aid	204.6	230.2	251.8	202.9	270.7
School Aids - Current Year	900.4	952.7	1,017.1	1,249.9	1,053.1

illions of
ollars)

AMOUNTS PAID ANNUALLY BY THE STATE THROUGH THE HOMESTEAD CREDIT PROGRAM TO REDUCE THE PROPERTY TAX OF HOME AND FARM OWNERS, 1968-1982*

\$500

\$400

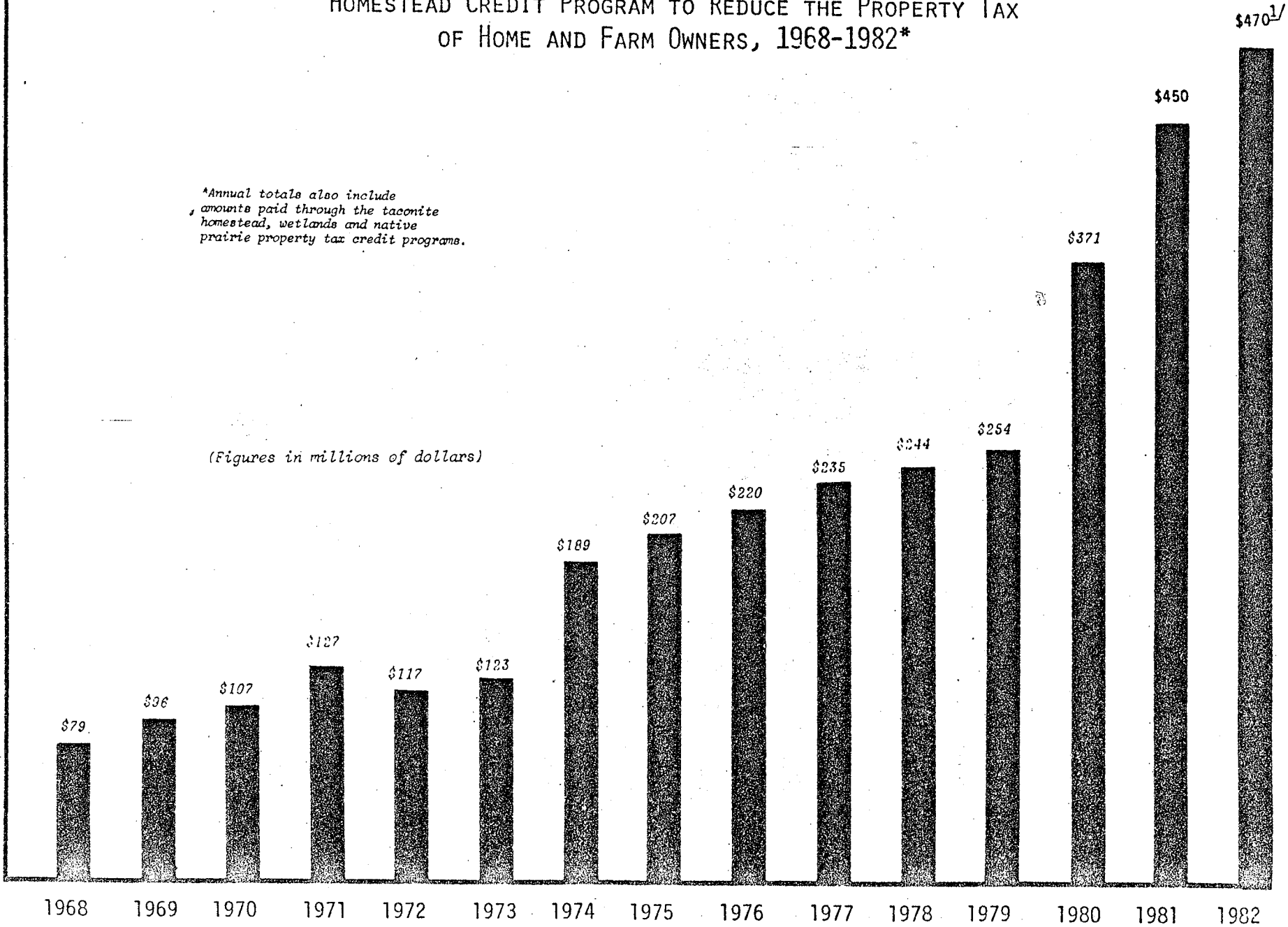
\$300

\$200

\$100

**Annual totals also include
amounts paid through the taconite
homestead, wetlands and native
prairie property tax credit programs.*

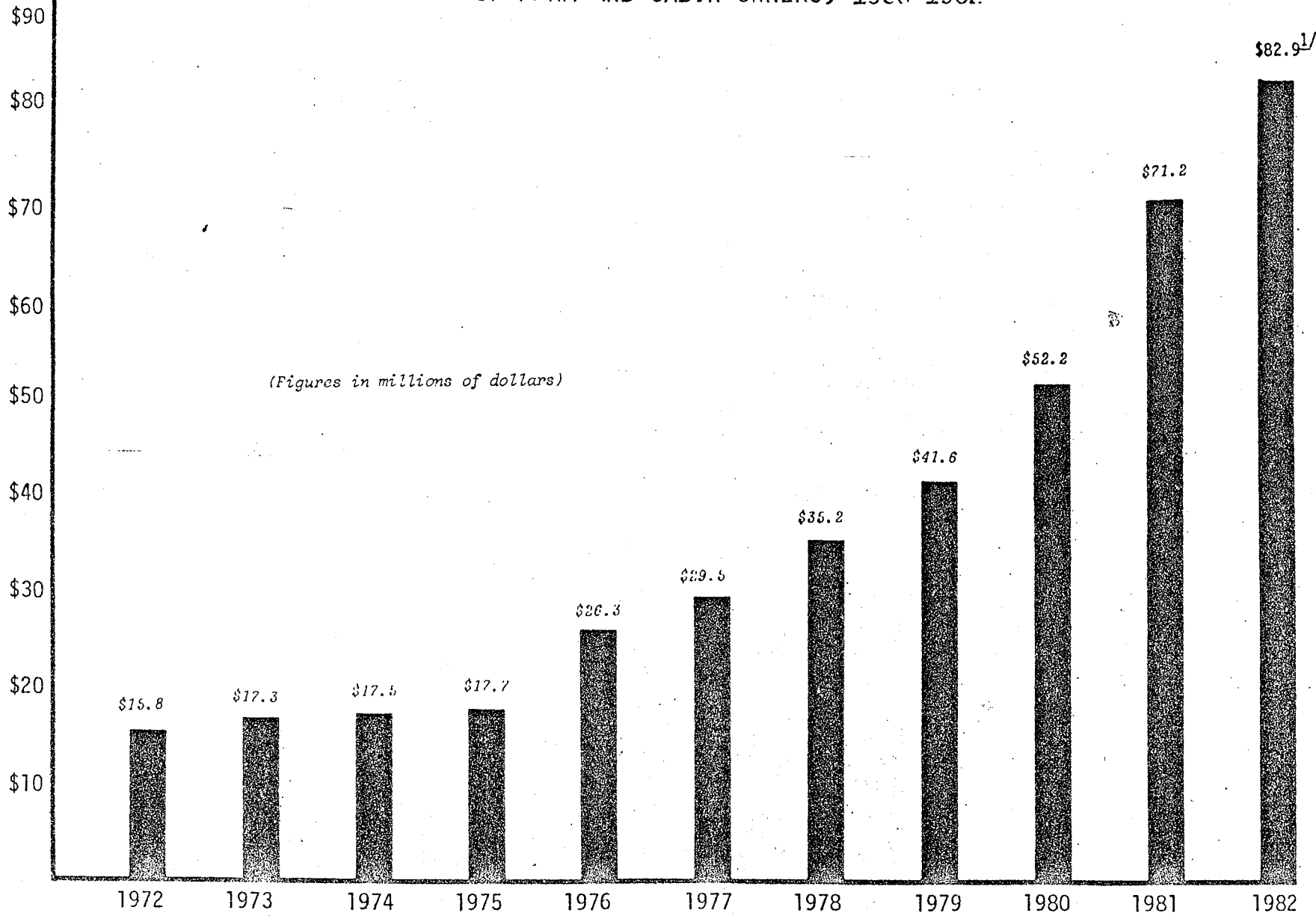
(Figures in millions of dollars)



1. Budget C.Y. 1982.

AMOUNTS PAID ANNUALLY BY THE STATE THROUGH THE
AGRICULTURE SCHOOL CREDIT PROGRAM TO REDUCE THE PROPERTY TAX
OF FARM AND CABIN OWNERS, 1968-1982*

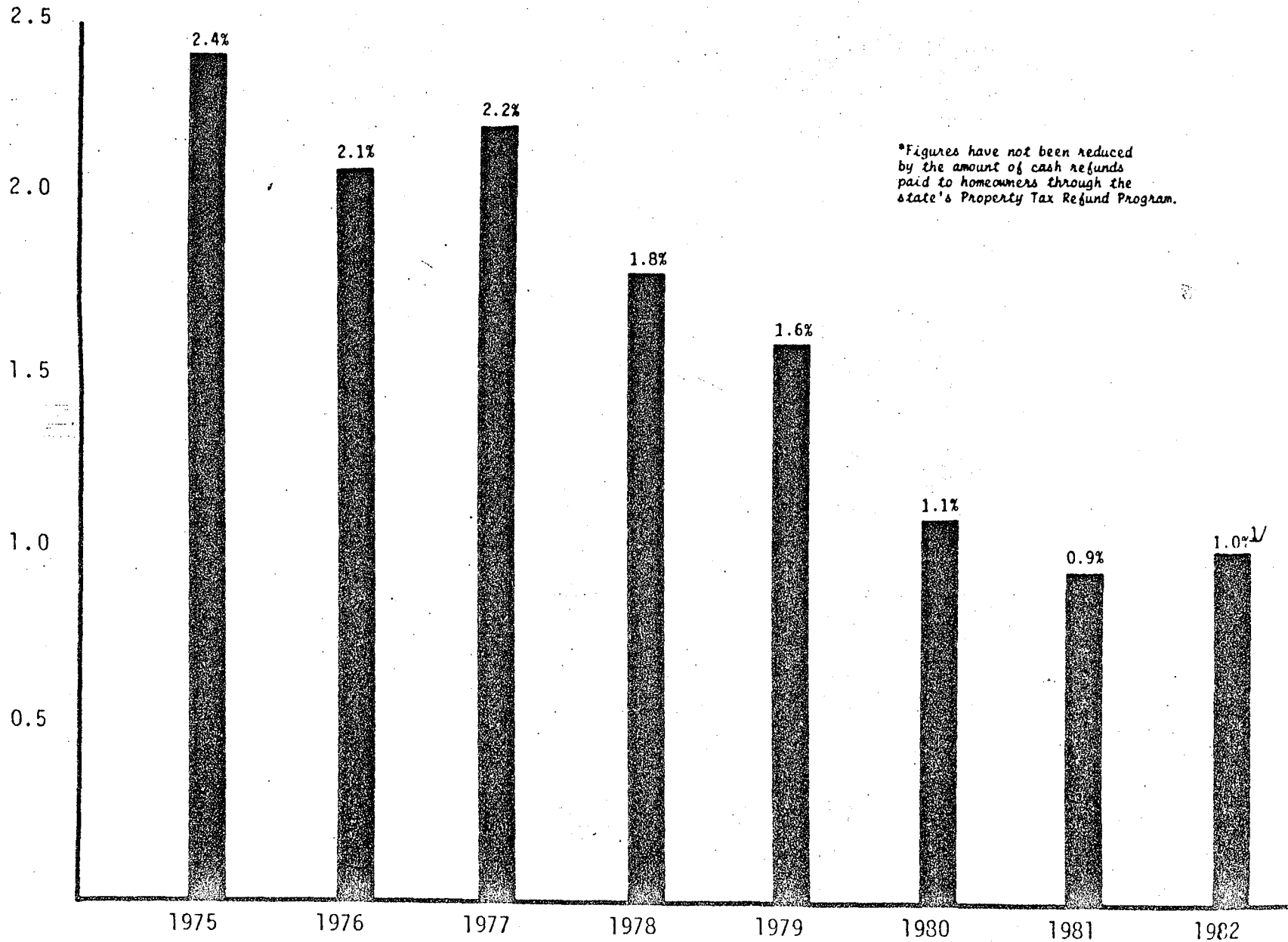
(Millions of
Dollars)



1. Budget C.V. 1982.

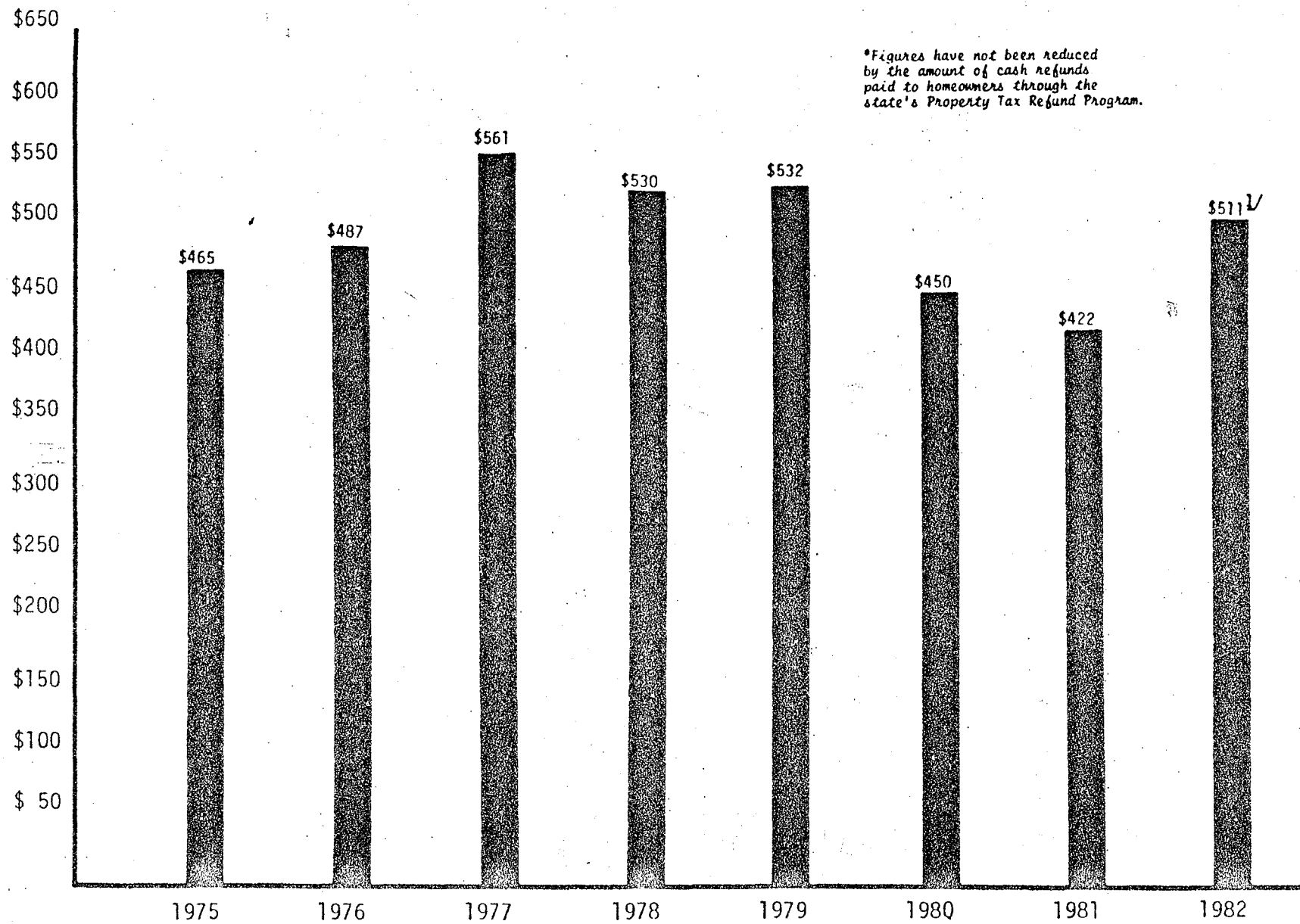
HOMEOWNERS PROPERTY TAX PAYMENTS AS A PERCENTAGE
OF THE ESTIMATED MARKET VALUES OF HOMES, 1975-1982*

Percent



*Figures have not been reduced
by the amount of cash refunds
paid to homeowners through the
state's Property Tax Refund Program.

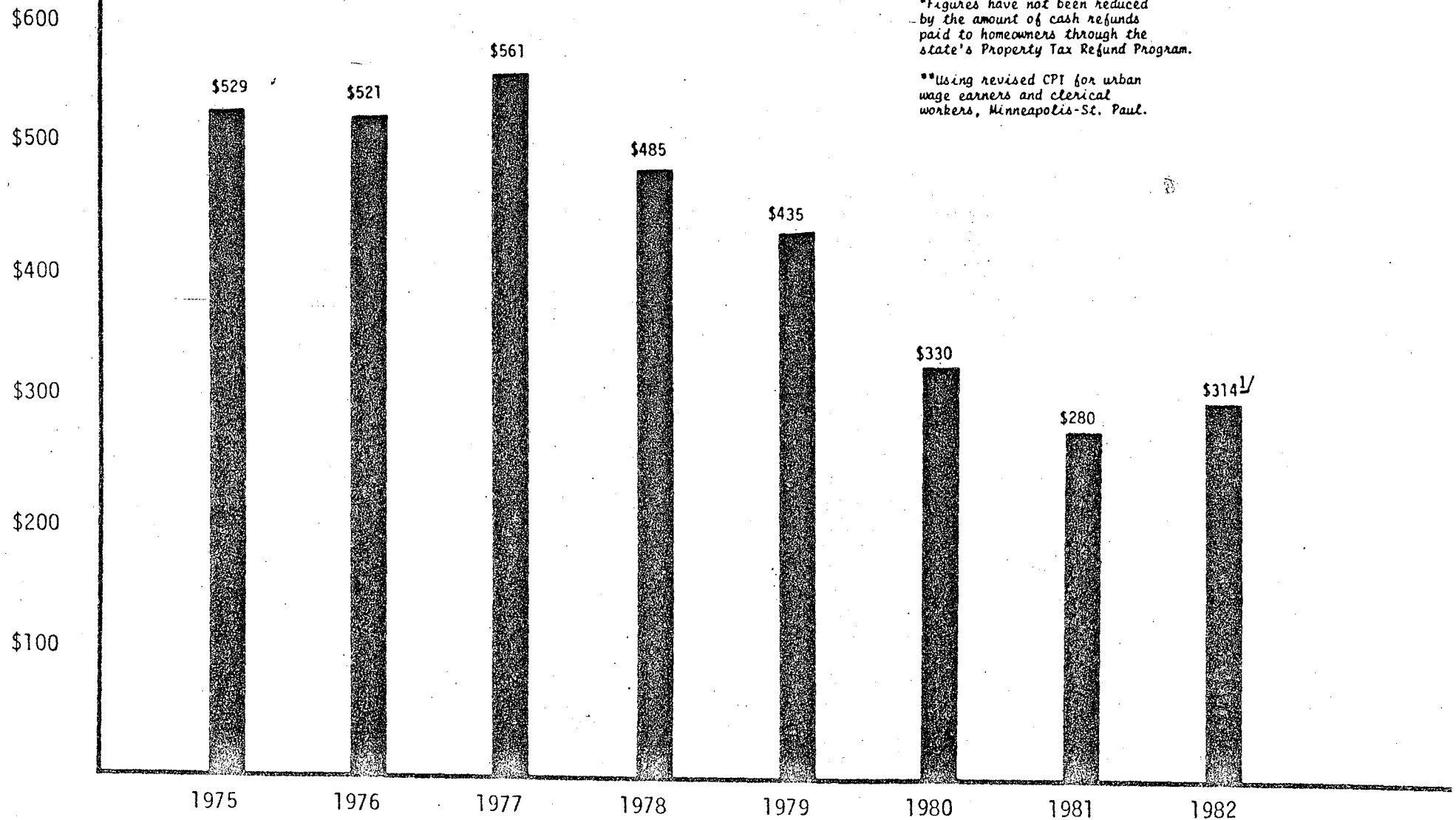
AVERAGE PROPERTY TAX OF MINNESOTA HOMEOWNERS, 1975-1982*



*Figures have not been reduced by the amount of cash refunds paid to homeowners through the state's Property Tax Refund Program.

AVERAGE PROPERTY TAX OF MINNESOTA HOMEOWNERS, 1975-1982*

EXPRESSED IN CONSTANT 1977 DOLLARS**



*Figures have not been reduced by the amount of cash refunds paid to homeowners through the state's Property Tax Refund Program.

**Using revised CPI for urban wage earners and clerical workers, Minneapolis-St. Paul.

Impact of Estate Tax Conformity

Gross Estate = \$635,000

Year of Death	Unmarried Decedent		Married Decedent	
	Present MN Tax	Proposed MN Tax	Present MN Tax	Proposed MN Tax*
1982	\$21,050	\$21,000**	\$21,050	-0-
1983	21,050	19,100	21,050	-0-
1984	21,050	17,000	21,050	-0-
1985	21,050	14,400	21,050	-0-

* Assumes maximum benefit from federal unlimited marital deduction, resulting in no tax liability in these cases.

** Assumes a particular situation in regards to allowable deductions, etc.

Source: Minnesota Department of Revenue
Research Office
January 12, 1982

Impact of Corporate Rate Reduction

6% on 1st \$100,000 (Allocated), 12% on Remainder

	<u>Minnesota Company</u>	<u>Non-MN Company</u>
Total Net Income	\$100,000	\$1,000,000
Apportionment	100%	10%
MN Net Income	\$100,000	\$ 100,000
Taxable Income	\$100,000	\$ 100,000
Tax	\$ 6,000	\$ 11,400

Source: Minnesota Department of Revenue
Research Office
January 12, 1982

Effect of Adopting 60% Exclusion of Capital Gains (Federal-Conformity)

Long-Term Capital Gain	= \$10,000	
50% Exclusion	= \$ 5,000	Ordinary Income
60% Exclusion	= <u>\$ 4,000</u>	Ordinary Income
Difference (Decrease in Taxable Income)	= \$ 1,000	

	Calculation for Current Law (Only 50% Exclusion of Capital Gains Allowed)	Calculation for Proposed Law (60% Exclusion of Capital Gains Allowed)
Taxable Income	\$27,327	\$26,327
1982 Net Tax	\$ 2,781	\$ 2,636
Tax Savings Due to Proposed Law		\$145

Assumptions:

1. Calculations done for One Wage Earner--Family of Four (\$36,000).
2. Taxpayer sold long-term asset for a \$10,000 capital gain. 10% of capital gain (\$1,000) would not be added back under the proposed law.
3. Effect of minimum tax is not included in this calculation.

Source: Minnesota Department of Revenue
Research Office
January 12, 1982

Impact of Depreciation Proposal Assuming
5 Year A.C.R.S. Property

<u>Tax Year</u>	<u>Expenditures for Equipment</u>	<u>Accumulated Expenditures*</u>	<u>Net Income Change for MN</u>	<u>Tax Change</u>
1981	\$250,000	\$ 250,000	0 **	0
1982	250,000	500,000	0 **	0
1983	250,000	750,000	\$33,000	\$3,960
1984	250,000	1,000,000	46,000	5,520

* Assumed subject to average annual A.C.R.S. depreciation percentage of 20%.

** Assumed A.C.R.S. adjustment for 1981 and 1982 of 85% and 83% would bring depreciation allowance to current Minnesota law.

Source: Minnesota Department of Revenue
Research Office
January 12, 1982