

**PROPERTY TAX
Maximum Increased for
Taconite Homestead Credit**

April 3, 2024

Revised

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 5198 (Lislegard) as proposed to be amended by H5198A1

Fund Impact

	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
Taconite Homestead Credit Increase	\$0	(\$3,520)	(\$7,050)	(\$7,050)
Taconite Property Tax Relief Fund Total	\$0	(\$3,520)	(\$7,050)	(\$7,050)
Property Tax Refund Interaction	\$0	\$0	\$850	\$850
Income Tax Interaction	\$0	\$0	\$40	\$40
General Fund Total	\$0	\$0	\$890	\$890

Effective beginning with taxes payable in 2025.

EXPLANATION OF THE BILL

Under current law, the taconite homestead credit reduces the property tax paid by owners of certain properties located on the Mesabi and Vermillion ranges located within the Taconite Tax Relief Area. The properties receiving this credit are owner-occupied homes and owner-occupied farms.

If an owner-occupied home or farm is located in a city or town that contained at least 40% of its valuation as iron ore on May 1, 1941, or which had a taconite mine, processing plant, or electric generating facility on January 1, 1977, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66% of the tax, up to a maximum credit of \$315.10.

If the property is not located in such a city or town but is located in a school district containing such a city or town, the taconite credit is 57% of the tax, up to a maximum credit of \$289.80.

The taconite homestead credit is funded by the taconite property tax relief account, which is funded by taconite production taxes. If this fund is not sufficient to make these payments, the deficit is made up from the Douglas J. Johnson Economic Protection Fund.

The proposal would increase the maximum credit amount for both the 66% and 57% taconite homestead credits to \$515.00.

The proposal would not impact the supplemental taconite homestead credit.

REVENUE ANALYSIS DETAIL

- Under current law, approximately 38,300 parcels received the taconite homestead credit in taxes payable 2023. Of those 38,300 parcels, approximately 35,100, or 92%, received the maximum credit amount of either \$315.10 or \$289.80.
- Under the proposal, all 35,100 parcels that are at the maximum credit under current law would receive a larger taconite homestead credit. Most of these parcels are expected to qualify for the proposed maximum credit of \$515.00.
- The total taconite homestead credit amount would increase by \$7.05 million beginning in taxes payable 2025.
- The taxes payable year amounts have been converted to fiscal years for the purpose of this estimate. Credit reimbursement payments for the taconite homestead credit are made over two fiscal years, with 50% paid in each year. The increased credit would cost \$3.52 million in fiscal year 2025 and \$7.05 million in fiscal year 2026 and beyond.
- The increased credit would be a cost to the taconite property tax relief fund. If the fund is unable to cover the full cost of the credit, the deficit would automatically come from the Douglas J. Johnson Economic Protection Fund.
- Lower property taxes for homeowners receiving a larger credit would reduce property tax refunds, decreasing refunds paid by the state by \$850,000 beginning in fiscal year 2026.
- Lower property taxes for homeowners receiving a larger credit would reduce deductions on individual income tax returns, increasing state tax collections by \$40,000 beginning in fiscal year 2026.

Number of Taxpayers: Approximately 35,100 homeowners would have lower property taxes under the proposal.

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>

sf5283(hf5198) Increase Taconite Homestead Credit Max_pt_2/wms