

**PROPERTY TAX
Class 4d Modified and
Transition Aid Established**

March 2, 2023

Department of Revenue

Analysis of H.F. 1808 (Howard) as proposed to be amended by HF1808A1

	Yes	No
DOR Administrative Costs/Savings	X	

Fund Impact

	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
Property Tax Refund Interaction	\$0	\$0	(\$2,640)	(\$2,640)
Class 4d Transition Aid	\$0	\$0	(\$790)	(\$790)
Income Tax Interaction	\$0	\$0	\$10	\$10
General Fund Total	\$0	\$0	(\$3,420)	(\$3,420)

Effective beginning with assessment year 2024 and for aid payable in 2025 and 2026.

EXPLANATION OF THE BILL

Under current law, each unit of class 4d qualifying low-income rental housing has a classification rate of 0.75% for the first tier of market value and 0.25% for the remaining market value. The first tier market value limit per unit is \$100,000 for assessment years 2022 and 2023. For assessment 2024 and after, the first tier market value limit is adjusted annually by the average statewide change in estimated market value of property classified as 4a apartments and 4d low-income rental housing properties, excluding new construction.

Additionally, under current law, property owned by a community land trust and used as a homestead by qualifying individuals is classified as 1a residential homestead property with a classification rate of 1.00% for the first \$500,000 of market value and 1.25% for any remaining value.

The proposal would change the current class 4d qualifying low-income rental housing classification to class 4d(1). It would remove the tiered classification rates and set the classification rate at 0.25% for all class 4d(1) property. To be classified as class 4d(1), a property owner would need to receive approval from the governing city or town where the property is located before submitted an initial application to the Housing Finance Agency for property that has not, in whole or in part, been classified as 4d(1) prior to assessment year 2024. These changes would be effective beginning with assessment year 2024.

A report would be required identifying the ten properties within each county with the greatest number of class 4d(1) units and how each owner used property tax savings resulting from the class rate decrease. The report would be due from each county to the commissioner of revenue and the legislature by March 15, 2026.

The proposal would also create a new classification for property owned by a community land trust and used as a homestead by the occupant. These properties would be classified as 4d(2) community land trust units with a classification rate of 0.75%. The community land trust must certify to the

assessor by December 15 each year that the community land trust owns the real property on which the unit is located and the owner is a member in good standing of the community land trust. Additionally, the assessor must determine the market value of these properties without regard to any restrictions that apply because it's a community land trust property. Properties classified as 4d(2) would maintain homestead status for the purposes of qualifying for property tax refunds. These changes would be effective beginning with assessment year 2024.

The proposal would also create a transition aid for calendar years 2025 and 2026 for cities that have a decrease in tax base of more than two percent due to the proposed changes to class 4d.

REVENUE ANALYSIS DETAIL

- The estimate is based on the February 2023 forecast.
- In assessment year 2022, there were approximately 3,800 parcels statewide that contained class 4d low income rental housing property. The total market value for class 4d property in the same year was \$9.2 billion statewide.
- According to the Minnesota Community Land Trust Coalition, there are 13 community land trust organizations in Minnesota that have a portfolio of about 1,400 homes throughout the state.
- It is assumed that about \$350 million of market value would change from class 1a residential homestead to class 4d(2) community land trust units under the proposal.
- The proposal would shift property taxes away from class 4d properties 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 \$2.97 million beginning in fiscal year 2026.
- As a result of properties receiving a reduced classification rate under class 4d(2), property tax refunds paid by the state would decrease by \$310,000 beginning in fiscal year 2026.
- The transition aid is estimated to be \$790,000 for 37 cities in fiscal years 2026 and 2027.
- It is assumed that transition aid to cities would reduce property tax levies by a portion of the increase, which would reduce property taxes on all property classes, including homesteads.
 - Lower levies would result in lower homeowner property tax refunds, reducing costs to the state general fund.
 - Lower levies would result in lower income tax deductions, increasing revenues to the state general fund.
- The overall impact on property tax refunds is the net of all property tax interactions.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	Creates another property tax classification.
<i>Efficiency & Compliance</i>	Increase	Increased simplicity, decreased cost for administrators.
<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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