State and Local Taxes
($30.3 billion in FY 2015)

- Individual Income: 33%
- Sales: 20%
- Other State Taxes: 17%
- Other Local Taxes: 2%
- Property: 28%
Income, Sales, and Property Taxes

FY 2015 dollars
(Millions)

January 2015
House Research Department
“Who Does What” in the Property Tax System

ASSESSOR

Property owners who disagree

BOARDS OF APPEAL AND EQUALIZATION

TAXING DISTRICTS

COUNTY AUDITOR

COUNTY TREASURER
Property Tax Timeline

- A single property tax cycle spans more than two calendar years.
- The statutory assessment date for taxes payable in 2015 is January 2, 2014.
- Each taxing jurisdiction determines its levy between September and December, 2014.
- The payable 2015 cycle ends after 2nd half property taxes are paid in October and November, 2015, and final state aid and credit payments are made in December, 2015.
Truth-in-Taxation

- Taxing jurisdictions must adopt proposed levies in September of the previous year.
- County auditors prepare TnT statements showing what taxes will be under the levies.
- The notices also contain information about public meetings where comments can be made on the proposed levies.
- Final levies are adopted in late December, which may not be greater than the proposed levies.
Property Tax Terms

• The county assessor determines each property’s estimated market value.
• For homesteads, the homestead market value exclusion is subtracted to determine taxable market value.
• Net tax capacity equals taxable market value times class rate.
Property Tax Terms

• Each local jurisdiction sets its levy; levy divided by total net tax capacity equals the jurisdiction’s tax rate

• Net property tax equals the property’s net tax capacity times the tax rates of all relevant taxing jurisdictions, plus the market value tax
## Class Rates: Payable 2015

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Tier</th>
<th>Class Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1a</strong> Residential Homestead (incl Ag Hmstd house)</td>
<td>Under $500,000</td>
<td>1.00%</td>
</tr>
<tr>
<td></td>
<td>Over $500,000</td>
<td>1.25</td>
</tr>
<tr>
<td><strong>2a</strong> Agricultural Homestead</td>
<td>Under $1,900,000</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Over $1,900,000</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>2a</strong> Agricultural Nonhomestead</td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td><strong>3a</strong> Comm’l/Indstr’l/Public Utility</td>
<td>Under $150,000</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>Over $150,000</td>
<td>2.0</td>
</tr>
</tbody>
</table>
## Class Rates: Payable 2015

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Tier</th>
<th>Class Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>4a Apartments (4+ units)</td>
<td></td>
<td>1.25%</td>
</tr>
<tr>
<td>4bb Residential nonhomestead (1 unit)</td>
<td>Under $500,000</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Over $500,000</td>
<td>1.25</td>
</tr>
<tr>
<td>4b Residential non-homestead (2-3 units)</td>
<td></td>
<td>1.25</td>
</tr>
<tr>
<td>4c Seasonal recreational (noncommercial)</td>
<td>Under $500,000</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Over $500,000</td>
<td>1.25</td>
</tr>
</tbody>
</table>
Property Tax Comparison
$200,000 Property

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Class Rate</th>
<th>Property Tax Gross</th>
<th>Property Tax Net</th>
<th>Effective Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Hmstd</td>
<td>0.5/1.0</td>
<td>$1,272</td>
<td>$790</td>
<td>0.39%</td>
</tr>
<tr>
<td>Residential Hmstd</td>
<td>1.0</td>
<td>2,168</td>
<td>2,168</td>
<td>1.08</td>
</tr>
<tr>
<td>Seasonal recreational</td>
<td>1.0</td>
<td>2,309</td>
<td>2,309</td>
<td>1.15</td>
</tr>
<tr>
<td>Comm’l/Indstr’l</td>
<td>1.5/2.0</td>
<td>5,235</td>
<td>5,235</td>
<td>2.62</td>
</tr>
</tbody>
</table>
# Homestead Market Value Exclusion

<table>
<thead>
<tr>
<th>Homestead Value</th>
<th>Exclusion Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>75,000</td>
<td>30,000</td>
</tr>
<tr>
<td>100,000</td>
<td>28,200</td>
</tr>
<tr>
<td>150,000</td>
<td>23,700</td>
</tr>
<tr>
<td>200,000</td>
<td>19,200</td>
</tr>
<tr>
<td>300,000</td>
<td>10,200</td>
</tr>
</tbody>
</table>
Statewide Shares of Market Value and Property Tax by Property Type
(Taxes payable 2014)

### Market Value
- Residential Hmstd: 46.4%
- Residential Nonhmstd: 12.4%
- Comm'l/Indust'l: 4.3%
- Public Utility: 6.8%
- Apartment: 4.0%
- Agricultural: 1.9%

### Property Tax
- Residential Hmstd: 32.1%
- Residential Nonhmstd: 4.9%
- Comm'l/Indust'l: 8.6%
- Public Utility: 7.0%
- Agricultural: 4.2%
- Apartment: 2.9%
- Seasonal Rec: 4.0%
Property Tax by Type of Government*
($8,646 million in CY 2014)

- County 31.3%
- City 25.4% (includes TIF)
- Special Taxing District 3.8%
- School District 27.1%
- State 9.8%
- Town 2.6%
- TIF 2.8%

*Amounts shows are after allocation of property tax credits.
Minnesota ranking among urban cities

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>National Ranking (out of 53)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 150,000 home</td>
<td>22\textsuperscript{nd}</td>
</tr>
<tr>
<td>$ 300,000 home</td>
<td>20\textsuperscript{th}</td>
</tr>
<tr>
<td>$ 1 million commercial property</td>
<td>5\textsuperscript{th}</td>
</tr>
<tr>
<td>$ 1 million industrial property*</td>
<td>14\textsuperscript{th}</td>
</tr>
<tr>
<td>$ 600,000 apartment</td>
<td>22\textsuperscript{nd}</td>
</tr>
</tbody>
</table>

Minnesota ranking among rural cities

<table>
<thead>
<tr>
<th>Type of Property</th>
<th>National Ranking (out of 50)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 70,000 home</td>
<td>23\textsuperscript{rd}</td>
</tr>
<tr>
<td>$ 150,000 home</td>
<td>18\textsuperscript{th}</td>
</tr>
<tr>
<td>$ 300,000 home</td>
<td>16\textsuperscript{th}</td>
</tr>
<tr>
<td>$ 1 million commercial property</td>
<td>2\textsuperscript{nd}</td>
</tr>
<tr>
<td>$ 1 million industrial property*</td>
<td>6\textsuperscript{th}</td>
</tr>
<tr>
<td>$ 600,000 apartment</td>
<td>22\textsuperscript{nd}</td>
</tr>
</tbody>
</table>

* Based on assumption of 60 percent personal property.
School District Levies
$2.46 Billion for Pay 2015

- Operating Referendum: 19.7%
- Voter-Approved Debt Service & Capital: 25.4%
- Other Operating (RMV): 17.9%
- Other Operating (NTC): 13.8%
- Other Capital: 23.1%
State General Tax

- Levy is $856 million for CY 2015; levy increases annually by index of inflation
- Applies only to commercial-industrial (C/I) and seasonal-residential-recreational (SRR) property
- 95% levied on C/I property, 5% on SRR
## Major Property Tax Relief Programs ($millions)

<table>
<thead>
<tr>
<th>CY ’15/ FY ’16 Approp</th>
<th>Program</th>
<th>Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>517</td>
<td>Aids &amp; Credits:</td>
<td>Cities</td>
</tr>
<tr>
<td></td>
<td>Local Government Aid</td>
<td>Counties</td>
</tr>
<tr>
<td>210</td>
<td>County Program Aid</td>
<td>School districts</td>
</tr>
<tr>
<td>162</td>
<td>Referendum equalization aid</td>
<td>All taxing jurisdictions</td>
</tr>
<tr>
<td>38</td>
<td>Agricultural market value credit</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Payments in lieu of taxes</td>
<td>Counties &amp; towns</td>
</tr>
</tbody>
</table>

January 2015
House Research Department
## Major Property Tax Relief Programs ($millions)

<table>
<thead>
<tr>
<th>CY ’15/ FY ’16 Approp</th>
<th>Program</th>
<th>Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 18</td>
<td>Aids &amp; Credits (cont.): Debt Service Equalization Aid Disparity Reduction Aid</td>
<td>School Districts Counties, towns &amp; school dists</td>
</tr>
<tr>
<td>416</td>
<td>Direct payments to taxpayers:</td>
<td>Individuals</td>
</tr>
<tr>
<td></td>
<td>Homestead Credit Refund:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Homeowners</td>
<td></td>
</tr>
<tr>
<td>219</td>
<td>Prop Tax Refund: Renters</td>
<td>Individuals</td>
</tr>
</tbody>
</table>
City LGA: (in millions $)

*Amount paid

*In 2008-2010, the amount of aids paid were less than the amount originally certified
City Local Government Aid (LGA)

- The LGA formula underwent a major reform in 2013 in consultation with city groups
- New formula calculates aid increases based on size of gap between “unmet need” and current aid
- A city only loses aid if its current aid amount is greater then its “unmet need”
- “Unmet need” equals “need” minus “ability to pay”
## City LGA Need Measures

<table>
<thead>
<tr>
<th>City population</th>
<th>Small cities</th>
<th>Medium Cities</th>
<th>Large Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pop. &lt; 2,500</td>
<td>- Population</td>
<td>% Housing built before 1940</td>
<td>% Housing built before 1940</td>
</tr>
<tr>
<td></td>
<td>Maximum of $640/capita</td>
<td>Average household size</td>
<td>% Housing built between 1940 and 1970</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pop. decline from peak census estimate</td>
<td>Jobs per capita</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Population density of less than 150 people/sq. mile</td>
</tr>
</tbody>
</table>
City LGA Formula

• “Ability to pay” is based on a city’s tax base and the average city tax rate
• No maximum increase for any city but the 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)

• After being eliminated in 1992, a new town LGA program of 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) (in millions $)*

*Amount Paid

*In 2008-2011, the amount of aids paid were less than the amount originally certified.
County Program Aid

• Program aid consists of two parts:
  – Approximately one-half distributed under a “need” formula, and
  – the remainder distributed under a tax base equalization formula
• Aid paid in 2008 – 2011 was less than the amount originally certified
Factors Determining County Program Aid

• Need aid
  – County age index
  – Part I crimes
  – No. of households receiving food stamps

• Tax-base equalization aid
  – Tax base
  – County population
# Agricultural Market Value Credit

<table>
<thead>
<tr>
<th>Agricultural Land Value</th>
<th>Credit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$80,000</td>
<td>$240</td>
</tr>
<tr>
<td>115,000</td>
<td>345</td>
</tr>
<tr>
<td>150,000</td>
<td>380</td>
</tr>
<tr>
<td>200,000</td>
<td>430</td>
</tr>
<tr>
<td>260,000</td>
<td>490</td>
</tr>
<tr>
<td>&gt;260,000</td>
<td>490</td>
</tr>
</tbody>
</table>

- The state cost of the credit is approximately $38 million per year
Homestead Credit Refund and 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 Refund

$451$ million, refunds filed 2013

<table>
<thead>
<tr>
<th></th>
<th>Number of Filers</th>
<th>Refund Amount (millions)</th>
<th>Average Refund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homeowners</td>
<td>339,197</td>
<td>$270</td>
<td>$797</td>
</tr>
<tr>
<td>Renters</td>
<td>304,016</td>
<td>180</td>
<td>594</td>
</tr>
<tr>
<td><strong>Total, All Filers</strong></td>
<td><strong>643,213</strong></td>
<td><strong>$451</strong></td>
<td><strong>$701</strong></td>
</tr>
</tbody>
</table>
Property Tax Refund
Program limits, refunds filed in 2015

• Homeowners
  – Maximum household income is $107,150
  – Maximum refund is $2,620

• Renters
  – Property taxes assumed to be 17% of rent paid
  – Maximum household income is $58,060
  – Maximum refund is $2,030
Special Property Tax Refund (Targeting)

- Provides relief to homeowners with more than 12% tax increase
- Household income not considered
- Returns filed in 2013:
  - $0.7 million total refunds
  - 6,000 returns
  - $118 average refund
**Property Tax Burden**

**Effective Tax Rates by Population Quintiles (2010)**

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Gross (Before PTR)</th>
<th>Net (After PTR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First quintile</td>
<td>6.1% (7.9%)</td>
<td></td>
</tr>
<tr>
<td>Second quintile</td>
<td>3.6% (4.8%)</td>
<td></td>
</tr>
<tr>
<td>Third quintile</td>
<td>4.0% (4.5%)</td>
<td></td>
</tr>
<tr>
<td>Fourth quintile</td>
<td>3.9% (4.1%)</td>
<td></td>
</tr>
<tr>
<td>Fifth quintile</td>
<td>2.8% (2.8%)</td>
<td></td>
</tr>
<tr>
<td>Top 5%</td>
<td>2.3% (2.3%)</td>
<td></td>
</tr>
<tr>
<td>Top 1%</td>
<td>1.8% (1.8%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Revenue, 2013 Tax Incidence Study

January 2015

House Research Department
Net Property Tax Burden*
Distribution by Population Quintiles (2010)

First quintile 5.2%
Second quintile 7.6%
Third quintile 14.6%
Fourth quintile 23.9%
Fifth quintile 48.6%
Top 5% 21.6%
Top 1% 8.5%

*After property tax refund.
Source: Department of Revenue, 2013 Tax Incidence Study
Mining Taxes

- Mining industry pays production tax in-lieu of property tax
- $103 million of production tax paid in 2013 based on 2012 production
- Tax rate is $2.465 per taxable ton
- Tax base is three-year average production
- Tax revenues distributed to jurisdictions in taconite assistance area based on formula
Levy Limits

- Originally enacted in 1972; applies to levy plus aid
- Mainly applied to counties and to cities with a population of 2,500 or more
- Have blinked off and on since 1992 – last imposed in 2014
- Usually some growth allowed, plus “special levies” outside of limits
Local Sales Taxes

• General prohibition against local sales and income taxes enacted in 1971
• Most local sales taxes have been enacted under special law; and with voter approval (28 currently imposed)
• County transportation and transit local sales taxes allowed statutorily and do not require voter approval (12 counties)
• Most lodging taxes allowed statutorily
Local Sales Taxes, cont.

• For more info on local sales taxes:
  http://www.house.leg.state.mn.us/hrd/topics.aspx?topic=23
  Look under “Local Sales Taxes” for an information brief and links on specific information for each tax currently authorized or imposed

• For information on local lodging taxes:
  http://www.house.leg.state.mn.us/hrd/pubs/loodgetax.pdf
How TIF Works

• What is it?
• TIF Mechanics
• Types of Districts
• But For Test
• Permitted Uses of Revenues
What is TIF?

TIF is a method of dedicating incremental property taxes for use as a financing tool.

In Minnesota TIF is used by cities and authorities for two purposes (and it is useful to think of them separately):

• To induce development or redevelopment
• To finance public improvements (unrelated to inducing development)
TIF Mechanics

TIF captures the taxes on the growth in tax base by certifying for a TIF district (when it is created):

- **Original tax capacity** (taxable value)
- **Original tax rate** (local taxing district rates)

Captured value = current tax capacity – original tax capacity

Tax increment = original tax rate * captured value

- Increment increases as values increase because of either development or inflation.
## Types of TIF Districts

<table>
<thead>
<tr>
<th>District Type</th>
<th>Duration Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development</td>
<td>8 years</td>
</tr>
<tr>
<td>Housing</td>
<td>25 years</td>
</tr>
<tr>
<td>Redevelopment</td>
<td>25 years</td>
</tr>
<tr>
<td>Renewal and renovation</td>
<td>15 years</td>
</tr>
<tr>
<td>Soils</td>
<td>20 years</td>
</tr>
<tr>
<td>Hazardous substance</td>
<td>25 years</td>
</tr>
</tbody>
</table>
But-For Test

• Municipal finding requirement
• Applies when TIF plan is approved and district created
• Based on municipalities “opinion”
• Two components:
  – Development won’t occur without TIF
  – Will increase market value
Permitted Uses of TIF Revenues

• Site acquisition and preparation
• Public improvements, e.g.:
  – Streets
  – Sewer and water
• Developer incentives (land write-downs etc.)
• Limited private improvements (housing mainly)
Prohibited Uses of TIF Revenues

Anything not explicitly permitted by the TIF Act:

• Most government buildings
• Most private buildings and other improvements
Tax Increment Revenues

Source: Department of Revenue
TIF Districts by Type
Calendar Year 2012
Total Number of Districts: 1,784

- Redevelop: 866
- Housing: 546
- Econ Dev: 299
- Renewal: 29
- Soils: 15
- Pre-79 and other: 21
- Special Laws: 8
Limitations on TIF

• 4-Year Rule – activity required on parcels
• Restrictions on pooling - percentage limits on increments that may be spent outside of district
• 5-Year Rule – time limit on spending for “in-district” activities
• 6-Year Rule – in-district limited increments may only be spent to pay bonds and contracts meeting 5-year rule; when they are paid, district must be decertified
More Information on TIF

• House Research website, “TIF Primer”: 
  http://www.house.leg.state.mn.us/hrd/issinfo/tifmain.htm?src=21

• Office of State Auditor, for TIF reports, newsletters, guides, etc: 
  http://www.osa.state.mn.us/list.aspx?type=rp&div=tif