DEPARTMENT OF REVENUE

PROPERTY TAX
Homestead Resort Properties
Tier Limits Modified

March 2, 2023

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 1897 (Rasmusson) / H.F. 2054 (Heintzeman) as introduced

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
General Fund	$0	$0	($20)	($20)

Effective beginning with assessment year 2024.

EXPLANATION OF THE BILL

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 $1.0 million of value, the second tier would include value between $1.0 million and $3.5 million, and the third tier would include value over $3.5 million. The classification rates for each tier would not change. The third tier would remain subject to state general taxes.

REVENUE ANALYSIS DETAIL

- 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 68% of total class 1c taxable market value statewide would be in the first tier, 28% 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 11%.

- 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 $20,000 beginning in fiscal year 2026.

Number of Taxpayers: Approximately 390 parcels would have a reduced net tax capacity under the proposal.

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	Neutral
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

sf1897(hf2054) Class 1c Homestead Resorts_pt_1/wms