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Subject: Property taxation; consolidating all residential classes into class 1

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Overview

H.F. 3276 consolidates all residential property types into a single classification as class 1. A major impact is the elimination of the non-commercial seasonal-recreational classification, so those properties now become part of class 1. Most types of residential property have the same class rates as under current law, with a few having reduced class rates. The bill also creates two new state refund programs to help ensure that no property owners have tax increases under the proposal. H.F. 3276 also consolidates some miscellaneous classifications, without making any changes in definitions or class rates. The bill also repeals the state general levy on seasonal-recreational property, since the non-commercial seasonal-recreational class of property is eliminated.

A table at the end of the summary shows which types of property have changed classes and/or class rates under the proposal.

Section

Article 1: Residential Classification Reform

- 1 Homestead property; general rule.** States that all homestead property is in class 1, and recodifies language from elsewhere in statutes stating that owner-occupied duplexes and triplexes are eligible for homestead treatment in their entirety.
- 2 Manufactured home park cooperative.** Allows members of manufactured home park cooperatives to add their ground lease payments to their property taxes when applying for the

homestead credit refund. Also prescribes that this property would be classified as class 1 residential.

- 3 **Class 1 (Residential).** Defines class 1 as all residential property containing fewer than four dwelling units, with a class rate of one percent on the first \$500,000 of market value and 1.25 percent on the portion over \$500,000. Eliminates the blind/disabled 1b classification (those property owners are made eligible for a special property tax refund under section 12). Strikes the definition of class 1c homestead resorts, since that property is reclassified as class 4b(1) in section 5. Strikes the definition of class 1d migrant housing, since that property is reclassified into class 1.
- 4 **Class 2 (Agricultural).** Strikes all references to residential uses of property in class 2, since those portions of property will now be classified as class 1.
- 5 **Class 4 (miscellaneous property classes).** Eliminates all residential non-homestead properties from class 4, since they are now included in class 1. Eliminates the non-commercial seasonal-recreational property classification, since that property is reclassified into class 1. Consolidates commercial seasonal-recreational properties into class 4b, with homestead resorts (currently class 1c) as class 4b(1) and non-homestead resorts as class 4b(2). Eliminates the bed & breakfast classification; a portion of B&B property (two units) is allowed to be included with the owner's residence in class 1, while the remaining units move to commercial-industrial. Eliminates the three separate classifications for manufactured home park land since all manufactured home park land would become part of residential class 1. All other classes in class 4 remain in class 4 and retain their current class rates, but with different classification labels.
- 6 **Clarification of residential classification.** Specifies particular types of property that are classified as class 1 that are currently in other classifications.
- 7 **State general levy amount.** Increases the state general levy for commercial-industrial property by \$1,050,000, which is the portion of the state general levy for seasonal-recreational property that is currently paid by commercial-seasonal property. Eliminates the state general levy for seasonal-recreational property.
- 8 **Commercial-industrial net tax capacity.** Provides that commercial seasonal-recreational properties that currently pay the state seasonal-recreational tax will now pay the state commercial-industrial tax, but their class rate will be reduced to 40 percent of the current class rate for purposes of the state tax.
- 9 **Apportionment of state general tax.** Technical section reflecting elimination of the state seasonal-recreational tax.
- 10 **Homestead credit refund definition of property taxes payable.** Clarifies that the homestead credit refund is calculated after taking into account the new blind/disabled refund in section 12. Also clarifies that members of manufactured home co-ops can include ground lease payments with property taxes in applying for the homestead credit refund.
- 11 **Homestead "targeting" refund.** Clarifies that the targeting refund for homeowners whose property taxes increase more than 12 percent over the previous year is calculated after taking into account the new blind/disabled refund in section 12.

- 12 Additional refund for homeowners who are blind or disabled.** Provides a new state refund program for homeowners who are blind or disabled equal to one percent of the taxable market value of the homestead, but limited to \$450. This refund is meant to offset the special classification rate (0.45%) that these homeowners receive under current law on the first \$50,000 of value. Eligibility for the refund uses the same definition as is currently in law for class 1b.
- 13 Additional refund; taxes payable in 2019 only.** Provides a state refund for taxes payable in 2019 only to owners of bed & breakfast lodgings equal to the amount of any tax increase in excess of two percent or \$50, whichever is higher. The refund covers the portion of the tax attributable to portions of the property classified as residential homestead, bed & breakfast, and commercial-industrial under current law.
- 14 Repealer.** Repeals the state general levy on seasonal-recreational property and a section of statutes pertaining to certification of class 1b property that would not be necessary due to the new refund mechanism in section 12.

Article 2: Conforming Technical Changes

- 1 Definition; split residential parcel.** Amends definition of residential classification related to school district levy when a parcel is split between two different school districts.
- 2 Referendum market value.** Provides that only property classified as agricultural is exempt from the referendum market value tax base, which is used for school referendum levies. Under current law, non-commercial seasonal-recreational property and certain postsecondary student housing is also exempt from referendum market value-based taxes, but both those classes are eliminated and the property is rolled into the residential classification.
- 3 Tax court jurisdiction.** Conforms existing law on Small Claims Division tax court jurisdiction to the new class labels.
- 4 Community land trusts.** Conforms existing law on community land trusts to the new class labels.
- 5 Aggregate resource preservation land requirement.** Conforms existing law on aggregate resource preservation land to the new class labels. (Note that there is currently no property enrolled under this program.)
- 6 Homestead property for purposes of state disaster credit.** Conforms existing law on disaster credits to the new class labels.
- 7 Owner-occupied motel property.** Conforms existing law on owner-occupied motel property to the new class labels.
- 8 Homestead market value exclusion.** Conforms existing law on the homestead market value exclusion to the new class labels. (Note that there are no changes made to the homestead market value exclusion.)
- 9 Residential property definition.** Conforms existing definition of residential property used in the Iron Range fiscal disparities program to the new class labels.

- 10 Residential property definition.** Conforms existing definition of residential property used in the Metro fiscal disparities program to the new class labels.
- 11 Revisor's instruction.** Instructs the revisor of statutes to make any necessary cross-reference changes that result from repealers in this act.
- 12 Repealer.** Repeals two sections relating to the definition of class 1 manufactured home parks, since that special classification is eliminated in article 1, section 5.

Class Label and Class Rate Under Current Law Compared to H.F. 3276

| Class | Description | Tiers | ----- Current Law ----- | | | | -----Proposed----- | | | | |
|-------|-------------------------------------|--------------------|-------------------------|----------------------|-----------------------------|------------------------|--------------------|------------------|----------------------|-----------------------------|------------------------|
| | | | Local Class Rate | School Ref Liability | State General Tax Liability | State General Tax Rate | Class | Local Class Rate | School Ref Liability | State General Tax Liability | State General Tax Rate |
| 1a | Residential Homestead | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 1b | Blind/Disabled Homestead | First \$50K | 0.45% | X | | | 1 | 1.00% | X | | |
| 1c | Ma & Pa Resort | Homestead Portion: | | | | | | | | | |
| | | First \$500K | 1.00% | | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | | | | | 1.25% | X | | |
| | | First \$600K | 0.50% | X | | | 4b(1) | 0.50% | X | | |
| | | \$600K - \$2.3M | 1.00% | X | | | | 1.00% | X | | |
| | | Over \$2.3M | 1.25% | X | SRR | 1.25% | | 1.25% | X | C/I | 0.50% |
| 1d | Mirgrant Housing | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 2a | Agricultural Homestead - (HGA) | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 2a/2b | Agricultural Homestead - First Tier | First \$1.9M | 0.50% | | | | 2a/2b | 0.50% | | | |
| 2a | Agricultural - Nonhomestead | | 1.00% | | | | 2a | 1.00% | | | |
| 2b | Rural Vacant Land | | 1.00% | | | | 2b | 1.00% | | | |
| 2c | Managed Forest Land | | 0.65% | | | | 2c | 0.65% | | | |

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| | | | ----- Current Law ----- | | | | -----Proposed----- | | | | |
|--------|---------------------------------------|-----------------|-------------------------|----------------------|-----------------------------|------------------------|--------------------|------------------|----------------------|-----------------------------|------------------------|
| Class | Description | Tiers | Local Class Rate | School Ref Liability | State General Tax Liability | State General Tax Rate | Class | Local Class Rate | School Ref Liability | State General Tax Liability | State General Tax Rate |
| 2d | Private Airport | | 1.00% | X | | | 2d | 1.00% | X | | |
| 2e | Commercial Aggregate Deposit | | 1.00% | X | | | 2e | 1.00% | X | | |
| 3a | Commercial/Industrial/Utility | First \$100K | 1.50% | X | | | 3a | 1.50% | X | | |
| | | \$100K - \$150K | 1.50% | X | C/I | 1.50% | | | | C/I | 1.50% |
| | | Over \$150K | 2.00% | X | C/I | 2.00% | | | | C/I | 2.00% |
| | Electric Generation Machinery | | 2.00% | X | | | 3a | 2.00% | X | | |
| | All Other Public Utility Machinery | | 2.00% | X | C/I | 2.00% | 3a | 2.00% | X | C/I | 2.00% |
| | Transmission Line Right-of-Way | | 2.00% | X | C/I | 2.00% | 3a | 2.00% | X | C/I | 2.00% |
| 4a | Residential Nonhomestead 4+ Units | | 1.25% | X | | | 4a | 1.25% | X | | |
| 4b(1) | Residential Non-Homestead 1-3 Units | First \$500K | 1.25% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | | | | |
| 4b(2) | Unclassified Manufactured Home | First \$500K | 1.25% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | | | | |
| 4b(3) | Ag Non-Hmstd Residence (2-3 units) | First \$500K | 1.25% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | | | | |
| 4b(4) | Unimproved Residential Land | First \$500K | 1.25% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | | | | |
| 4bb(1) | Residential Non-Homestead Single Unit | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | | | | |

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| | | | ----- Current Law ----- | | | | -----Proposed----- | | | | |
|-----------|--|--------------|-------------------------|----------------------|-----------------------------|------------------------|--------------------|------------------|----------------------|-----------------------------|------------------------|
| Class | Description | Tiers | Local Class Rate | School Ref Liability | State General Tax Liability | State General Tax Rate | Class | Local Class Rate | School Ref Liability | State General Tax Liability | State General Tax Rate |
| 4bb(2) | Ag Non-Homestead Single Unit - (HGA) | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 4bb(3) | Condominium Storage Unit | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 4c(1) | Seasonal Recreational Comm'l (resort) | First \$500K | 1.00% | X | SRR | 1.00% | 4b(2) | 1.00% | X | C/I | 0.40% |
| | | Over \$500K | 1.25% | X | SRR | 1.25% | | 1.25% | X | C/I | 0.50% |
| 4c(2) | Qualifying Golf Course | | 1.25% | X | | | 4c(1) | 1.25% | X | | |
| 4c(3)(i) | Non-Profit Comm Serv Org. (non-rev) Cong. Chartered Vets Org. (non-rev) | | 1.50% | X | | | 4c(2)(i) | 1.50% | X | | |
| | | | 1.00% | X | | | | 1.00% | X | | |
| 4c(3)(ii) | Non-Profit Comm Serv Org. (donations) Cong. Chartered Vets Org. (donations) | | 1.50% | X | SRR | 1.50% | 4c(2)(ii) | 1.50% | X | C/I | 0.60% |
| | | | 1.00% | X | SRR | 1.00% | | 1.00% | X | C/I | 0.40% |
| 4c(4) | Post-Secondary Student Housing | First \$500K | 1.00% | | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.00% | | | | | 1.25% | X | | |
| 4c(5)(i) | Manufactured Home Park | First \$500K | 1.25% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 4c(5)(ii) | Coop Home Pk (>50% owner-occupied) | First \$500K | 0.75% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 0.75% | X | | | | 1.25% | X | | |
| 4c(5)(ii) | Coop Home Pk (<50% owner-occupied) | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.00% | X | | | | 1.25% | X | | |

Class Label and Class Rate Under Current Law Compared to H.F. 3276

| | | | ----- Current Law ----- | | | | -----Proposed----- | | | | |
|------------|------------------------------------|----------------|-------------------------|-----------|-----------|-------|--------------------|--------------|-----------|-----------|----------|
| Class | Description | Tiers | Local | School | State | | Class | Local | School | State | |
| | | | Class | Ref | General | Tax | | Class | Ref | General | Tax |
| | | | Rate | Liability | Liability | Rate | | Rate | Liability | Liability | Rate |
| 4c(5)(iii) | Class I Manufactured Home Park | First \$500K | 1.00% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.00% | X | | | 1.25% | X | | | |
| 4c(6) | Metro Non-Profit Recreational Prop | | 1.25% | X | | | 4c(1) | 1.25% | X | | |
| 4c(7) | Non-Comm'l Hangars (leased land) | | 1.50% | X | | | 4c(3) | 1.50% | X | | |
| 4c(8) | Non-Comm'l Hangars (private land) | | 1.50% | X | | | 4c(3) | 1.50% | X | | |
| 4c(9) | Bed & Breakfast | First \$500K | 1.25% | X | | | 1 | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 4c(10) | Seasonal Restaurant on a Lake | | 1.25% | X | | | 4c(4) | 1.25% | X | | |
| 4c(11) | Marina | First \$500K | 1.00% | X | | | 4c(5) | 1.00% | X | | |
| | | Over \$500K | 1.25% | X | | | | 1.25% | X | | |
| 4c(12) | Seasonal Recreational Non-Comm'l | First \$76K | 1.00% | | SRR | 0.40% | 1 | 1.00% | X | | |
| | | \$76K - \$500K | 1.00% | | SRR | 1.00% | | | | 1.00% | X |
| | | Over \$500K | 1.25% | | SRR | 1.25% | | | | 1.25% | X |
| 4d | Low-Inc Rental Housing (Per Unit) | First \$139K | 0.75% | X | | | 4d | 0.75% | X | | |
| | | Over \$139K | 0.25% | X | | | | 0.25% | X | | |
| 5(1) | Unmined Iron Ore | | 2.00% | X | C/I | 2.00% | 5(1) | 2.00% | X | C/I | 2.00% |
| 5(2) | All Other Property | | 2.00% | X | | | 5(2) | 2.00% | X | | |