

HOUSE RESEARCH

Bill Summary

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Subject: Changing the tier structure for homestead agricultural classification to acreage

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Overview

This bill changes the basis for the classification and credit structure of agricultural homestead property from market value to acreage, effective for assessment year 2006 and thereafter, for taxes payable in 2007 and thereafter.

Section

1 Class 2, Agricultural homesteads. Changes the tier structure in the classification of agricultural homestead property from market value to acreage. Under current law, the market value of land and buildings up to \$600,000 market value has a class rate of 0.55 percent and the value in excess of \$600,000 value has a class rate of 1.0 percent.

H.F. 2903 provides that the first 640 acres of land and buildings has a class rate of 0.55 percent, and the remaining homestead property has a class rate of 1.0 percent. The market value of the house, garage, and one acre (HGA) is treated in the same manner as residential homestead property and receives a class rate of 1.0 percent.

History. The agricultural homestead class was restructured in the 1999 omnibus tax bill. Prior to that change, there were three tiers to the agricultural homestead classification with a valuation split at \$115,000 and an acreage split at 320 acres. The 1999 bill eliminated the 320 acreage threshold for determining the value assigned to the various class rates, replacing it with a second valuation split at \$600,000. However, there were still three tiers: up to \$115,000, value between \$115,000 and \$600,000, and value over \$600,000. The 2001

Section

Legislature combined the two bottom tiers so that for class rate purposes there are now only two tiers: value up to \$600,000 and value over \$600,000.

Effective date: Effective for assessment year 2006 and thereafter, for taxes payable in 2007 and thereafter.

- 2** **Agricultural homestead market value credit.** Modifies the computation of the agricultural market value credit to coincide with the changes to the classification schedule made in section 0.

Under current law, the credit is 0.3 percent of market value on the first \$115,000 of market value (maximum credit = \$345), with a reduction of 0.05 percent of market value over \$115,000, subject to a maximum reduction of \$115. [The net effect is that any ag homestead over \$345,000 of market value receives a credit of \$230.]

Under H.F. 2903, the credit is \$3 per acre on the first 115 acres (maximum credit = \$345), with a reduction of \$0.50 per acre over 115 acres, subject to a maximum reduction of \$115. [The net effect is that any ag homestead over 345 acres receives a credit of \$230.]