

**SENATE
STATE OF MINNESOTA
NINETIETH SESSION**

S.F. No. 1479

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DATE
02/27/2017

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790 Introduction and first reading
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act
1.2 relating to taxation; property; eliminating noncommercial seasonal residential
1.3 recreational property tax classification; modifying the state general tax; amending
1.4 Minnesota Statutes 2016, sections 126C.01, subdivision 3; 273.13, subdivision
1.5 25; 275.025, subdivisions 1, 4; repealing Minnesota Statutes 2016, section 275.025,
1.6 subdivision 3.

1.7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.8 Section 1. Minnesota Statutes 2016, section 126C.01, subdivision 3, is amended to read:

1.9 Subd. 3. **Referendum market value.** "Referendum market value" means the market
1.10 value of all taxable property, excluding property classified as class 2; ~~or 4c(4); or 4e(12)~~
1.11 under section 273.13. The portion of class 2a property consisting of the house, garage, and
1.12 surrounding one acre of land of an agricultural homestead is included in referendum market
1.13 value. For the purposes of this subdivision, in the case of class 1a, 1b, or 2a property, "market
1.14 value" means the value prior to the exclusion under section 273.13, subdivision 35. Any
1.15 class of property, or any portion of a class of property, that is included in the definition of
1.16 referendum market value and that has a classification rate of less than one percent under
1.17 section 273.13 shall have a referendum market value equal to its market value times its
1.18 classification rate, multiplied by 100.

1.19 **EFFECTIVE DATE.** This section is effective for taxes payable in 2018 and thereafter.

1.20 Sec. 2. Minnesota Statutes 2016, section 273.13, subdivision 25, is amended to read:

1.21 Subd. 25. **Class 4.** (a) Class 4a is residential real estate containing four or more units
1.22 and used or held for use by the owner or by the tenants or lessees of the owner as a residence
1.23 for rental periods of 30 days or more, excluding property qualifying for class 4d. Class 4a

2.1 also includes hospitals licensed under sections 144.50 to 144.56, other than hospitals exempt
 2.2 under section 272.02, and contiguous property used for hospital purposes, without regard
 2.3 to whether the property has been platted or subdivided. The market value of class 4a property
 2.4 has a classification rate of 1.25 percent.

2.5 (b) Class 4b includes:

2.6 (1) residential real estate containing less than four units that does not qualify as class
 2.7 ~~4bb, other than seasonal residential recreational property;~~

2.8 (2) manufactured homes not classified under any other provision;

2.9 (3) a dwelling, garage, and surrounding one acre of property on a nonhomestead farm
 2.10 classified under subdivision 23, paragraph (b) containing two or three units; and

2.11 (4) unimproved property that is classified residential as determined under subdivision
 2.12 33.

2.13 The market value of class 4b property has a classification rate of 1.25 percent.

2.14 (c) Class 4bb includes nonhomestead residential real estate containing one unit, other
 2.15 than seasonal residential recreational property, and a single family dwelling, garage, and
 2.16 surrounding one acre of property on a nonhomestead farm classified under subdivision 23,
 2.17 paragraph (b).

2.18 Class 4bb property has the same classification rates as class 1a property under subdivision
 2.19 22.

2.20 ~~Property that has been classified as seasonal residential recreational property at any time~~
 2.21 ~~during which it has been owned by the current owner or spouse of the current owner does~~
 2.22 ~~not qualify for class 4bb.~~

2.23 (d) Class 4c property includes:

2.24 (1) except as provided in subdivision 22, paragraph (c), real and personal property
 2.25 devoted to commercial temporary and seasonal residential occupancy for recreation purposes,
 2.26 for not more than 250 days in the year preceding the year of assessment. For purposes of
 2.27 this clause, property is devoted to a commercial purpose on a specific day if any portion of
 2.28 the property is used for residential occupancy, and a fee is charged for residential occupancy.
 2.29 Class 4c property under this clause must contain three or more rental units. A "rental unit"
 2.30 is defined as a cabin, condominium, townhouse, sleeping room, or individual camping site
 2.31 equipped with water and electrical hookups for recreational vehicles. A camping pad offered
 2.32 for rent by a property that otherwise qualifies for class 4c under this clause is also class 4c

3.1 under this clause regardless of the term of the rental agreement, as long as the use of the
3.2 camping pad does not exceed 250 days. In order for a property to be classified under this
3.3 clause, either (i) the business located on the property must provide recreational activities,
3.4 at least 40 percent of the annual gross lodging receipts related to the property must be from
3.5 business conducted during 90 consecutive days, and either (A) at least 60 percent of all paid
3.6 bookings by lodging guests during the year must be for periods of at least two consecutive
3.7 nights; or (B) at least 20 percent of the annual gross receipts must be from charges for
3.8 providing recreational activities, or (ii) the business must contain 20 or fewer rental units,
3.9 and must be located in a township or a city with a population of 2,500 or less located outside
3.10 the metropolitan area, as defined under section 473.121, subdivision 2, that contains a portion
3.11 of a state trail administered by the Department of Natural Resources. For purposes of item
3.12 (i)(A), a paid booking of five or more nights shall be counted as two bookings. Class 4c
3.13 property also includes commercial use real property used exclusively for recreational
3.14 purposes in conjunction with other class 4c property classified under this clause and devoted
3.15 to temporary and seasonal residential occupancy for recreational purposes, up to a total of
3.16 two acres, provided the property is not devoted to commercial recreational use for more
3.17 than 250 days in the year preceding the year of assessment and is located within two miles
3.18 of the class 4c property with which it is used. In order for a property to qualify for
3.19 classification under this clause, the owner must submit a declaration to the assessor
3.20 designating the cabins or units occupied for 250 days or less in the year preceding the year
3.21 of assessment by January 15 of the assessment year. Those cabins or units and a proportionate
3.22 share of the land on which they are located must be designated class 4c under this clause
3.23 as otherwise provided. The remainder of the cabins or units and a proportionate share of
3.24 the land on which they are located will be designated as class 3a. The owner of property
3.25 desiring designation as class 4c property under this clause must provide guest registers or
3.26 other records demonstrating that the units for which class 4c designation is sought were not
3.27 occupied for more than 250 days in the year preceding the assessment if so requested. The
3.28 portion of a property operated as a (1) restaurant, (2) bar, (3) gift shop, (4) conference center
3.29 or meeting room, and (5) other nonresidential facility operated on a commercial basis not
3.30 directly related to temporary and seasonal residential occupancy for recreation purposes
3.31 does not qualify for class 4c. For the purposes of this paragraph, "recreational activities"
3.32 means renting ice fishing houses, boats and motors, snowmobiles, downhill or cross-country
3.33 ski equipment; providing marina services, launch services, or guide services; or selling bait
3.34 and fishing tackle;

3.35 (2) qualified property used as a golf course if:

4.1 (i) it is open to the public on a daily fee basis. It may charge membership fees or dues,
4.2 but a membership fee may not be required in order to use the property for golfing, and its
4.3 green fees for golfing must be comparable to green fees typically charged by municipal
4.4 courses; and

4.5 (ii) it meets the requirements of section 273.112, subdivision 3, paragraph (d).

4.6 A structure used as a clubhouse, restaurant, or place of refreshment in conjunction with
4.7 the golf course is classified as class 3a property;

4.8 (3) real property up to a maximum of three acres of land owned and used by a nonprofit
4.9 community service oriented organization and not used for residential purposes on either a
4.10 temporary or permanent basis, provided that:

4.11 (i) the property is not used for a revenue-producing activity for more than six days in
4.12 the calendar year preceding the year of assessment; or

4.13 (ii) the organization makes annual charitable contributions and donations at least equal
4.14 to the property's previous year's property taxes and the property is allowed to be used for
4.15 public and community meetings or events for no charge, as appropriate to the size of the
4.16 facility.

4.17 For purposes of this clause:

4.18 (A) "charitable contributions and donations" has the same meaning as lawful gambling
4.19 purposes under section 349.12, subdivision 25, excluding those purposes relating to the
4.20 payment of taxes, assessments, fees, auditing costs, and utility payments;

4.21 (B) "property taxes" excludes the state general tax;

4.22 (C) a "nonprofit community service oriented organization" means any corporation,
4.23 society, association, foundation, or institution organized and operated exclusively for
4.24 charitable, religious, fraternal, civic, or educational purposes, and which is exempt from
4.25 federal income taxation pursuant to section 501(c)(3), (8), (10), or (19) of the Internal
4.26 Revenue Code; and

4.27 (D) "revenue-producing activities" shall include but not be limited to property or that
4.28 portion of the property that is used as an on-sale intoxicating liquor or 3.2 percent malt
4.29 liquor establishment licensed under chapter 340A, a restaurant open to the public, bowling
4.30 alley, a retail store, gambling conducted by organizations licensed under chapter 349, an
4.31 insurance business, or office or other space leased or rented to a lessee who conducts a
4.32 for-profit enterprise on the premises.

5.1 Any portion of the property not qualifying under either item (i) or (ii) is class 3a. The
5.2 use of the property for social events open exclusively to members and their guests for periods
5.3 of less than 24 hours, when an admission is not charged nor any revenues are received by
5.4 the organization shall not be considered a revenue-producing activity.

5.5 The organization shall maintain records of its charitable contributions and donations
5.6 and of public meetings and events held on the property and make them available upon
5.7 request any time to the assessor to ensure eligibility. An organization meeting the requirement
5.8 under item (ii) must file an application by May 1 with the assessor for eligibility for the
5.9 current year's assessment. The commissioner shall prescribe a uniform application form
5.10 and instructions;

5.11 (4) postsecondary student housing of not more than one acre of land that is owned by a
5.12 nonprofit corporation organized under chapter 317A and is used exclusively by a student
5.13 cooperative, sorority, or fraternity for on-campus housing or housing located within two
5.14 miles of the border of a college campus;

5.15 (5)(i) manufactured home parks as defined in section 327.14, subdivision 3, excluding
5.16 manufactured home parks described in section 273.124, subdivision 3a, and (ii) manufactured
5.17 home parks as defined in section 327.14, subdivision 3, that are described in section 273.124,
5.18 subdivision 3a;

5.19 (6) real property that is actively and exclusively devoted to indoor fitness, health, social,
5.20 recreational, and related uses, is owned and operated by a not-for-profit corporation, and is
5.21 located within the metropolitan area as defined in section 473.121, subdivision 2;

5.22 (7) a leased or privately owned noncommercial aircraft storage hangar not exempt under
5.23 section 272.01, subdivision 2, and the land on which it is located, provided that:

5.24 (i) the land is on an airport owned or operated by a city, town, county, Metropolitan
5.25 Airports Commission, or group thereof; and

5.26 (ii) the land lease, or any ordinance or signed agreement restricting the use of the leased
5.27 premise, prohibits commercial activity performed at the hangar.

5.28 If a hangar classified under this clause is sold after June 30, 2000, a bill of sale must be
5.29 filed by the new owner with the assessor of the county where the property is located within
5.30 60 days of the sale;

5.31 (8) a privately owned noncommercial aircraft storage hangar not exempt under section
5.32 272.01, subdivision 2, and the land on which it is located, provided that:

5.33 (i) the land abuts a public airport; and

6.1 (ii) the owner of the aircraft storage hangar provides the assessor with a signed agreement
6.2 restricting the use of the premises, prohibiting commercial use or activity performed at the
6.3 hangar; and

6.4 (9) residential real estate, a portion of which is used by the owner for homestead purposes,
6.5 and that is also a place of lodging, if all of the following criteria are met:

6.6 (i) rooms are provided for rent to transient guests that generally stay for periods of 14
6.7 or fewer days;

6.8 (ii) meals are provided to persons who rent rooms, the cost of which is incorporated in
6.9 the basic room rate;

6.10 (iii) meals are not provided to the general public except for special events on fewer than
6.11 seven days in the calendar year preceding the year of the assessment; and

6.12 (iv) the owner is the operator of the property.

6.13 The market value subject to the 4c classification under this clause is limited to five rental
6.14 units. Any rental units on the property in excess of five, must be valued and assessed as
6.15 class 3a. The portion of the property used for purposes of a homestead by the owner must
6.16 be classified as class 1a property under subdivision 22;

6.17 (10) real property up to a maximum of three acres and operated as a restaurant as defined
6.18 under section 157.15, subdivision 12, provided it: (i) is located on a lake as defined under
6.19 section 103G.005, subdivision 15, paragraph (a), clause (3); and (ii) is either devoted to
6.20 commercial purposes for not more than 250 consecutive days, or receives at least 60 percent
6.21 of its annual gross receipts from business conducted during four consecutive months. Gross
6.22 receipts from the sale of alcoholic beverages must be included in determining the property's
6.23 qualification under item (ii). The property's primary business must be as a restaurant and
6.24 not as a bar. Gross receipts from gift shop sales located on the premises must be excluded.
6.25 Owners of real property desiring 4c classification under this clause must submit an annual
6.26 declaration to the assessor by February 1 of the current assessment year, based on the
6.27 property's relevant information for the preceding assessment year; and

6.28 (11) lakeshore and riparian property and adjacent land, not to exceed six acres, used as
6.29 a marina, as defined in section 86A.20, subdivision 5, which is made accessible to the public
6.30 and devoted to recreational use for marina services. The marina owner must annually provide
6.31 evidence to the assessor that it provides services, including lake or river access to the public
6.32 by means of an access ramp or other facility that is either located on the property of the
6.33 marina or at a publicly owned site that abuts the property of the marina. No more than 800

7.1 feet of lakeshore may be included in this classification. Buildings used in conjunction with
 7.2 a marina for marina services, including but not limited to buildings used to provide food
 7.3 and beverage services, fuel, boat repairs, or the sale of bait or fishing tackle, are classified
 7.4 as class 3a property; ~~and~~.

7.5 ~~(12) real and personal property devoted to noncommercial temporary and seasonal~~
 7.6 ~~residential occupancy for recreation purposes.~~

7.7 Class 4c property has a classification rate of 1.5 percent of market value, except that (i)
 7.8 ~~each parcel of noncommercial seasonal residential recreational property under clause (12)~~
 7.9 ~~has the same classification rates as class 4bb property, (ii) manufactured home parks assessed~~
 7.10 under clause (5), item (i), have the same classification rate as class 4b property, and the
 7.11 market value of manufactured home parks assessed under clause (5), item (ii), has a
 7.12 classification rate of 0.75 percent if more than 50 percent of the lots in the park are occupied
 7.13 by shareholders in the cooperative corporation or association and a classification rate of
 7.14 one percent if 50 percent or less of the lots are so occupied, ~~(iii) (ii)~~ commercial-use seasonal
 7.15 residential recreational property and marina recreational land as described in clause (11),
 7.16 has a classification rate of one percent for the first \$500,000 of market value, and 1.25
 7.17 percent for the remaining market value, ~~(iv) (iii)~~ the market value of property described in
 7.18 clause (4) has a classification rate of one percent, ~~(v) (iv)~~ the market value of property
 7.19 described in clauses (2), (6), and (10) has a classification rate of 1.25 percent, and ~~(vi) (v)~~
 7.20 that portion of the market value of property in clause (9) qualifying for class 4c property
 7.21 has a classification rate of 1.25 percent.

7.22 (e) Class 4d property is qualifying low-income rental housing certified to the assessor
 7.23 by the Housing Finance Agency under section 273.128, subdivision 3. If only a portion of
 7.24 the units in the building qualify as low-income rental housing units as certified under section
 7.25 273.128, subdivision 3, only the proportion of qualifying units to the total number of units
 7.26 in the building qualify for class 4d. The remaining portion of the building shall be classified
 7.27 by the assessor based upon its use. Class 4d also includes the same proportion of land as
 7.28 the qualifying low-income rental housing units are to the total units in the building. For all
 7.29 properties qualifying as class 4d, the market value determined by the assessor must be based
 7.30 on the normal approach to value using normal unrestricted rents.

7.31 (f) The first tier of market value of class 4d property has a classification rate of 0.75
 7.32 percent. The remaining value of class 4d property has a classification rate of 0.25 percent.
 7.33 For the purposes of this paragraph, the "first tier of market value of class 4d property" means
 7.34 the market value of each housing unit up to the first tier limit. For the purposes of this
 7.35 paragraph, all class 4d property value must be assigned to individual housing units. The

8.1 first tier limit is \$100,000 for assessment year 2014. For subsequent years, the limit is
 8.2 adjusted each year by the average statewide change in estimated market value of property
 8.3 classified as class 4a and 4d under this section for the previous assessment year, excluding
 8.4 valuation change due to new construction, rounded to the nearest \$1,000, provided, however,
 8.5 that the limit may never be less than \$100,000. Beginning with assessment year 2015, the
 8.6 commissioner of revenue must certify the limit for each assessment year by November 1
 8.7 of the previous year.

8.8 **EFFECTIVE DATE.** This section is effective for assessment year 2017 and thereafter.

8.9 Sec. 3. Minnesota Statutes 2016, section 275.025, subdivision 1, is amended to read:

8.10 Subdivision 1. **Levy amount.** The state general levy is levied against
 8.11 commercial-industrial property ~~and seasonal residential recreational property~~, as defined
 8.12 in this section. The state general levy base amount is ~~\$592,000,000 for taxes payable in~~
 8.13 ~~2002~~ \$840,046,700 for taxes payable in 2018. For taxes payable in subsequent years, the
 8.14 levy base amount is increased each year by multiplying the levy base amount for the prior
 8.15 year by the sum of one plus the rate of increase, if any, in the implicit price deflator for
 8.16 government consumption expenditures and gross investment for state and local governments
 8.17 prepared by the Bureau of Economic Analysts of the United States Department of Commerce
 8.18 for the 12-month period ending March 31 of the year prior to the year the taxes are payable.
 8.19 The tax under this section is not treated as a local tax rate under section 469.177 and is not
 8.20 the levy of a governmental unit under chapters 276A and 473F.

8.21 The commissioner shall increase or decrease the preliminary or final rate for a year as
 8.22 necessary to account for errors and tax base changes that affected a preliminary or final rate
 8.23 for either of the two preceding years. Adjustments are allowed to the extent that the necessary
 8.24 information is available to the commissioner at the time the rates for a year must be certified,
 8.25 and for the following reasons:

8.26 (1) an erroneous report of taxable value by a local official;

8.27 (2) an erroneous calculation by the commissioner; and

8.28 (3) an increase or decrease in taxable value for commercial-industrial ~~or seasonal~~
 8.29 ~~residential recreational~~ property reported on the abstracts of tax lists submitted under section
 8.30 275.29 that was not reported on the abstracts of assessment submitted under section 270C.89
 8.31 for the same year.

8.32 The commissioner may, but need not, make adjustments if the total difference in the tax
 8.33 levied for the year would be less than \$100,000.

9.1 **EFFECTIVE DATE.** This section is effective for taxes payable in 2018 and thereafter.

9.2 Sec. 4. Minnesota Statutes 2016, section 275.025, subdivision 4, is amended to read:

9.3 Subd. 4. ~~**Apportionment and Levy of state general tax.** Ninety-five percent of the~~
9.4 ~~state general tax must be levied by applying a uniform rate to all commercial-industrial tax~~
9.5 ~~capacity and five percent of the state general tax must be levied by applying a uniform rate~~
9.6 ~~to all seasonal-residential-recreational tax capacity.~~ On or before October 1 each year, the
9.7 commissioner of revenue shall certify the preliminary state general levy ~~rates~~ rate to each
9.8 county auditor that must be used to prepare the notices of proposed property taxes for taxes
9.9 payable in the following year. By January 1 of each year, the commissioner shall certify
9.10 the final state general levy rate to each county auditor that shall be used in spreading taxes.

9.11 **EFFECTIVE DATE.** This section is effective for taxes payable in 2018 and thereafter.

9.12 Sec. 5. **REPEALER.**

9.13 Minnesota Statutes 2016, section 275.025, subdivision 3, is repealed.

9.14 **EFFECTIVE DATE.** This section is effective for taxes payable in 2018 and thereafter.

APPENDIX
Repealed Minnesota Statutes: 17-3628

275.025 STATE GENERAL TAX.

Subd. 3. **Seasonal residential recreational tax capacity.** For the purposes of this section, "seasonal residential recreational tax capacity" means the tax capacity of tier III of class 1c under section 273.13, subdivision 22, and all class 4c(1), 4c(3)(ii), and 4c(12) property under section 273.13, subdivision 25, except that the first \$76,000 of market value of each noncommercial class 4c(12) property has a tax capacity for this purpose equal to 40 percent of its tax capacity under section 273.13.