

# Overview of Property Taxes

---

MINNESOTA HOUSE RESEARCH AND FISCAL ANALYSIS DEPARTMENTS

Presentation to House Property Tax Division

January 2023



# Nonpartisan Staff Roles

## House Research

- Draft bills and amendments
- Write bill summaries
- Provide background research and overviews
- Answer questions on bill content and legal consequences

## House Fiscal

- Create spreadsheets
- Work with DOR on revenue estimates
- Work with MMB and LBO on fiscal notes
- Answer questions on fiscal impacts of bills
- Monitor the budget forecast and economic updates

# Important Resources

---

## Committee Documents

- Bill summaries
- Revenue estimates / Fiscal notes
- Spreadsheets
- Partisan briefs
- Testifier letters and information

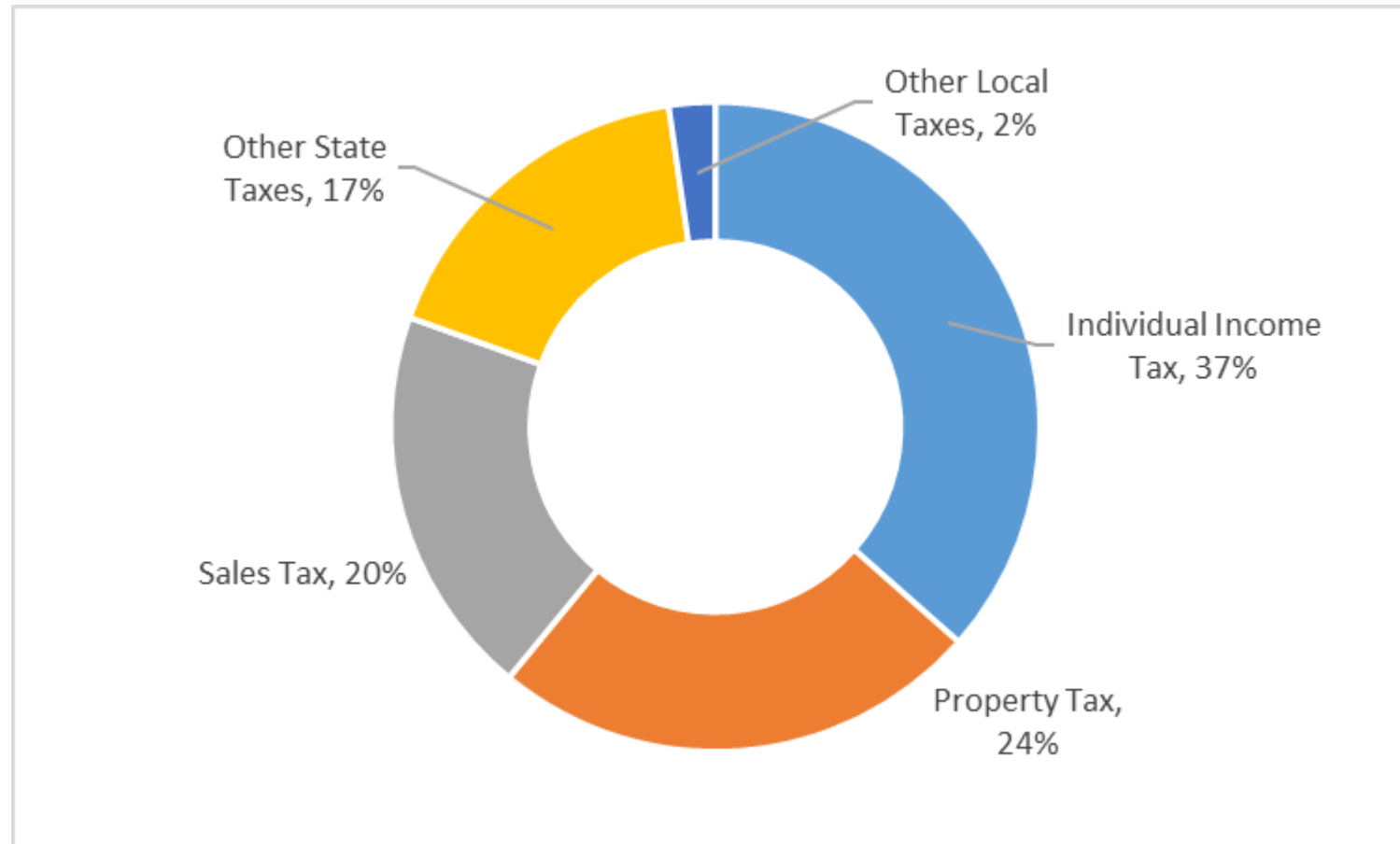
# Outline

---

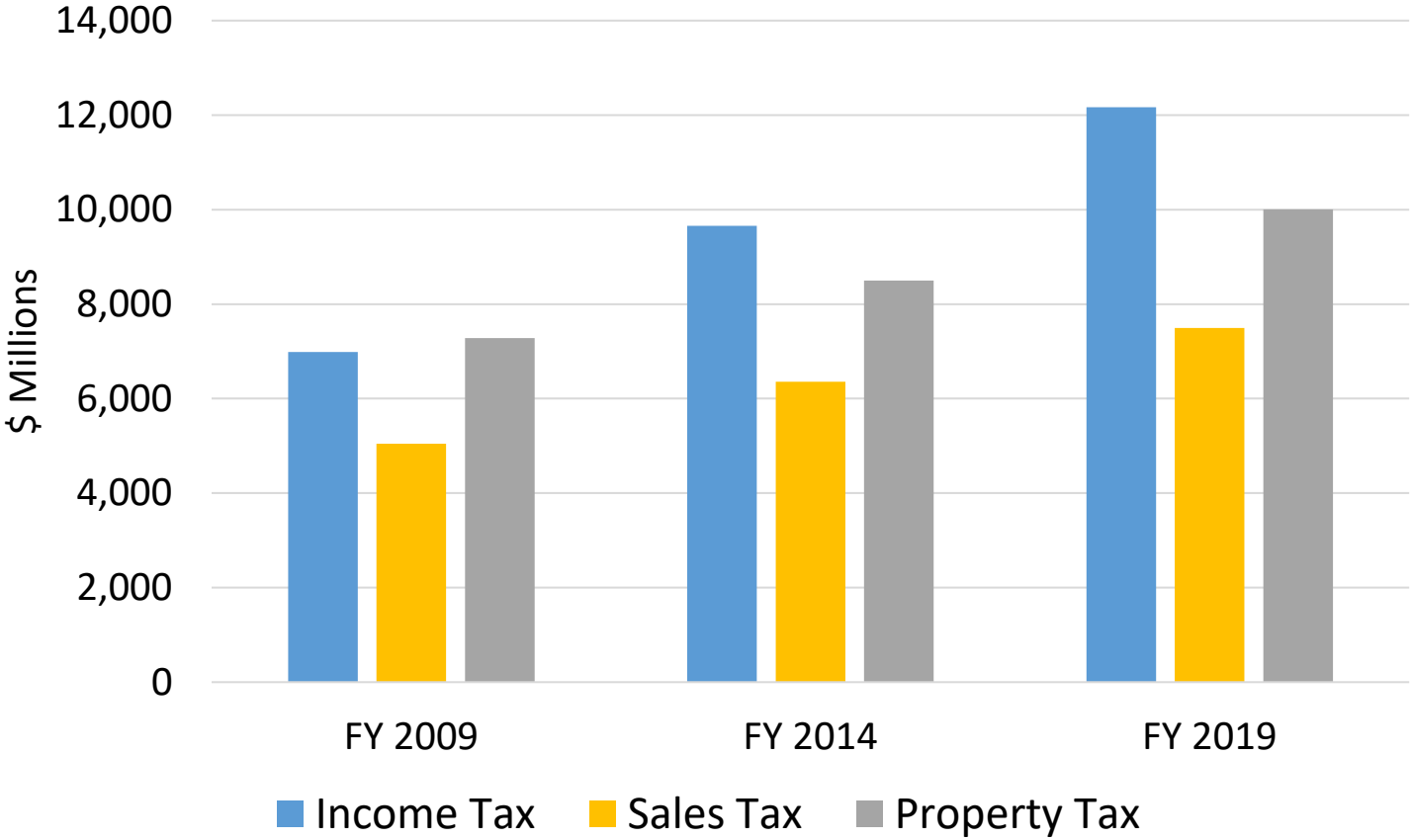
- State and local taxes
- Criteria for a good tax system
- Property tax system
- Property tax relief
  - Aids and credits
  - Property tax refunds
- Local sales tax
- Tax Increment Financing (TIF)

# State and Local Taxes

(\$46.2 billion in FY 2022)



# Income, Sales, and Property Taxes



# GAO Criteria for a Tax System Evaluation

---

- **Equity:** Horizontal and Vertical:
  - **Horizontal equity:** same tax applies to individuals with same ability to pay
  - **Vertical equity:** taxpayers with greater ability to pay should pay more tax
- **Economic Efficiency:** Reduce economic distortion caused by the tax system. Distortions reduce well-being by directing resources away from the highest value uses.
- **Simplicity, Transparency, Administrability:**
  - Simplicity makes the system more understandable, reduces compliance costs for taxpayers, reduces administrative costs.
  - Transparent systems reduce taxpayer uncertainty, which allows for better decision-making.
  - Administrative costs fall on both private and public actors.
- **Economic distortion and compliance costs are “dead-weight losses”**

Source: Government Accountability Office (GAO). “Understanding the tax reform debate.” September 2005.

# Other Tax Policy Criteria

---

- **Competitiveness:** Does the tax system disadvantage the state in competing for investment and business?
- **Revenue sufficiency:** Does the tax system raise enough revenue to fund state government?
- **Certainty:** Can taxpayers adequately predict the future tax climate?
- **Compliance/Tax Gap:** Reducing the difference between taxes paid and taxes owed.

## Property tax revenue estimates score bills based on 6 benchmarks:

1) Transparency, Understandability, Simplicity & Accountability; 2) Efficiency & Compliance; 3) Equity (Vertical & Horizontal); 4) Stability & Predictability; 5) Competitiveness for Businesses; 6) Responsiveness to Economic Conditions



# Property Tax System

---

# Property Tax

---

- Primarily a local tax
- Levy based system
  - Jurisdiction sets levy
  - Levy applied to all properties based on share of tax base
- Policy choices
  - Shifting burdens (exclusions, classification)
  - Relief mechanisms (credits, refunds)
  - Levy reductions (aids to local governments)

# Property Tax Cycle: Taxes Paid in 2023

<b>2022</b>	
January	Assessment (2nd)
March	Valuation notices mailed
April - June	Appeals
September	Truth-in-taxation levies set
November	Truth-in-taxation notices sent
December	Final 2023 levies certified

<b>2023</b>	
January	County auditors compute rates
March	Property tax statements sent
May	1st half tax payments due
October	Most 2nd half tax payments due
November	Ag 2nd half tax payments due

# Property Tax Calculation

## 1. Calculate Tax Rate

How much a jurisdiction wants to collect

$$\frac{\textit{Levy}}{\textit{Base}} = \textit{Tax Rate}$$

Total of all property value in jurisdiction

## 2. Calculate Tax Owed


$$\textit{Tax Rate} \times \textit{Value} = \textit{Tax Owed}$$

# Two Different Tax Bases

## Referendum Market Value (RMV)

- **Use:** School Operating Levies
- **Property types:** Excludes
  - Agricultural
  - Seasonal Recreational
  - Student Housing
- **Calculated** (for most types):
  - RMV = estimated market value

## Net Tax Capacity (NTC)

- **Use:** All other levies
- **Property types:** All property types
- **Calculated:**
  - NTC = (estimated market value – exclusions) x classification rate

# Class Rates: Pay 2023

---

	<b>Property Type</b>	<b>Tier</b>	<b>Class Rate</b>
<b>1a</b>	<b>Residential Homestead</b> (incl Ag Hmstd house)	Under \$500,000	1.0%
		Over \$500,000	1.25
<b>2a</b>	<b>Agricultural Homestead</b>	Under \$1,890,000	0.5
		Over \$1,890,000	1.0
<b>2a</b>	<b>Agricultural Nonhomestead</b>		1.0
<b>3a</b>	<b>Comm'l/Industr'l/Public Utility</b>	Under \$150,000	1.5
		Over \$150,000	2.0

# Class Rates: Pay 2023

---

	<b>Property Type</b>	<b>Tier</b>	<b>Class Rate</b>
<b>4a</b>	<b>Apartments (4+ units)</b>		1.25%
<b>4bb</b>	<b>Residential Nonhomestead (1 unit)</b>	Under \$500,000 Over \$500,000	1.0 1.25
<b>4b</b>	<b>Residential Nonhomestead (2-3 units)</b>		1.25
<b>4c</b>	<b>Seasonal recreational (noncommercial)</b>	Under \$500,000 Over \$500,000	1.0 1.25

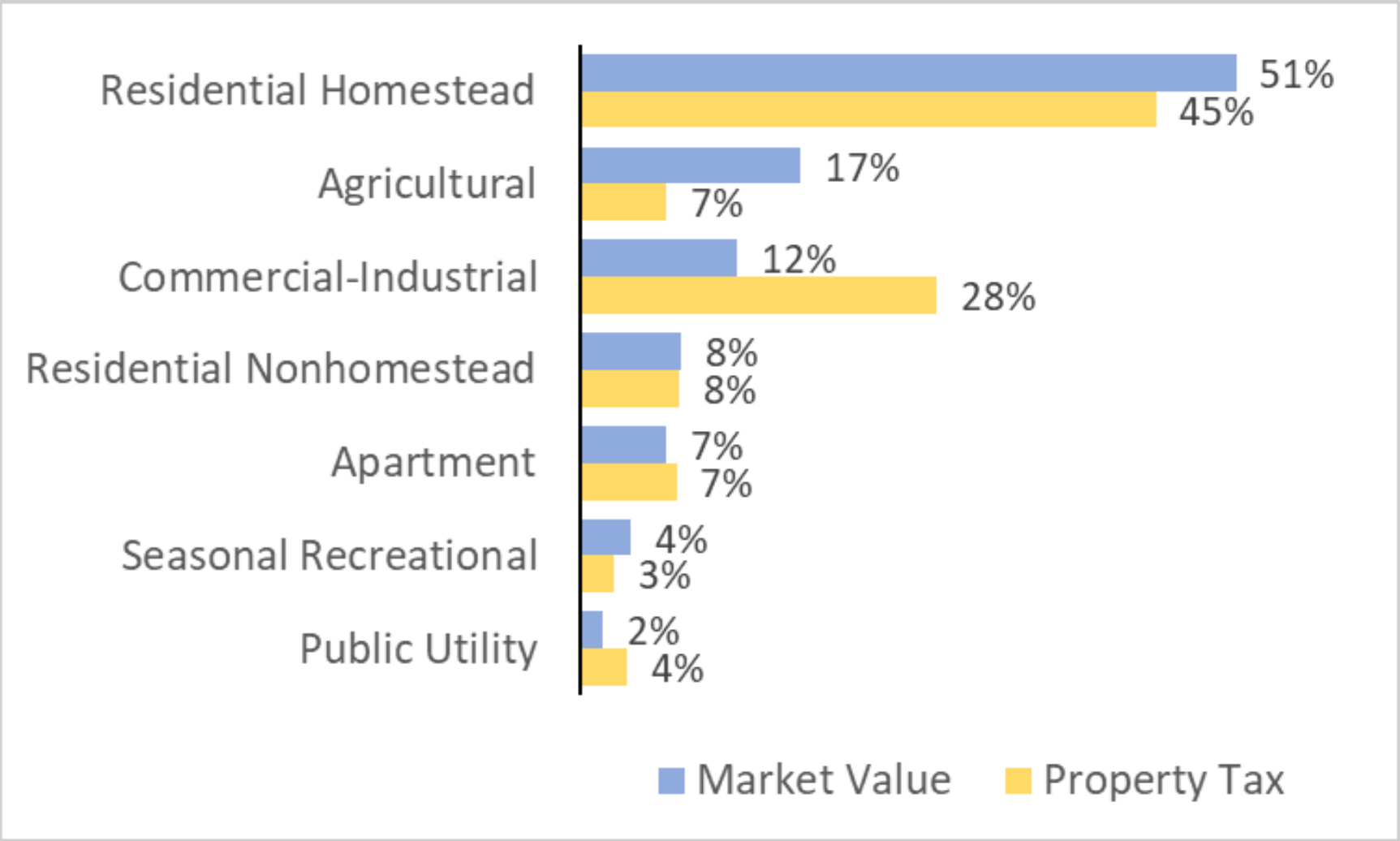
# Property Tax Comparison

\$200,000 Property

Property Type	Class Rate	Property Tax		Effective Tax Rate
		Gross	Net	
Agricultural Hmstd (Land)	0.5	\$1,044	\$594	0.30%
Residential Hmstd	1.0	2,275	2,275	1.14
Seasonal recreational	1.0	2,414	2,414	1.21
Comm'l/Indstr'l	1.5/2.0	4,960	4,960	2.48
Rental Property (One unit of a duplex)	1.25	2,997	2,997	1.50

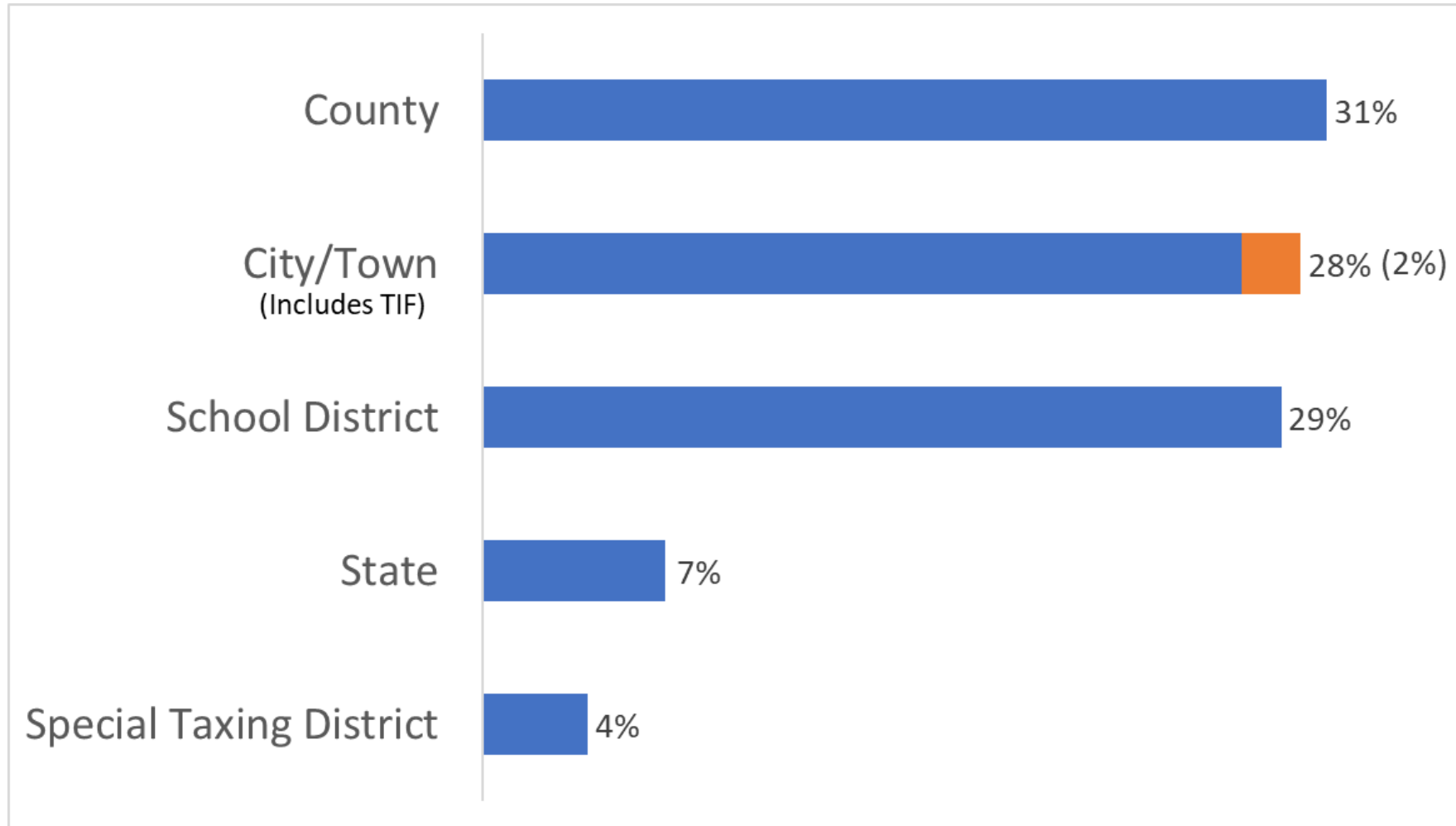


# Statewide Shares of Market Value and Property Tax by Property Type (Taxes payable 2022)



# Property Tax by Type of Government\*

(\$11,657 million in CY 2022)



\*Amounts shown are after allocation of property tax credits.

## Minnesota ranking among large cities

Type of Property	National Ranking (out of 53)
\$ 150,000 home	33 <sup>rd</sup>
\$ 300,000 home	26 <sup>th</sup>
\$ 1 million commercial property	15 <sup>th</sup>
\$ 1 million industrial property*	27 <sup>th</sup>
\$ 600,000 apartment	23 <sup>rd</sup>

## Minnesota ranking among rural cities

Type of Property	National Ranking (out of 50)
\$ 150,000 home	22 <sup>nd</sup>
\$ 300,000 home	21 <sup>st</sup>
\$ 1 million commercial property	7 <sup>th</sup>
\$ 1 million industrial property*	13 <sup>th</sup>
\$ 600,000 apartment	25 <sup>th</sup>

\* Based on assumption of 60 percent personal property.

Source: 50-State Property Tax Comparison Study (2022)

# State General Tax

---

- Levy is \$758.7 million for CY 2023
  - \$717 million applies to commercial-industrial (C/I)
  - \$42 million applies to seasonal-recreational
- 2021 Tax Bill
  - Exempted first \$150,000 C/I value
  - Reduced C/I portion of levy by \$20.1 million
- 2019 Tax Bill
  - Reduced overall levy by \$50 million
- 2017 Tax Bill
  - Eliminated annual inflationary increase
  - Exempted first \$100,000 C/I value

# Mining Taxes

---

- Mining industry (taconite) pays production tax in lieu of property tax
- \$102 million of production tax paid in 2022
- Tax rate is \$2.892 per taxable ton
- 35.3 million taxable tons
  - Tax base is three-year average production
- Tax revenues distributed to jurisdictions in taconite assistance area based on formula

# Property Tax Relief and State Aid Programs

---

# Major Property Tax Relief Programs

(\$ millions)

<b>CY'22/ FY'23 Approp</b>	<b>Program</b>	<b>Recipients</b>
	<b>Aids &amp; Credits:</b>	
564	Local Government Aid (LGA)	Cities
264	County Program Aid	Counties
152	Referendum Equalization Aid	School districts
123	Operating Capital Aid	School districts
103	Local Optional Revenue Aid	School districts
70	School Building Bond Ag Credit	School districts
36	Agricultural Market Value Credit	All taxing jurisdictions
38	Payments in Lieu of Taxes	Counties & towns

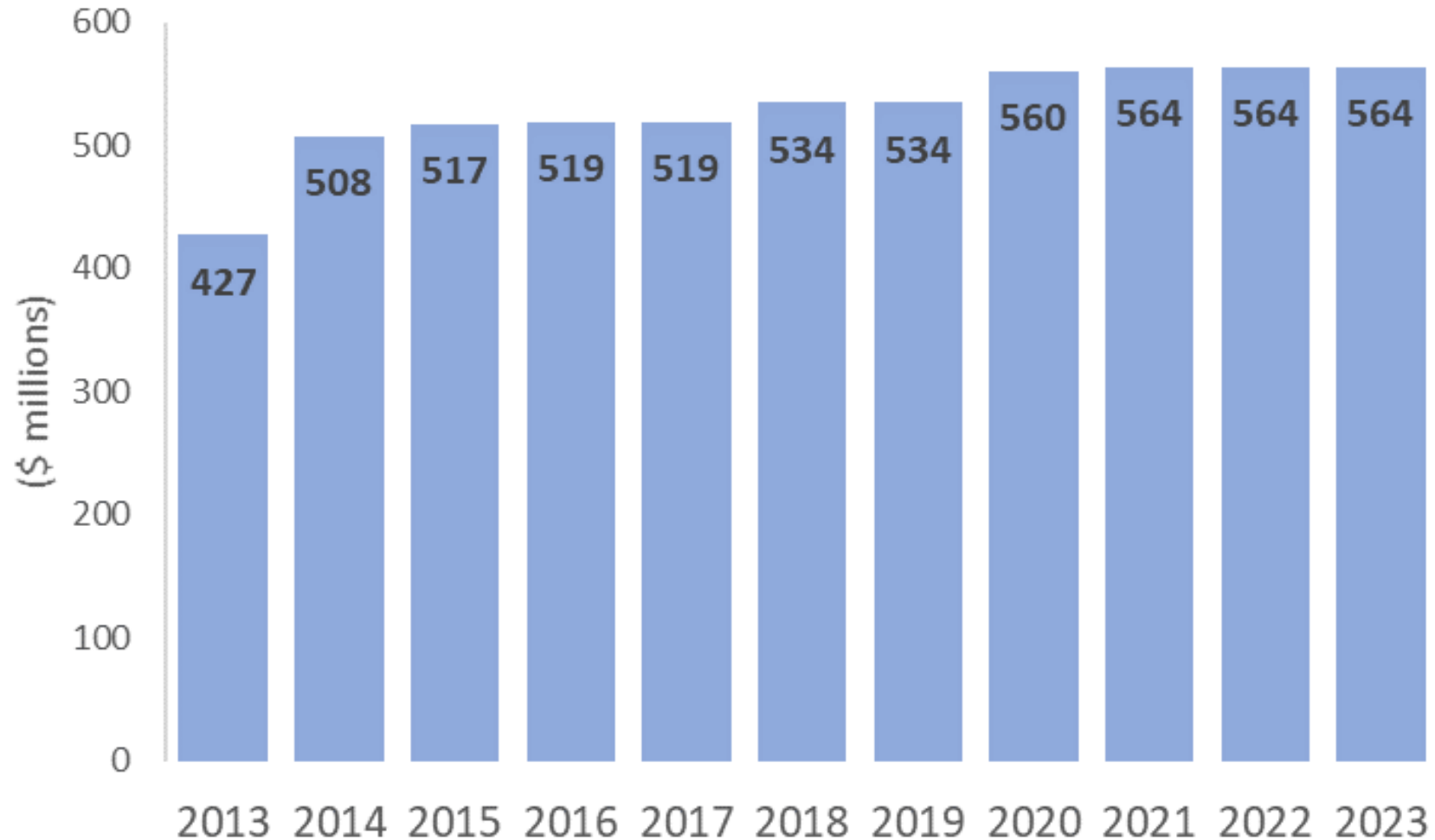
# Major Property Tax Relief Programs

(\$ millions)

<b>CY '22/ FY'23 Approp</b>	<b>Program</b>	<b>Recipients</b>
25 22	<b>Aids &amp; Credits (cont.):</b> Operating Referendum Aid Debt Service Equalization Aid	School Districts School Districts
617 232	<b>Direct payments to taxpayers:</b> Homestead Credit Refund: Homeowners Prop Tax Refund: Renters	Individuals Individuals



# City LGA Distributes \$564.4 million annually



# City Local Government Aid (LGA)

---

- 854 total cities
- 742 will receive LGA in 2023
- 112 will not receive LGA in 2023
- General purpose aid
  - Supplements property taxes

# City Local Government Aid (LGA)

---

- Formula determines each city's "unmet need"

$$\text{Unmet Need} = \text{Need} - \text{Ability to pay}$$

Factors vary by city size

Ability to pay = city's tax base x average city tax rate

# City LGA: Need Measures

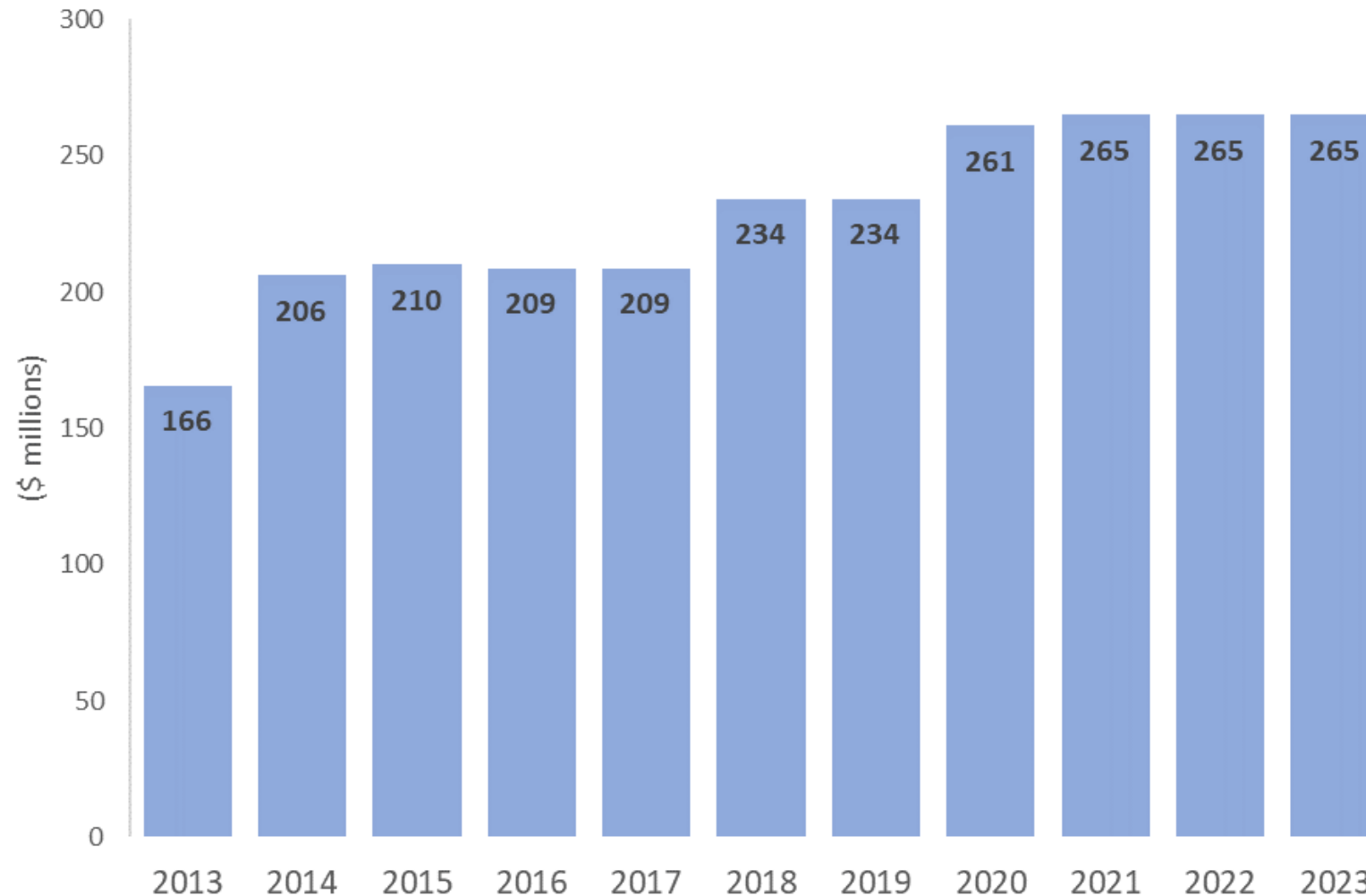
	Small cities	Medium Cities	Large Cities
City population	Pop. < 2,500	2,500 ≥ Pop.< 10,000	Pop. ≥ 10,000
Factors used to determine Need	<ul style="list-style-type: none"> <li>- Population</li> <li>- Population density of less than 30 people/sq. mile</li> </ul> <p>Maximum of \$640/capita</p>	<ul style="list-style-type: none"> <li>- % housing built before 1940</li> <li>- Average household size</li> <li>- Pop. decline from peak census est.</li> <li>- Population density of less than 30 people/sq. mile</li> </ul>	<ul style="list-style-type: none"> <li>- % housing built before 1940</li> <li>- % housing built between 1940 and 1970</li> <li>- Jobs per capita</li> <li>- Population density of less than 150 people/sq. mile</li> </ul>

# Town Local Government Aid (LGA)

---

- After being eliminated in 1992, a new town LGA program was enacted in 2013 (first payment in 2014)
- Aid to a town is based on:
  - Amount of agricultural property in town
  - Total acres in town
  - Population
- Distributes \$10 million annually

# County Program Aid Distributes \$264.7 million annually



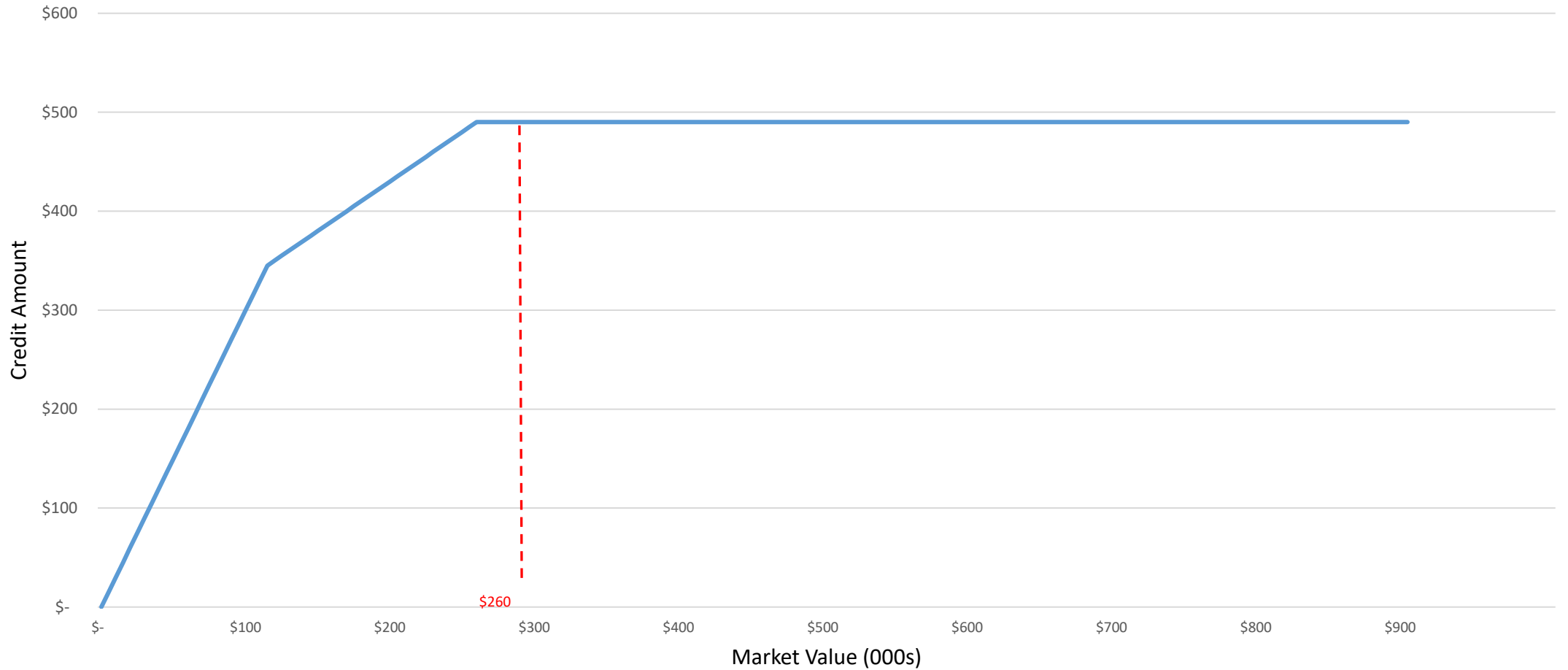
# Factors Determining County Program Aid

---

- Need aid
  - Share of population age 65 or older
  - Part I crimes
  - No. of households receiving SNAP (federal nutrition assistance)
- Tax-base equalization aid
  - Tax base
  - County population

# Agricultural Market Value Credit

(\$36.5 million CY 2022)





# School Building Bond Agricultural Credit

(\$70.0 million CY 2022)

- Agricultural land is eligible
  - Excluding the house, garage, and one acre
- Covers a percentage of property tax attributable to school building bonds

Year	Credit percent
2018	40%
2019	40%
2020	50%
2021	55%
2022	60%
2023 and thereafter	70%

# Miscellaneous Aids/Credits

---

- Disparity Reduction Aid
- Border City Disparity Credit
- Taconite Area Aids/Credits
- Riparian Protection Aid
- Out of Home Placement Aid
- Local Pension Aid (Police and Fire)

# Homestead Credit State Refund and Renter Property Tax Refund

---

- Provides property tax relief to homeowners and renters whose property taxes are high relative to their incomes
- If property tax exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum

# Property Tax Refunds

\$757 million in refunds filed for CY 2020

	<b>Number of Filers</b>	<b>Refund Amount (millions)</b>	<b>Average Refund</b>
<b>Homeowners</b>	508,238	\$542	\$1,066
<b>Renters</b>	305,455	\$215	\$704
<b>Total, All Filers</b>	<b>813,693</b>	<b>\$757</b>	<b>\$938</b>

Source: Minnesota Department of Revenue Property Tax Research

# Property Tax Refund

---

## Program limits, refunds to be filed in 2022

- Homeowners
  - Maximum household income is \$119,790
  - Maximum refund is \$2,930
- Renters
  - Property taxes assumed to be 17% of rent paid
  - Maximum household income is \$64,920
  - Maximum refund is \$2,280

Source: Minnesota Department of Revenue Property Tax Research

# Special Property Tax Refund (a.k.a. Targeting)

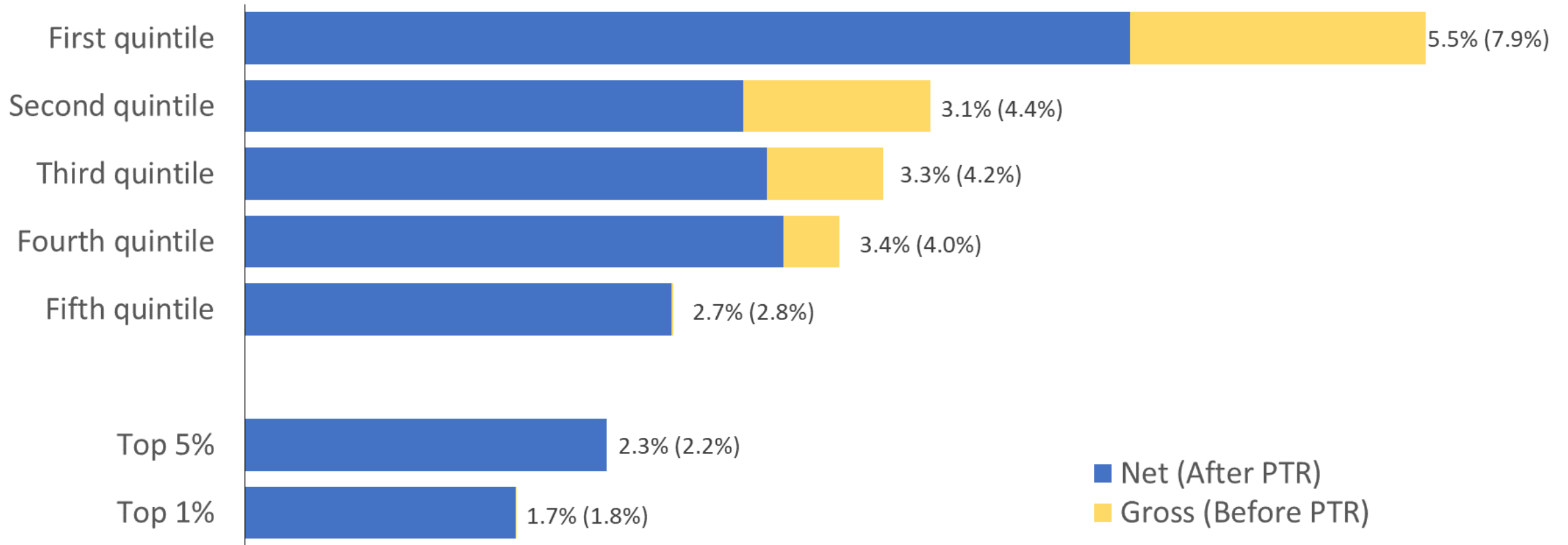
---

- Provides relief to homeowners with more than 12% tax increase
- Household income not considered
- Maximum refund is \$1,000
- Returns filed in 2017:
  - \$3.1 million total refunds
  - 36,000 returns
  - \$85 average refund

Source: Minnesota Department of Revenue Property Tax Research

# Property Tax Burden

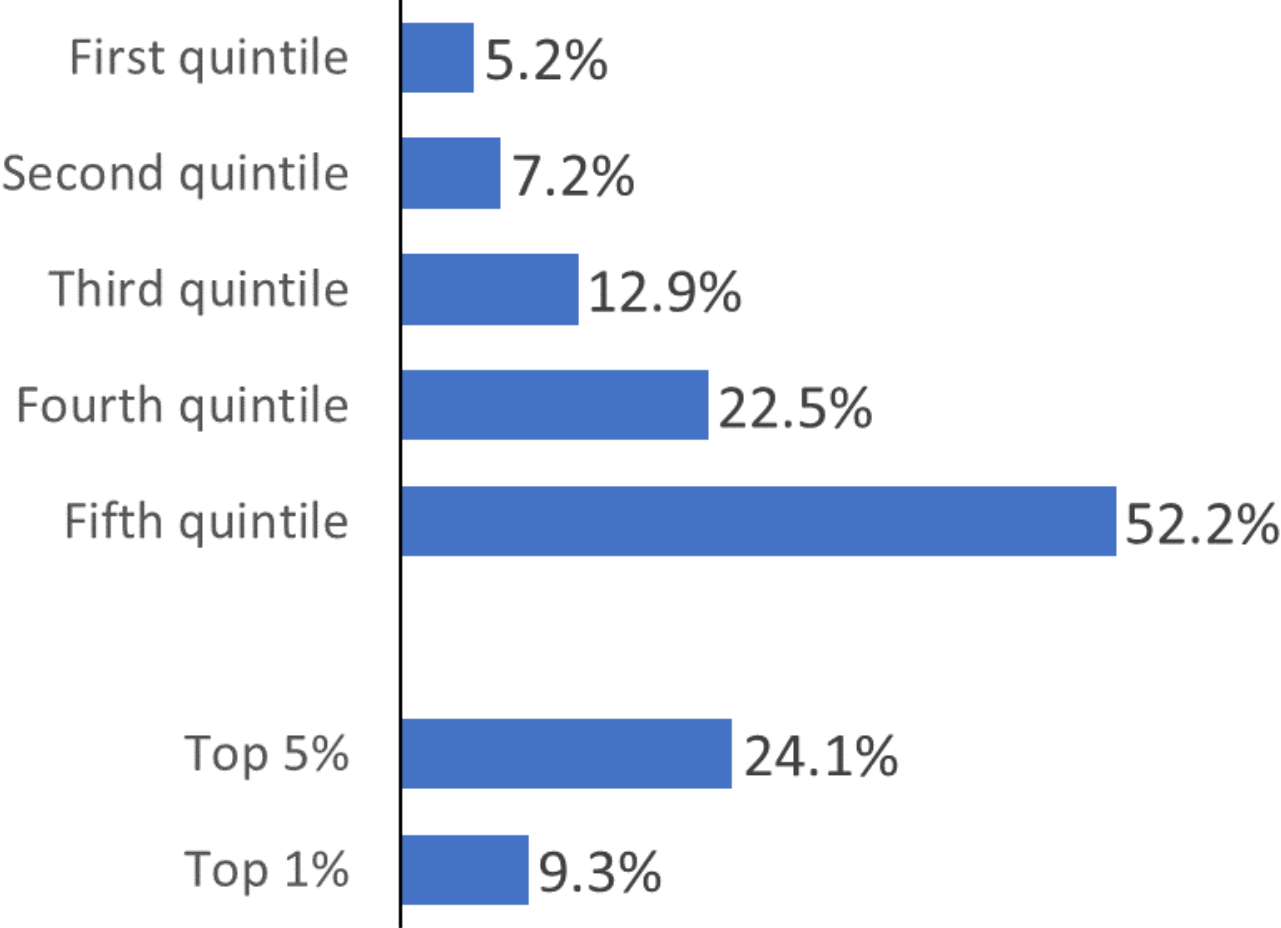
## Effective Tax Rates by Population Quintiles (2018)



Source: Department of Revenue, 2021 Tax Incidence Study

# Net Property Tax Burden\*

Distribution by Population Quintiles (2018)



\*After property tax refund.

Source: Department of Revenue, 2021 *Tax Incidence Study*



# Senior Citizen Property Tax Deferral Program

---

- Allows qualifying seniors to defer a portion of property taxes
  - Seniors pay 3% of household income
  - Balance is paid by the state to the county
- Eligibility requirements such as:
  - Age, household income, years in the home requirements
- Encumbers the property with a lien
- Enrollment terminates by:
  - Death
  - Selling the property
  - Owner's volition
  - Property is no longer homesteaded

# Local Sales Taxes

---

# Types of Local Sales Taxes

---

Local option  
sales taxes

County  
transportation  
taxes

Lodging taxes

Food &  
beverage  
taxes

Entertainment  
taxes

# Local Option Sales Taxes

---

Important characteristics:

- Require legislative authorization
- Require voter approval
- Regional significance requirement
- 5 capital project limitation
- Have duration and revenue collection limitations

# Special Local Taxes (statutory)

---

## County transportation taxes

- 0.25% or 0.50%
- Fund transportation/transit projects
- Voter approval not required
- Legislative authorization not required

## Lodging taxes

- Up to 3% only on lodging
- Fund convention/tourism bureau
- Voter approval not required
- Legislative authorization not required

# Special Local Taxes

---

## Food & beverage taxes

- Imposed only on food and beverages sold at restaurants, bars, etc.
- Fund recreational facilities
- Legislative authorization required
- Voter approval not usually required

## Entertainment taxes

- Imposed on amusement/admission activities
- Fund recreational facilities
- Legislative authorization required
- Voter approval not usually required

# Tax Increment Financing

---

# Tax Increment Financing (TIF)

---

## Description

- Economic development tool
- Used to induce development or redevelopment
- Used to fund independent public improvements

## Features

- Duration limitation
- Captures the incremental tax generated by the increased value of the new development
- Revenue is used to fund the project
- Originate locally

## Limitations

- Certification (“but for” test)
- District type
- Uses of revenue generated
- Timeframe for spending the revenue



# TIF Districts Around the State

<b>TIF Districts by Type: Statewide, Greater MN, &amp; Metro Area; 2020</b>			
<b>Type of District</b>	<b>Statewide</b>	<b>Greater MN</b>	<b>Metro Area</b>
Redevelopment	743	404	339
Housing	557	377	180
Economic Development	311	250	61
Renewal and Renovation	26	9	17
Pre-1979	1	1	0
Soils Condition	12	4	8
Uncodified	11	0	11
<b>Total</b>	<b>1,661</b>	<b>1,045</b>	<b>616</b>
Hazardous Substance Subdistricts	22	2	20

Source: Tax Increment Financing Legislative Report, December 2020 (Office of the State Auditor)

# TIF Legislation

---

- TIF authorities can create districts without legislative involvement
- Legislature gets involved when a district needs a special exception to the laws

# Example – Timeframe for Beginning Activities (“Five-year Rule”)

---

Sec. 15. CITY OF COTTAGE GROVE; TIF DISTRICT 1-12; GATEWAY NORTH.

The requirement of Minnesota Statutes, section 469.1763, subdivision 3, that activities must be undertaken within a five-year period from the date of certification of a tax increment financing district, is considered to be met for Tax Increment Financing District No. 1-12 (Gateway North), administered by the Cottage Grove Economic Development Authority, if the activities are undertaken prior to January 1, 2017.

**EFFECTIVE DATE.** This section is effective the day after the governing body of the city of Cottage Grove and its chief clerical officer comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

# Example – Duration Extension

---

Sec. 18. CITY OF RICHFIELD; EXTENSION OF CEDAR AVENUE TIF DISTRICT.

Notwithstanding Minnesota Statutes, section 469.176, subdivision 1b, or any other law to the contrary, the city of Richfield and the Housing and Redevelopment Authority in and for the city of Richfield may elect to extend the duration limit of the redevelopment tax increment financing district known as the Cedar Avenue Tax Increment Financing District established by Laws 2005, chapter 152, article 2, section 25, by ten years.

**EFFECTIVE DATE.** This section is effective upon compliance by the governing bodies of the city of Richfield, Hennepin County, and Independent School District No. 280 with the requirements of Minnesota Statutes, sections 469.1782, subdivision 2; and 645.021, subdivisions 2 and 3.

# More Information on TIF

---

- House Research website, “TIF Primer”
- Office of State Auditor, for TIF reports, newsletters, guides, etc.

# Reports and Studies

## Property Tax Burden (Voss) Report (2008-2020)

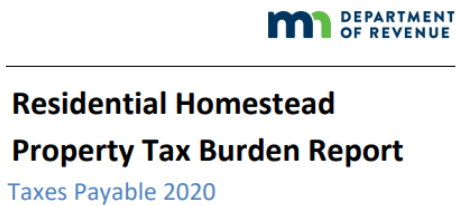
• [https://www.revenue.state.mn.us/sites/default/files/2022-01/voss\\_pay20.pdf](https://www.revenue.state.mn.us/sites/default/files/2022-01/voss_pay20.pdf)

## Minnesota Tax Mining Guide (2016-2022)

• [https://www.revenue.state.mn.us/sites/default/files/2022-10/2022\\_mining\\_guide\\_0.pdf](https://www.revenue.state.mn.us/sites/default/files/2022-10/2022_mining_guide_0.pdf)

## Minnesota Property Tax Administrators Manual (2022)

• <https://www.revenue.state.mn.us/property-tax-administrators-manual>



Property Tax Division  
January 2022  
[www.revenue.state.mn.us](http://www.revenue.state.mn.us)



### Table of Contents

Module 1: General Property Tax Law .....	2
Module 2: Valuation.....	61
Module 3: Classification of Property.....	233
Module 4: Homestead.....	314
Module 5: Exempt Property.....	422
Module 6: Property Taxation .....	507
Module 7: Sales Ratios.....	537
Module 8: Assessment Review, Appeals-Equalization, and Corrections.....	570

# Questions?

---



Minnesota House Research Department provides nonpartisan legislative, legal, and information services to the Minnesota House of Representatives.

[www.house.mn/hrd](http://www.house.mn/hrd) | 651-296-6753 | State Office Building | St. Paul, MN 55155