

March 17, 2021

**PROPERTY TAX
PROMISE Act Property Tax Relief**

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 0006 (Noor) 1st engrossment as proposed to be amended by H0006A1

	Fund Impact				
	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>
	(000's)				
Property Tax Abatements	(\$350)	\$0	\$0	\$0	\$0
Income Tax Interactions - Abatement	\$10	\$0	\$0	\$0	\$0
Valuation Freeze - PTR Interactions	\$0	\$0	\$0	(\$60)	(\$100)
General Fund Total	(\$340)	\$0	\$0	(\$60)	(\$100)

Effective the day following final enactment.

EXPLANATION OF THE BILL

Article 3, Section 4 only

Under current law, properties that are damaged or destroyed by arson or vandalism may qualify for a property tax abatement in the year in which the damage occurred if the damage is at least 50% of the property's building value. The abatement is equal to the difference in the calculated net tax based on (1) the market value of the property before damage occurred and (2) the reassessed market value after the damage. In the year following the damage, properties may qualify for a disaster property tax credit equal to the difference in net tax based on the market values before and after damages. The abatements and credits are reimbursed by the state for properties in a declared disaster or emergency area.

The proposal would provide a property tax abatement to additional properties in the cities of Minneapolis, St. Paul, and other surrounding communities that were damaged or destroyed between May 25, 2020 and June 16, 2020 due to civil unrest. The bill would provide a property tax abatement equal to half of the net property tax due in payable year 2020 for properties where damage was between 25% and 50% of the property's building value and the property did not already receive a current law property tax disaster abatement.

The proposal would also create a valuation freeze on qualifying properties until assessment year 2025. During this time, the market value of the properties would not exceed the reassessed value of the property after damages. Properties that received the current law disaster abatement and the proposed abatement would qualify for the valuation freeze.

REVENUE ANALYSIS DETAIL

- For property taxes payable in 2020, 86 properties were approved and received current law disaster property tax abatements totaling \$2.33 million. It is assumed these properties with 50% or more building damage would not qualify for any additional abatement under the proposal.
- It is estimated that 25 properties had building damage between 25% and 50% and would qualify for a property tax abatement under the proposal at a cost of \$350,000 to the state general fund in fiscal year 2021 (it is assumed the applications for abatement would be received and reimbursed before June 30, 2021).
- Lower property taxes from abatements would reduce deductions on corporate and individual income tax returns, increasing state tax collections by approximately \$10,000 for fiscal year 2021.
- It is assumed that the valuation freeze would first take effect for assessment year 2022, taxes payable 2023. For taxes payable years 2023 through 2025, the market value of 111 damaged properties would be based on the reassessed value in the year of the damage and would not increase under the proposal. Limiting market value growth would reduce the taxable value of qualifying damaged properties, shifting property taxes away from qualified properties and onto all other properties, including homesteads.
- The additional property tax burden on homesteads caused by the valuation freeze would increase state-paid property tax refunds beginning in fiscal year 2024.

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>	Increase Additional tax relief for property owners impacted by the unrest.

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

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