

**PROPERTY TAX
Governor's Tax Bill
Articles 4-5**

February 17, 2021

**Property Taxes and Local Aids Only --
See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 0961 (Nelson) / H.F. 0991 (Marquart) as introduced

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
<u>Article 4: Property Tax and Local Government Aid</u>				
ITIN for Homestead Classification Allowed	\$0	(\$1,800)	(\$1,800)	(\$1,800)
SFIA 10-Acre Rule Modified	(unknown)	(unknown)	(unknown)	(unknown)
Property Tax Refund Interaction	unknown	unknown	unknown	unknown
State Aids Recertification Process Clarified	\$0	\$0	\$0	\$0
<u>Article 5: Miscellaneous Taxes and Tax Provisions</u>				
Iron Ore Bearing Material Definition Modified	(\$110)	(\$220)	(\$220)	(\$220)
General Fund Total	(\$110)	(\$2,020)	(\$2,020)	(\$2,020)

Various Effective Dates

***Non General Fund Impacts**

Taconite Environmental Protection Fund

Iron Ore Bearing Material Definition Modified \$560 \$1,120 \$1,140 \$1,170

Douglas J. Johnson Economic Protection Fund

Iron Ore Bearing Material Definition Modified \$300 \$600 \$610 \$620

All Other Taconite Funds

Iron Ore Bearing Material Definition Modified \$690 \$1,410 \$1,320 \$1,430

REVENUE ANALYSIS DETAIL

Article 4: Property Tax and Local Government Aid

ITIN for Homestead Classification Allowed (Sections 1-7, 9-10)

Effective for homestead applications filed in 2021 and thereafter.

Under current law, only property owners with a valid Social Security number (SSN) are allowed to apply for homestead classification. Under the proposal, property owners with a valid individual taxpayer identification number (ITIN) issued by the Internal Revenue Service would also be allowed to apply for homestead classification.

- By expanding the identification documents allowed to apply for homestead classification, it is assumed that the number of homesteads in the state will increase.
- The proposal would cause a shift in property taxes away from properties newly qualifying for homestead and onto all other properties, including other homesteads.
- An increase in the number of properties eligible for homestead status would result in an increase in property tax refunds paid by the state.
- According to Minnesota individual income tax return filing summaries, there would be approximately 14,000 returns filed by resident households with only an ITIN and no SSN.
- Based on U.S. Census Bureau information on Minnesota homeownership rates by income range and citizenship, it is estimated that approximately one-quarter of filers using an ITIN would be homeowners and receive homestead status under the proposal.
- It is assumed that approximately 1,900 additional homeowners would become eligible and file for a property tax refund under the proposal, resulting in an increase in state general fund costs of \$1.8 million beginning in FY 2023.

SFIA 10-Acre Rule Modified (Sections 8, 12)

Effective for assessments beginning with assessment year 2022.

Effective for determinations of violations of the conditions of enrollment after June 30, 2021.

Under current law, when a parcel is 20 or more acres in size and improved with a structure (that is not a minor, ancillary nonresidential structure), then:

- For the purposes of property classification, the structure and the immediately surrounding 10 acres are classified according to the use of the structure.
- However, for the purposes of enrolling forest land in the Sustainable Forest Incentive Act (SFIA) program, a minimum of 3 acres must be excluded from the enrolled land.
- This could result in 7 acres of enrolled land receiving a classification that violates the SFIA definition of forest land (which excludes land used for residential or agricultural purposes).
- When any portion of the enrolled land is found to violate the conditions of enrollment in the SFIA program, then:
 1. the entire parcel is removed from the program;
 2. a penalty is assessed.
- The penalty consists of up to two payment amounts:
 1. the payments issued to the entire parcel for each year under the current covenant, or the payments issued to the entire parcel for one-half the covenant length, whichever is less, plus interest;
 2. if a reclassification has occurred since enrollment, an additional penalty is assessed equal to 30% of the estimated market value of the reclassified acres.

Under the proposal, when a parcel is 20 or more acres in size and improved with a structure (that is not a minor, ancillary nonresidential structure), then:

- The number of acres assigned to the structure must equal the number of acres excluded from the SFIA covenant due to the structure, but no less than 3 acres;
 - SFIA parcels that received a 10-acre split-classification prior to assessment year 2022 will be deemed to have met the conditions of enrollment if at least 3 acres surrounding the structure were excluded from enrollment.
-
- For lands enrolled in SFIA with a split-classification due to a structure, the proposal would:
 - reduce penalty amounts collected by the state;
 - increase future incentive payments, because parcels that would have been removed would continue to remain in the SFIA program.
 - It is unknown how many parcels would be impacted by the proposal. Actual penalties (as determined under current law) would depend on individual circumstances, based on a combination of:
 - covenant length;
 - the number of years the land has been bound under the current covenant;
 - total payments issued to the parcel under the current covenant;
 - whether a reclassification has occurred since enrollment.
 - In addition, the proposal may result in classification changes. On impacted parcels, up to 7 acres would receive a new classification. In some cases, this could result in future property tax changes (either an increase or a decrease, depending on the current classification), as well as a potential decrease in future property tax refunds (if the structure is a residential, agricultural, or blind-disabled homestead). It is unknown how many total acres would be subject to reclassification.

State Aids Recertification Process Clarified (Section 11)

The effective date is beginning with aids payable in 2022.

Under current law, if an error in the factors used to calculate a jurisdiction's state aid leads to a certified amount less than the jurisdiction would have been entitled to, the aid is recalculated to determine and distribute the correct amount to the jurisdiction. The additional distribution is paid from the state general fund and does not reduce the distributions made to other jurisdictions.

The proposal would clarify language and provide a clear process for handling erroneous payments and the recertification of aids due to errors. Any aid overpayment paid to a jurisdiction would be deducted from the jurisdiction's aid in the following year.

- It is assumed that future aid calculations and certifications will be accurate. Therefore, the proposal is assumed to have no impact on the state general fund.
- If an overpayment of aid to a jurisdiction occurs, it results in a cost to the state general fund. By reducing the jurisdiction's aid in the year following an aid overpayment, the proposal would result in a savings to the state general fund.

Article 5: Miscellaneous Taxes and Tax Provisions

Iron Ore Bearing Material Definition Modified (Sections 5-7)

The effective date is beginning with taxes payable in 2022.

Under current law, taconite mining companies pay the production tax based on the taxable tonnage of taconite pellets produced. Mining operations that result in an end product that does not create taconite pellets would not be subject to the taconite production tax.

The proposal would amend the statutory definition of other iron ore bearing material to ensure the production of lump ore would be subject to the production tax.

- It is projected that a mining company using the new lump ore mining process will produce 1,000,000 tons of lump ore in production year 2021 and thereafter.
- Under the proposal, taxing the production of lump ore is estimated to increase local taconite production tax revenues by approximately \$2.9 million in payable year 2022. The changes to the various local distributions of taconite production taxes would have no impact on the state general fund.
- The state general fund annually contributes 22 cents per ton of taconite to the production tax distribution pool, with 50% paid in February and the remaining 50% paid in August.
- For taxes payable in 2022 and thereafter, the annual state contribution on 1,000,000 tons of production would increase state costs by \$220,000. The numbers are converted to fiscal years for the purposes of this estimate with 50% of the state contribution paid in February (\$110,000) and the remaining 50% paid in August (\$110,000).

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

sf0961(hf0991)_pt_1_GovBudget/nrg, wms, css, jtb