

**PROPERTY TAX
Agricultural Water Quality
Credit Created**

March 6, 2024

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 4044 (Jacob) / S.F. 4241 (Drazkowski) as introduced

Fund Impact

	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
Agricultural Water Quality Credit	\$0	\$0	(\$940)	(\$1,010)
Income Tax Interaction	<u>\$0</u>	<u>\$0</u>	<u>\$30</u>	<u>\$40</u>
General Fund Total	\$0	\$0	(\$910)	(\$970)

Effective beginning with taxes payable in 2025.

EXPLANATION OF THE BILL

The proposal would create a new agricultural water quality property tax credit of \$5 per acre of qualifying land. To be eligible for the credit, property must be classified as 2a agricultural or 2b rural vacant, be certified as enrolled in the Minnesota Agricultural Water Quality Certification Program (MAWQCP), and be in one of eight counties (Dodge, Fillmore, Goodhue, Houston, Mower, Olmsted, Wabasha, or Winona). The credit would only be used to reduce net tax capacity-based property taxes and would be the final credit applied in the computation of net property taxes.

REVENUE ANALYSIS DETAIL

- According to the Minnesota Department of Agriculture, there were approximately 960,000 certified acres and 1,500 farmers enrolled in the MAWQCP statewide in 2023.
- Approximately 192,000 certified acres and 290 farmers enrolled in the program are located in counties eligible for the proposed water quality property tax credit. It is assumed that all these certified acres are classified as 2a or 2b property and would be eligible for the credit.
- The agricultural water quality credit is estimated to be \$960,000 in taxes payable 2025 and \$1.01 million in taxes payable 2026. These numbers have been converted to fiscal years for the purpose of this estimate.
- Lower property taxes for property owners receiving the credit would reduce deductions on income tax returns, increasing state tax collections by a \$30,000 in fiscal year 2026 and \$40,000 in fiscal year 2027.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	Decrease in simplicity: creating a new credit, credit is only for certain counties
<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>	Neutral	

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
<https://www.revenue.state.mn.us/revenue-analyses>

hf4044(sf4241) MAWQCP Credit Created_pt_1/wms