

# Overview of Property Taxes

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MINNESOTA HOUSE RESEARCH AND FISCAL ANALYSIS DEPARTMENTS

Presentation to House Property and Local Tax Division

January 2021

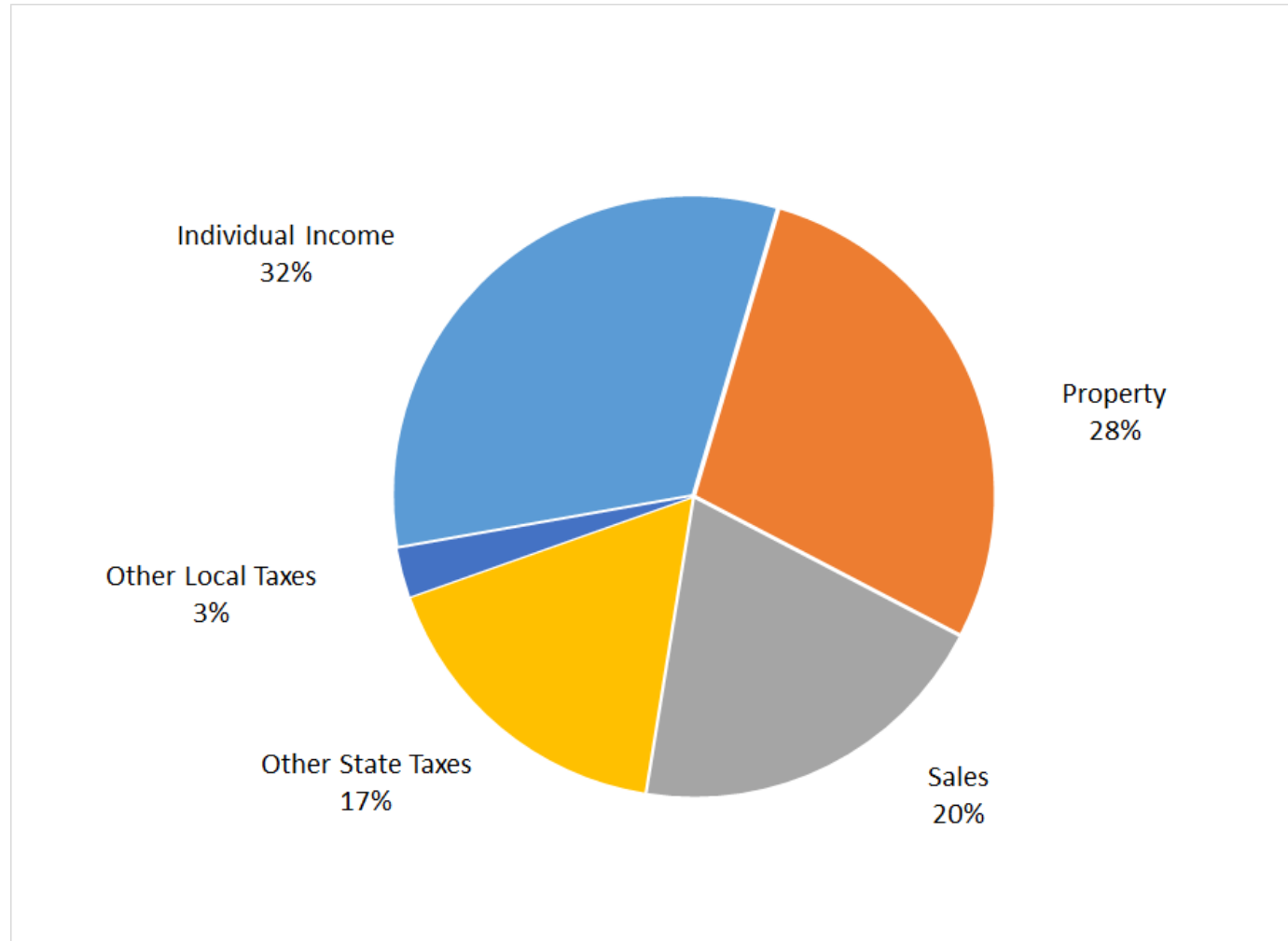


# Outline

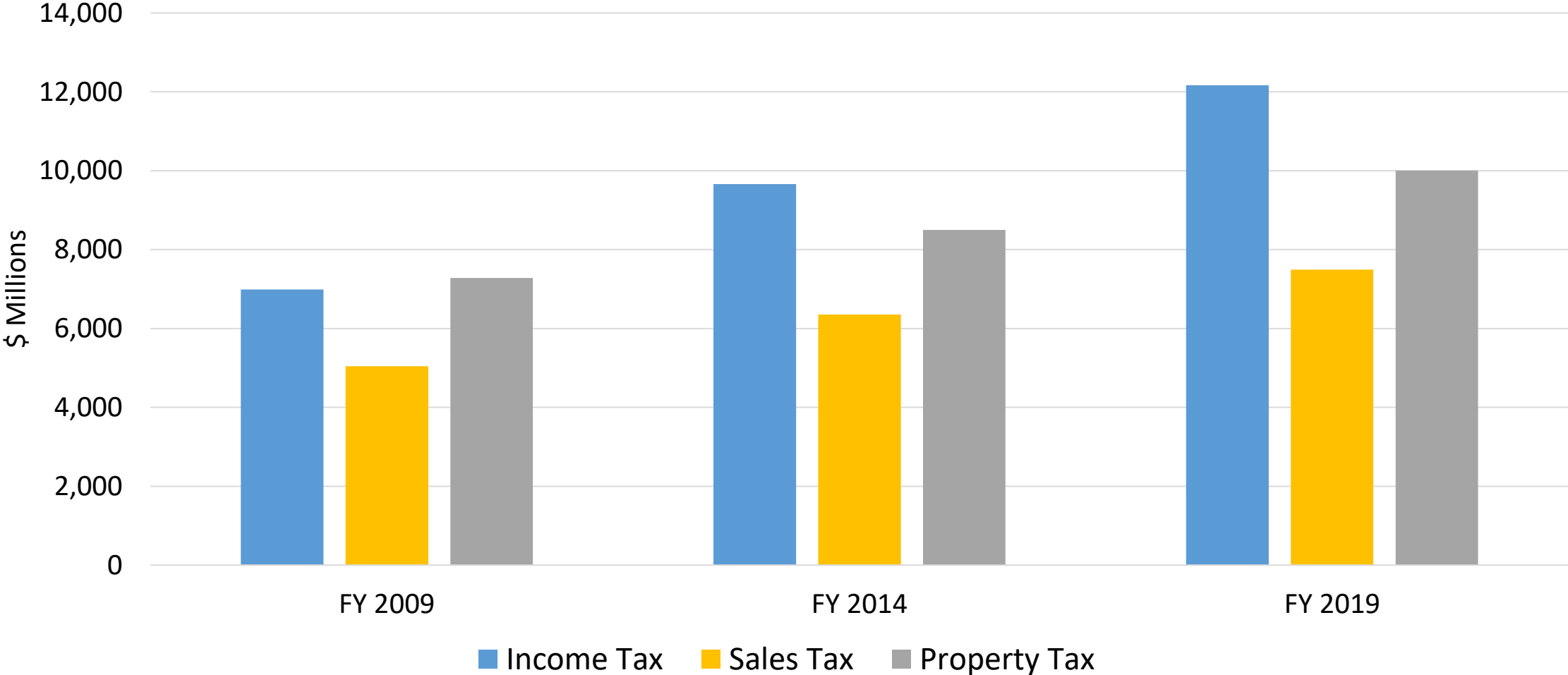
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- State and local taxes
- Property tax
  - Administration
  - System design
- Property tax relief
  - Aids and credits
  - Property tax refunds
- Local sales tax
- Tax Increment Financing (TIF)

# State and Local Taxes (\$37.4 billion in FY 2020)



# Income, Sales, and Property Taxes



# Fiscal Resources

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- Revenue Estimates - Estimates by the Minnesota Department of Revenue (DOR) that provide analysis about how the bill language would change state tax collections or state expenditures for property tax relief programs
- Fiscal Notes - Provides estimates of administrative costs for relevant state agencies prepared under the direction of the Legislative Budget Office (LBO) with the assistance of all relevant state agencies
- Local Impact Notes - Estimates the local government or school district fiscal impact of proposed legislation or rule
- Legislative Budget Tracking Spreadsheet - Provides a compilation of cost information from revenue estimates, fiscal notes, and other sources for a bill or omnibus bill

# House Research Department

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- Nonpartisan staff; work with members of both parties on a confidential basis
- Provide House members and committees with legal and policy analysis and legislative research
- Draft bills and amendments
- Prepare bill summaries
- Modeling income tax, property tax, and state aids proposals
- Prepare publications on policy topics of legislative interest

# Property Tax Administration

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County/Local Assessor



County Auditor



County Treasurer



Department of Revenue

# Property Tax Administration



## Taxing Authorities

Counties, cities/towns, school districts, special taxing districts



## Boards of Appeal and Equalization

State, county, and local boards



## Tax Court

Executive branch court



# Property Tax Cycle: Pay 2021

<b>2020</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 2021 levies certified

<b>2021</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

# Tax Notices

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Notice	Description	Date Sent
Valuation Notice	<ul style="list-style-type: none"><li>Shows the estimated market value and classification of property</li><li>Contains Local Board of Appeals and Equalization information</li></ul>	Early spring (usually along with tax statement – at least 10 days before local boards)
Truth in Taxation Notice (TNT)	<ul style="list-style-type: none"><li>Shows proposed taxes based on local levies before finalization</li><li>Public meetings for all local taxing JDs assessing a tax</li></ul>	Mid-November
Property Tax Statement	<ul style="list-style-type: none"><li>Taxes due in May and October</li><li>Presents the total amount due after final budgets are adopted and final levies certified</li><li>Detailed breakdown of amount due to each taxing authority</li></ul>	By March 31

# Property Tax Calculation

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How much a jurisdiction wants to collect

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

Total of all property value in jurisdiction

# Property Tax Calculation

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## Minnesota's Two Local Property Tax Bases

### Referendum Market Value (RMV)

- Market Value of Property
- Generally used for voter-approved levies
- Some property types are excluded (e.g. agricultural land and cabins)

$$\frac{\textit{Levy}}{\textit{Sum of RMV}} = \textit{Tax Rate}$$

# Property Tax Calculation

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## Minnesota's Two Local Property Tax Bases

### Net Tax Capacity (NTC)

- *Market Value*  $\times$  *Class Rate* = *NTC*
- Base used in calculating majority of property's tax
- Allows tax burden to be distributed differently
- Applies to all property types

$$\frac{\textit{Levy}}{\textit{Sum of NTC}} = \textit{Tax Rate}$$

# Class Rates: Pay 2021

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	<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	1.00%
		Over \$500,000	1.25
<b>2a</b>	<b>Agricultural Homestead</b>	Under \$1,900,000	0.5
		Over \$1,900,000	1.0
<b>2a</b>	<b>Agricultural Nonhomestead</b>		1.0
<b>3a</b>	<b>Comm'l/Indstr'l/Public Utility</b>	Under \$150,000	1.5
		Over \$150,000	2.0

# Class Rates: Pay 2021

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	<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

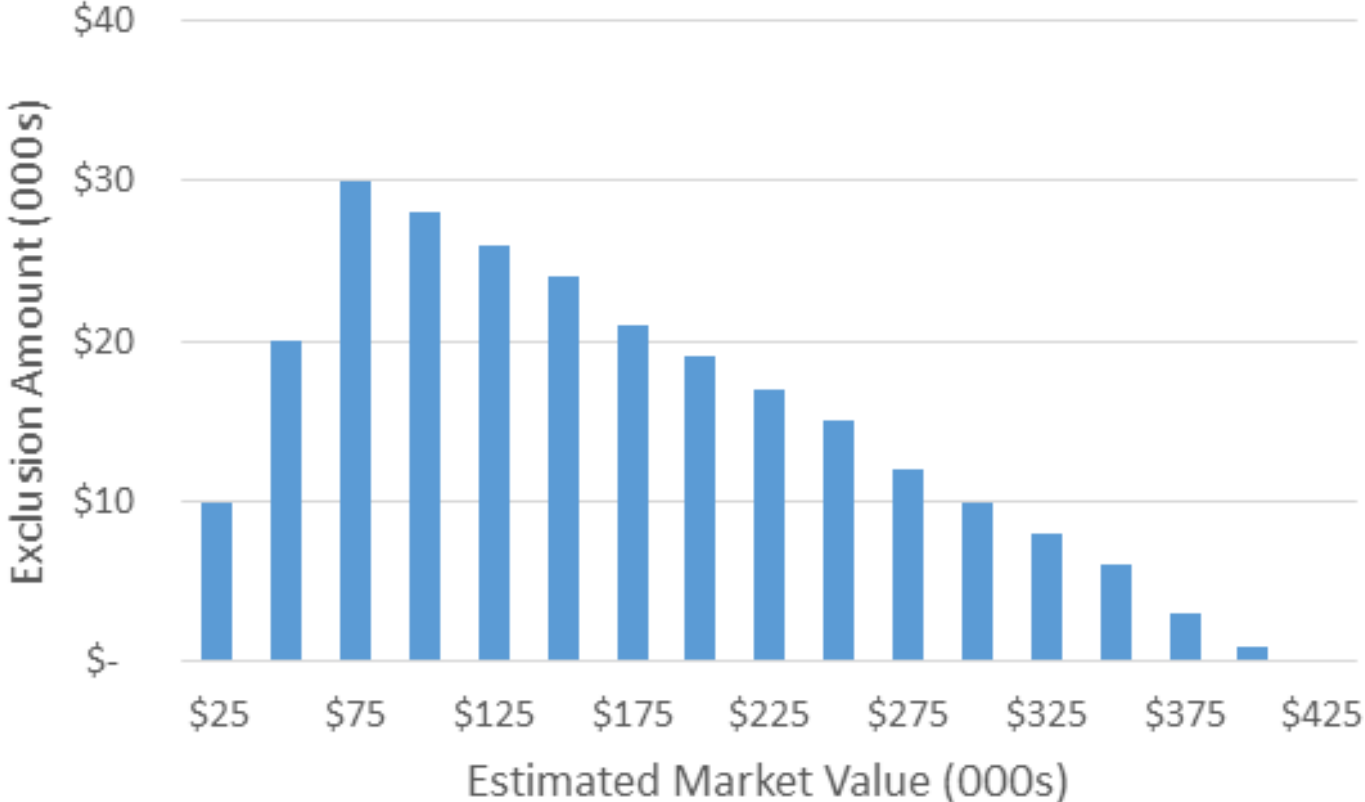
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Property Type	Class Rate	Property Tax		Effective Tax Rate
		Gross	Net	
Agricultural Hmstd	0.5/1.0	\$1,365	\$922	0.46%
Residential Hmstd	1.0	2,350	2,350	1.18
Seasonal recreational	1.0	2,413	2,413	1.21
Comm'l/Indstr'l	1.5/2.0	4,537	4,537	2.27
Rental Property (One unit of a duplex)	1.25	2,921	2,921	1.46

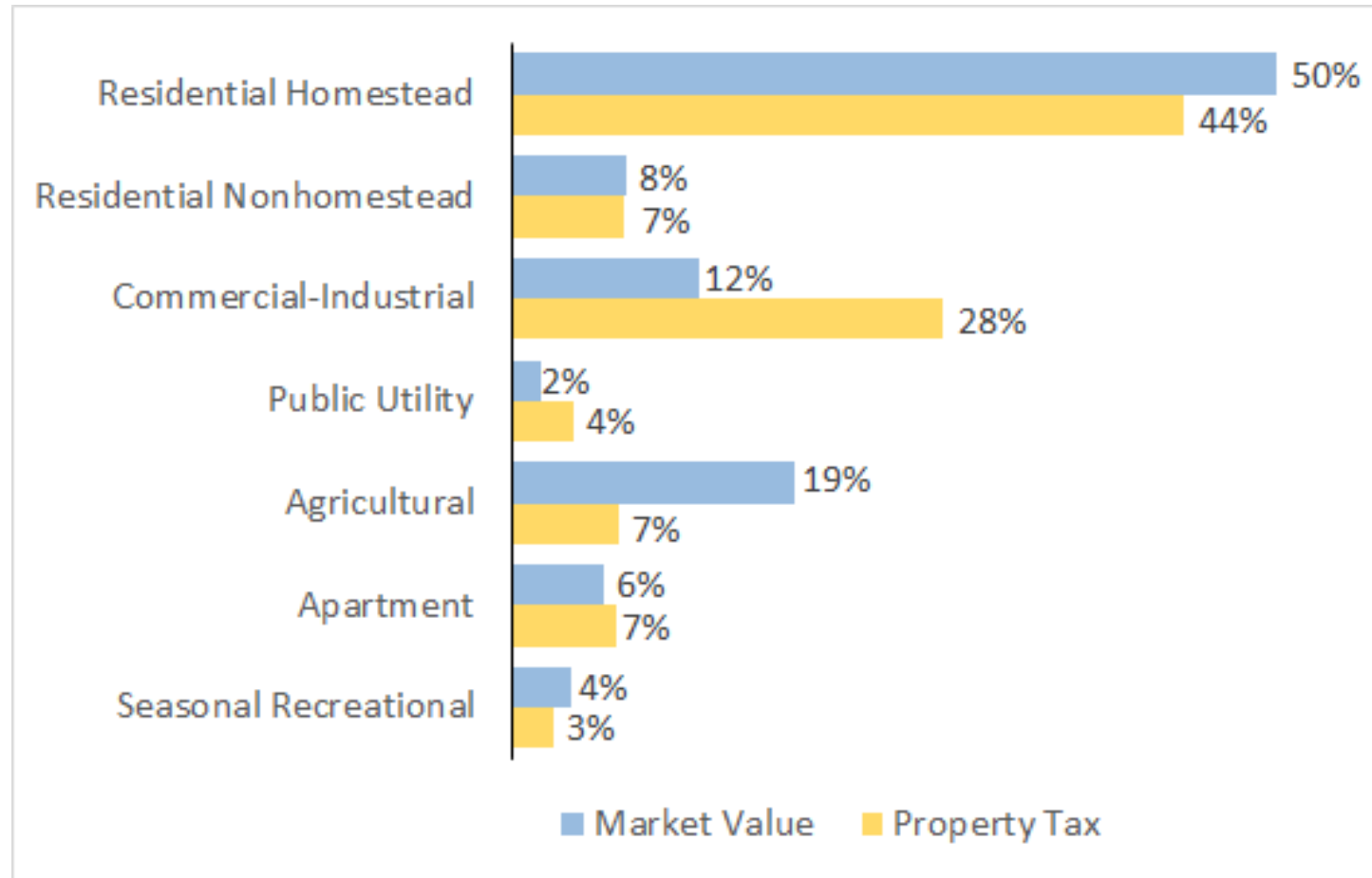


# Homestead Market Value Exclusion

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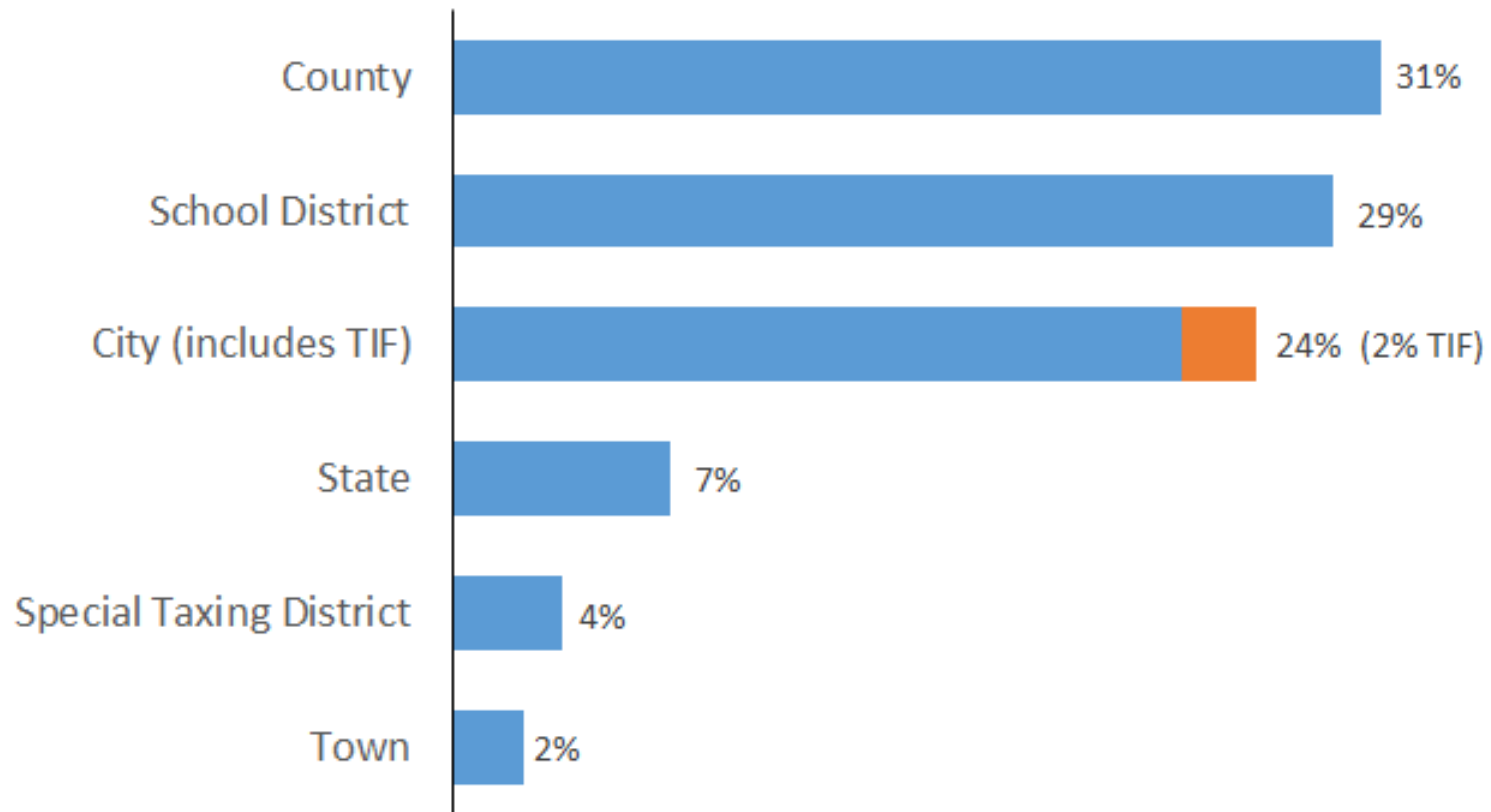


# Statewide Shares of Market Value and Property Tax by Property Type (Taxes payable 2020)



# Property Tax by Type of Government\*

(\$11,034 million in CY 2020)



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

## Minnesota ranking among urban cities

Type of Property	National Ranking (out of 53)
\$ 150,000 home	24 <sup>th</sup>
\$ 300,000 home	21 <sup>st</sup>
\$ 1 million commercial property	10 <sup>th</sup>
\$ 1 million industrial property*	24 <sup>th</sup>
\$ 600,000 apartment	21 <sup>st</sup>

## Minnesota ranking among rural cities

Type of Property	National Ranking (out of 50)
\$ 150,000 home	21 <sup>st</sup>
\$ 300,000 home	21 <sup>st</sup>
\$ 1 million commercial property	6 <sup>th</sup>
\$ 1 million industrial property*	14 <sup>th</sup>
\$ 600,000 apartment	28 <sup>th</sup>

\*Based on assumption of 60 percent personal property.

Source: 50-State Property Tax Comparison Study (2020)

# State General Tax

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- Levy is \$779 million for CY 2021
  - \$737 million applies to commercial-industrial (C/I)
  - \$42 million applies to seasonal recreational
- 2019 Tax Bill:
  - Reduced by \$50 million
- 2017 Tax Bill
  - Eliminated annual inflationary increase
  - Exempted first \$100,000 C/I value

# Major Property Tax Relief Programs

(\$ millions)

CY '20/ FY '21 Approp	Program	Recipients
<b>Aids &amp; Credits:</b>		
561	Local Government Aid (LGA)	Cities
260	County Program Aid	Counties
138	Operating Capital Aid	School districts
119	Local Optional Revenue Aid	School districts
88	COVID Small Business Aid (1 yr)	Direct to businesses
55	School Building Bond Ag Credit	School districts
45	Referendum Equalization Aid	School districts
37	Agricultural Market Value Credit	All taxing jurisdictions

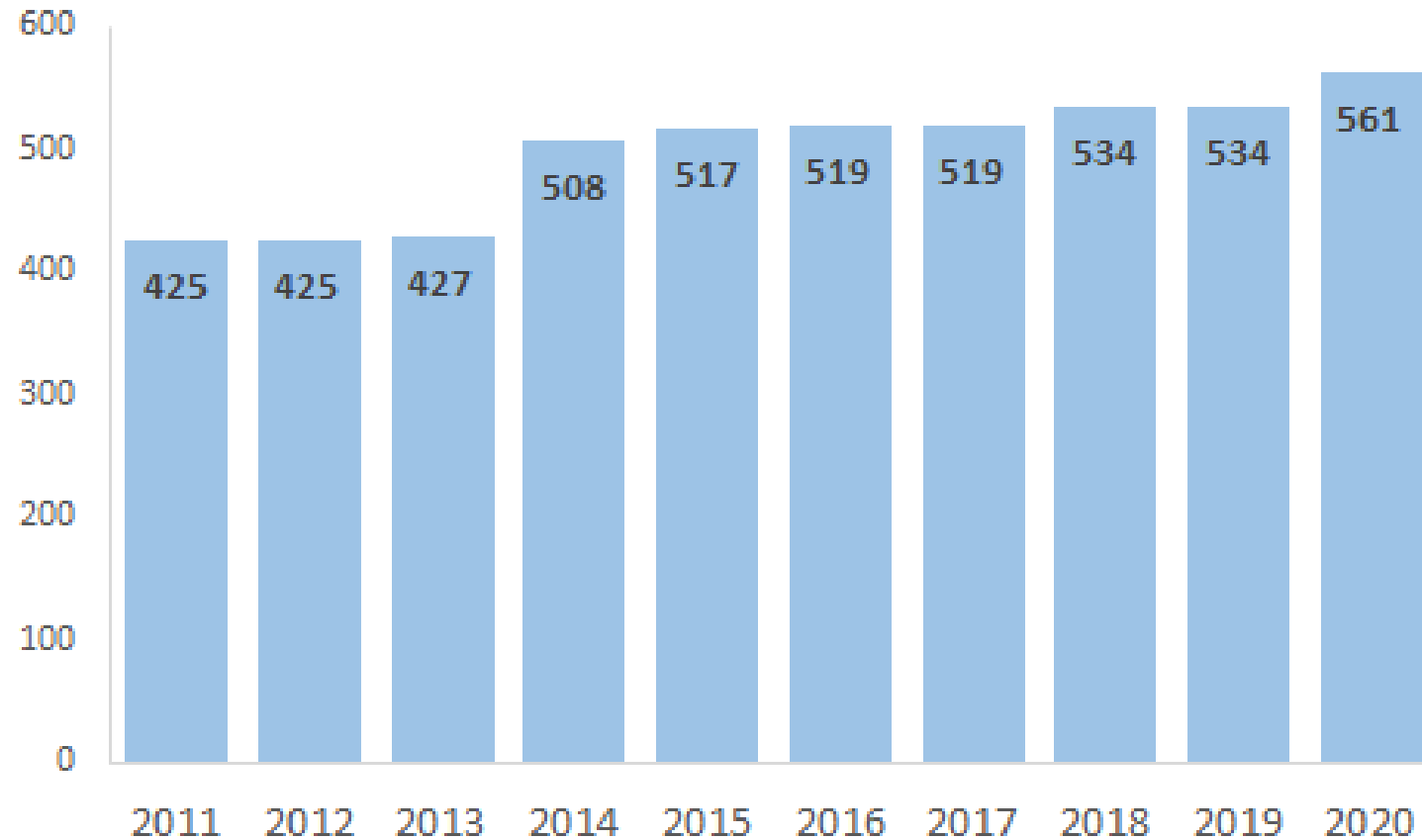
# Major Property Tax Relief Programs

(\$ millions)

CY '20/ FY'21 Approp	Program	Recipients
36 25	<p><b><u>Aids &amp; Credits (cont.)</u></b></p> <p>Payments in Lieu of Taxes</p> <p>Debt Service Equalization Aid</p>	<p>Counties &amp; towns</p> <p>School Districts</p>
585 227 838	<p><b>Direct payments to taxpayers:</b></p> <p>Homestead Credit Refund: Homeowners</p> <p>Prop Tax Refund: Renters</p> <p><b>CARES Act (Federal)</b></p> <p>Payments to Local Governments</p>	<p>Individuals</p> <p>Individuals</p> <p>Counties, cities, towns</p>

# City LGA (\$ millions)

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\*In 2011-2012, the amount of aids paid were less than the amount originally certified



# City Local Government Aid (LGA)

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- The LGA formula underwent a major reform in 2013
- 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>

# City LGA: Final Aid Amount

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- If unmet need is greater than prior year aid:
  - Aid will increase by a percentage of the difference
  - No maximum increase
- If unmet need is less than prior year aid:
  - Aid will decrease
  - Maximum loss to a city in any year is the *lesser* of:
    - \$10 times the city population; or
    - 5% of the city's levy in the previous year

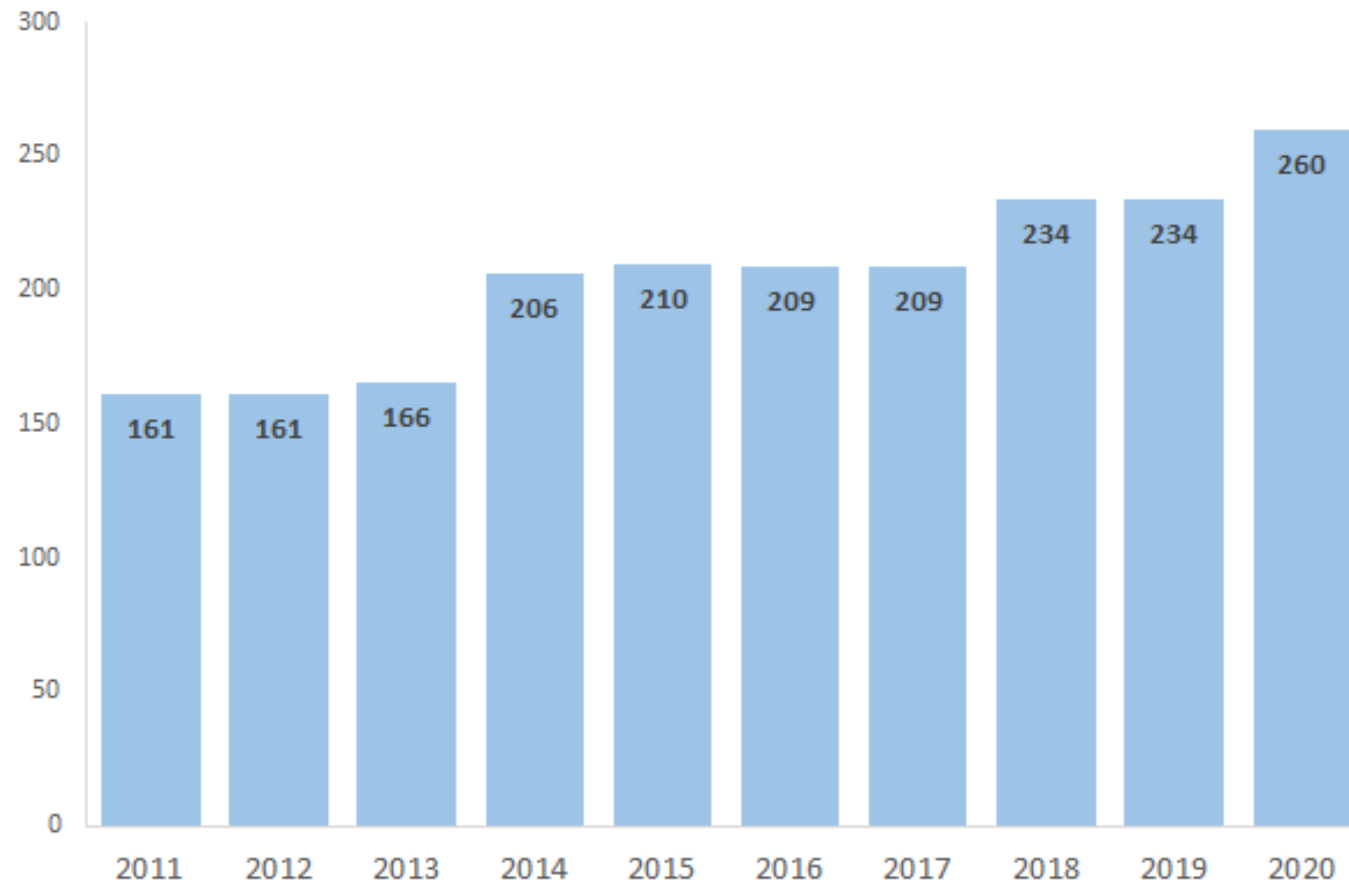
# Town Local Government Aid (LGA)

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- 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 the product of:
  - % of net tax capacity in agricultural property
  - Total acres in town (up to 50,000 acres)
  - Square root of the town population
- All aid adjusted proportionately to meet the \$10 million annual appropriation

# County Program Aid (CPA)

(\$ millions)



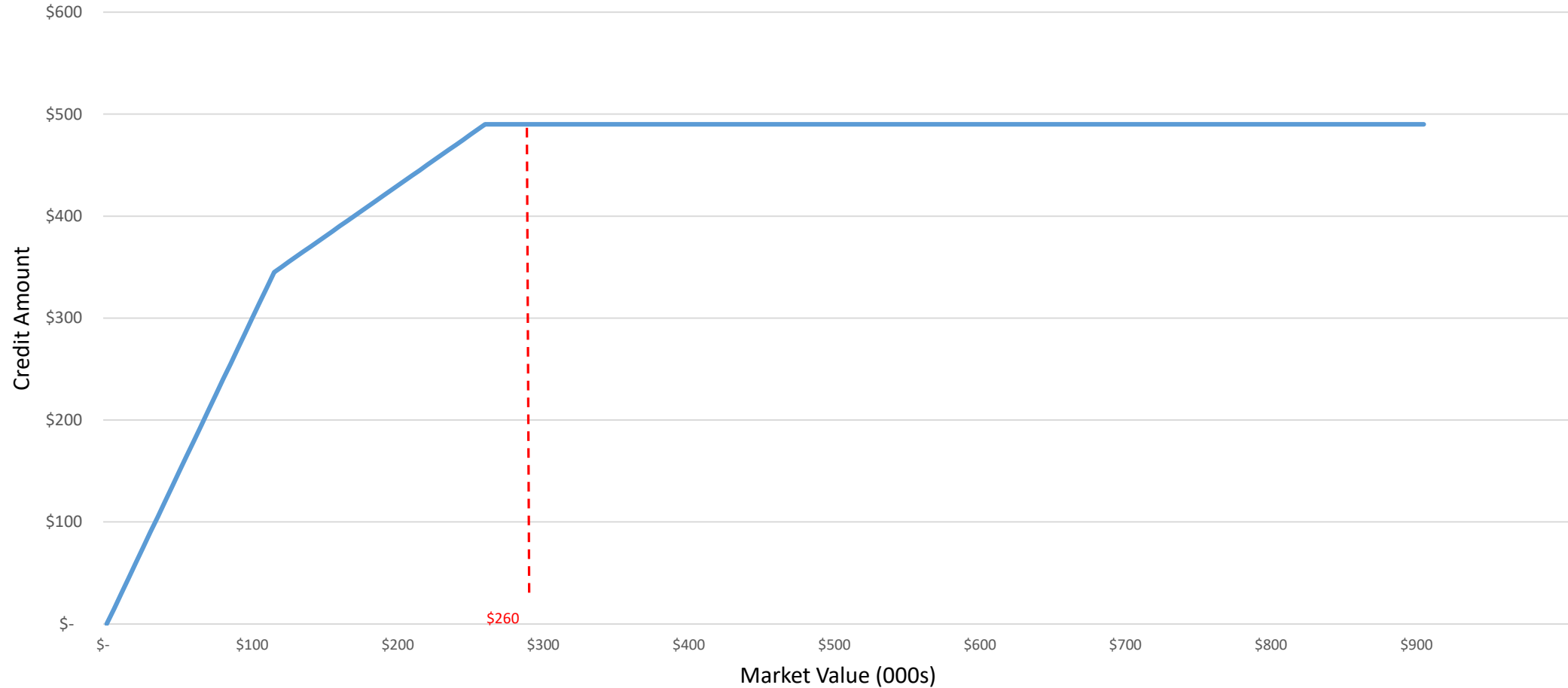
\*In 2011, the amount of aid paid (shown) was less than the amount originally certified.

# Factors Determining County Program Aid

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- Need aid
  - County age index
  - Part I crimes
  - No. of households receiving SNAP benefits
- Tax-base equalization aid
  - Tax base
  - County population

# Agricultural Market Value Credit (\$37 million CY 2020)



# School Building Bond Agricultural Credit

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- Passed in 2017, amended in 2019
- Agricultural land
  - Excluding the house, garage, and one acre
- Cost \$57 million in CY 2020

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



# Miscellaneous Aids/Credits

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- 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

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- 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

\$719 Million Refunds for 2018 (Filed 2019)

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	<b>Number of Filers</b>	<b>Refund Amount (millions)</b>	<b>Average Refund</b>
<b>Homeowners</b>	501,591	\$502	\$1,000
<b>Renters</b>	314,351	\$217	\$690
<b>Total, All Filers</b>	<b>815,942</b>	<b>\$719</b>	<b>\$881</b>

Source: Minnesota Department of Revenue Property Tax Research

# Property Tax Refund

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## Program limits, refunds to be filed in 2021

- Homeowners
  - Maximum household income is \$116,180
  - Maximum refund is \$2,840
- Renters
  - Property taxes assumed to be 17% of rent paid
  - Maximum household income is \$62,960
  - Maximum refund is \$2,210

Source: 2020 Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund Instructions

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

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- Provides relief to homeowners with more than 12% tax increase
- Household income not considered
- Maximum refund is \$1,000
- 2018 returns filed in 2019:
  - \$9.6 million total refunds
  - 100,253 returns
  - \$96 average refund

Source: Minnesota Department of Revenue Property Tax Research

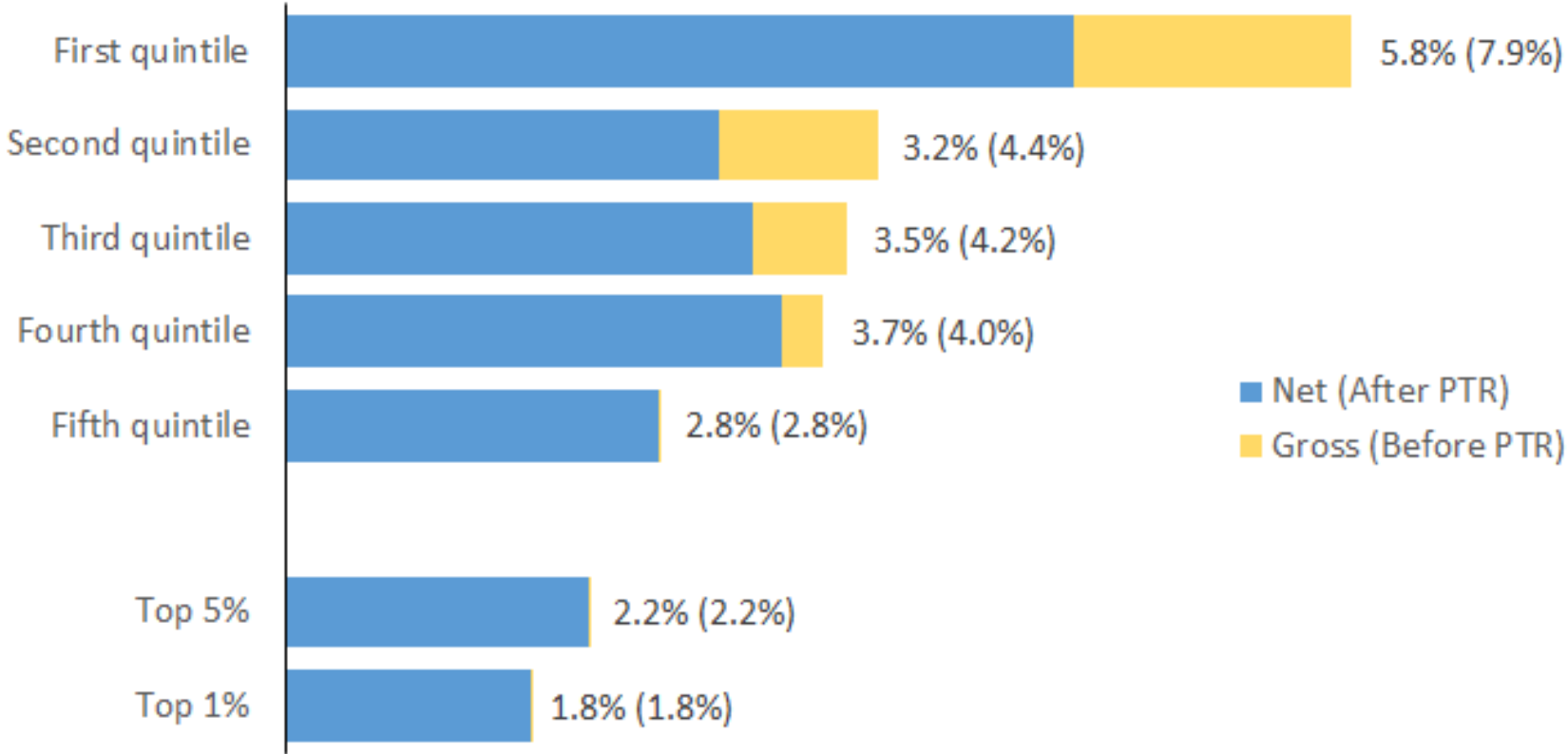
# Senior Citizen Property Tax Deferral Program

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- 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

# Property Tax Burden

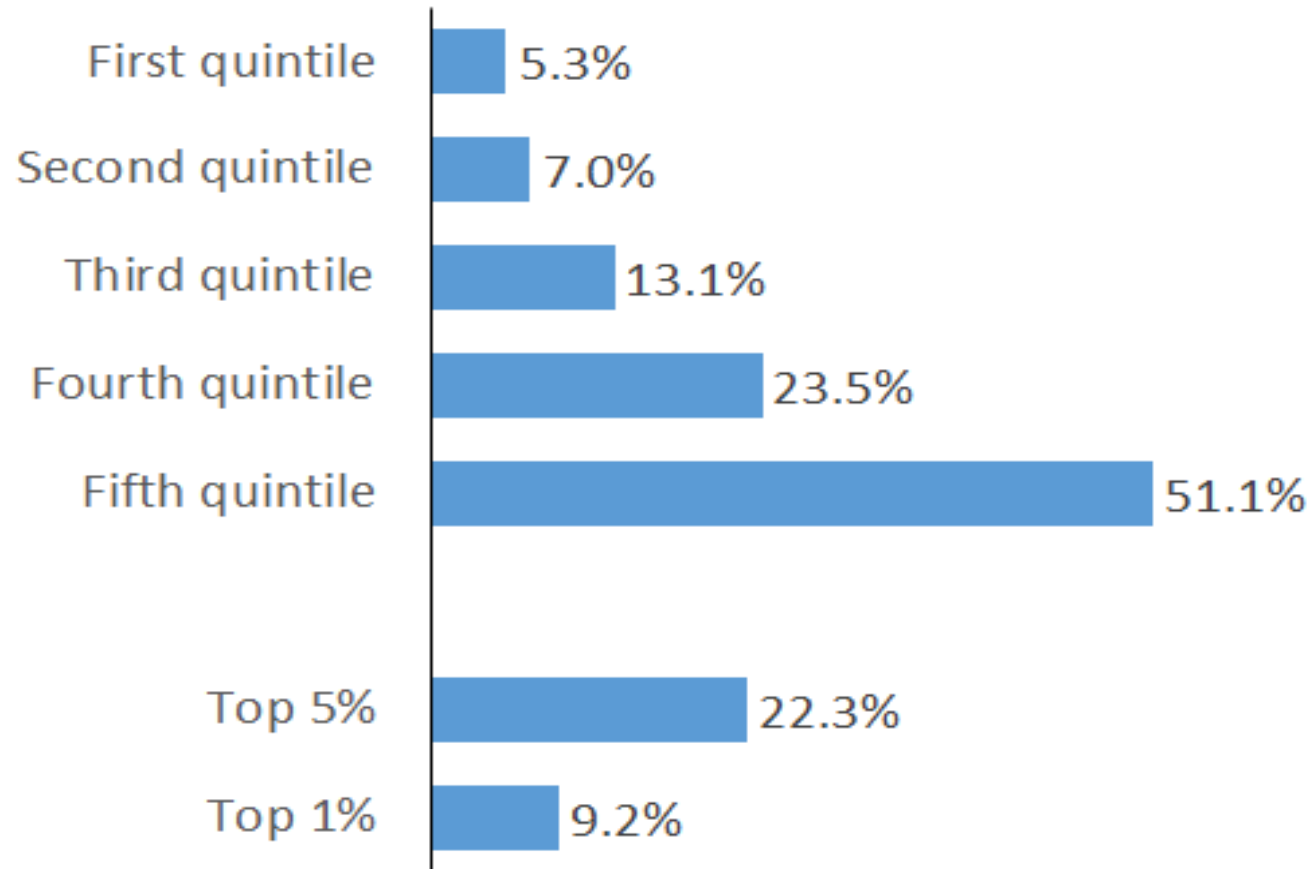
## Effective Tax Rates by Population Quintiles (2016)



Source: Department of Revenue, 2019 *Tax Incidence Study*

# Net Property Tax Burden\*

## Distribution by Population Quintiles (2016)



\*After property tax refund.

Source: Department of Revenue, 2019 *Tax Incidence Study*



# Fiscal Disparities

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- Two programs
  - Seven-county metropolitan area
  - Iron Range
- Partial sharing of commercial-industrial tax base
- Complex

# Mining Taxes

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- Mining industry pays production tax in lieu of property tax
- \$115 million of production tax paid in 2020
  - Based on 2019 production year
- Tax rate is \$2.811 per taxable ton
- Tax base is three-year average production
- Tax revenues distributed to jurisdictions in taconite assistance area based on formula

# Local Sales Taxes

## Local Option Sales Taxes (LOST)

- Projects with regional significance
- Resolution and proposals due to committee leads by Jan. 31
- Legislative approval
- Voter approval

## County Transportation Sales Taxes

- 0.25% - 0.50%
- Used for transportation projects
- Voter approval not required
- 52 counties impose as of Jan. 2021

## Miscellaneous

- Lodging taxes
- Food and Beverage taxes
- Entertainment taxes

# Local Sales Tax Resources

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- House Research:

## Local Sales Taxes

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[Steps for imposing a local sales tax after July 1, 2019](#)

A memo describing the steps a political subdivision must take to impose a local sales tax

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## Local Sales Taxes Authorized

Local sales taxes authorized by special legislation

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[Taxes currently imposed](#)

[Taxes that were imposed and have expired](#)

[Taxes authorized but not imposed](#)

[Taxes that were authorized but never imposed or the authority to impose has expired](#)

[Transportation sales taxes](#)

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## Local Sales Taxes in Minnesota

A 25-page brief summarizing rules for local sales taxes and providing information on authorized local sales taxes. October 2019.

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## Local Lodging Taxes in Minnesota

An 11-page publication brief that provides a history of local lodging taxes in Minnesota and information about various local lodging taxes imposed. August 2019.

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# Local Sales Tax Resources

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- Department of Revenue Sales Tax Fact Sheet No. 164:
  - All local sales taxes including lodging, food and beverage, and admissions
  - <https://www.revenue.state.mn.us/businesses/sut/factsheets/FS164.pdf>

# Tax Increment Financing (TIF)

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## 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

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<b>TIF Districts by Type: Statewide, Greater MN, &amp; Metro Area; 2018</b>			
<b>Type of District</b>	<b>Statewide</b>	<b>Greater MN</b>	<b>Metro Area</b>
Redevelopment	773	423	350
Housing	529	364	165
Economic Development	302	248	54
Renewal and Renovation	27	9	18
Pre-1979	1	1	0
Soils Condition	10	3	7
Uncodified	9	0	9
<b>Total</b>	<b>1,651</b>	<b>1,048</b>	<b>603</b>
Hazardous Substance Subdistricts	23	2	21

Source: Tax Increment Financing Legislative Report, December 2018 (Office of the State Auditor)

# TIF Legislation

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- 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")

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**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

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## 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

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