

**PROPERTY TAX**

**Expanding properties eligible for class 4b classification**

April 17, 2020

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Cost/Savings</b>		X

Department of Revenue

Analysis of H.F. 3826 (Ecklund) as proposed to be amended by H3826DE1

**Fund Impact**

	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
	(000's)			
Property Tax Refund Interaction	\$0	\$0	\$0	unknown

Effective beginning with assessment year 2021.

**EXPLANATION OF THE BILL**

Under current law, class 4b(1) includes non-homestead residential real estate containing less than four units that does not qualify as class 4bb, other than seasonal residential recreational.

The proposal expands class 4b(1) to include property rented as a short-term rental for more than 14 days in the preceding year. In order to qualify for class 4b(1), the rental period must be less than 30 consecutive days.

**REVENUE ANALYSIS DETAIL**

- Under current law, properties used as short-term rentals are usually classified as class 3a Commercial, class 4b(1) Residential Non-Homestead 1-3 Units, class 4bb(1) Residential Non-Homestead Single Unit, or class 4c(12) Seasonal Residential Recreational Non-Commercial. Classification is dependent on the primary use of the property.
- The number of properties that would newly qualify as class 4b(1) under the proposal is unknown.
- The effect of a change in classification on a property's tax base depends on how the property is currently classified. The changes below reflect the current classifications of the majority of short-term rental properties, but do not reflect all possible classifications of these properties.
  - This proposal would reduce the net tax capacity for properties currently classified 3a Commercial due to a reduced class rate. It would also reduce the state general tax base for commercial/industrial property, as 4b properties do not pay the state general tax.
  - The proposal would increase the net tax capacity for properties currently classified as 4c(12) Seasonal Residential Recreational Non-Commercial due to an increased class rate. It would also reduce the state general tax base for seasonal recreational property, as 4b properties do not pay the state general tax. Class 4c(12) properties are currently not subject to referendum market value taxes, which would also change under the bill.
  - The proposal would increase the net tax capacity for properties currently classified as 4bb(1) Residential Non-Homestead Single Unit due to an increased class rate.
  - The proposal would not change net tax capacity or referendum market value of properties currently classified as 4b(1) Residential Non-Homestead 1-3 Units.

- Property taxes would shift away from properties with a reduced class rate under the proposal and onto all other properties, including homesteads. Property taxes would also shift onto properties with an increased class rate under the proposal and away from all other properties, including homesteads.
- The shift in taxes onto/away from homesteads would cause property tax refunds paid by the state to change by an unknown amount beginning in FY 2023.

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

<i>Transparency, Understandability, Simplicity &amp; Accountability</i>	Neutral
<i>Efficiency &amp; Compliance</i>	Neutral
<i>Equity (Vertical &amp; Horizontal)</i>	Neutral
<i>Stability &amp; 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  
[www.revenue.state.mn.us/research\\_stats/pages/revenue-analyses.aspx](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

hf3826(sf3931)\_pt\_2/wkm