

**PROPERTY TAX
School building bond
agricultural property tax
credit amount increased**

March 17, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2929 (Marquart) / S.F. 2759 (Eken) as introduced

Fund Impact

	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
School Building Bond Credit	\$0	\$0	(\$43,800)	(\$56,800)
Property Tax Refund Interaction	\$0	\$0	(\$1,320)	(\$2,690)
Income Tax Interaction	\$0	\$0	\$1,180	\$1,160
General Fund Total	\$	\$0	(\$43,940)	(\$58,330)

Effective beginning with property taxes payable in 2023.

EXPLANATION OF THE BILL

Under current law, all class 2a, 2b, and 2c property, other than the house, garage, and surrounding one acre of land of an agricultural homestead, is eligible for the school building bond credit. The credit is equal to the credit percent of the property’s eligible net tax capacity multiplied by the school debt tax rate. The credit percent is 60% for taxes payable 2022 and 70% for taxes payable 2023 and after.

The proposal would increase the credit percent to 100% for taxes payable 2023 and after.

REVENUE ANALYSIS DETAIL

- Under current law, the credit is estimated to total \$70.5 million for taxes payable in 2022 at 60% and \$84.4 million for taxes payable in 2023 at 70%. Under the proposal, increasing the credit percentage to 100% would increase state general fund costs beginning in fiscal year 2024.
- According to the Department of Education, it is estimated that the portion of the school district levy that is levied for debt service under current law is \$1.14 billion statewide for taxes payable 2022 and is assumed to grow statewide by 2% per year in taxes payable 2023 and 2024. Due to behavioral changes for levying, if the credit increase is enacted, levies eligible for the credit are assumed to increase beginning in taxes payable 2023 compared to the current law forecast.
- Properties eligible for the school building bond credit pay approximately 10% of school district debt service levies under current law prior to the credit being applied.
- Under the proposal, the statewide cost of the school building bond credit is estimated to increase by \$48.7 million in taxes payable 2023 and \$63.2 million in taxes payable 2024. These numbers have been converted to fiscal years for the purposes of this estimate.

- Lower property taxes for property owners receiving the credit will reduce deductions on income tax returns, increasing state tax collections beginning in fiscal year 2024.
- Behavioral changes for levying affect the amount of property taxes paid by all property types, including homesteads. Higher debt service levies increase property tax burdens, increasing costs to the state general fund for property tax refunds and income tax deductions beginning in fiscal year 2024.
- The overall income tax savings to the state is net of these costs.

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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