

House Research Simulation Report: Property Tax

Simulation #3A2

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DESCRIPTION

BASELINE: Final Pay 2002

ALTERNATIVE: Preliminary Pay 2003: Actual market values; TNT Levies

This report compares actual property taxes payable in 2002 to preliminary taxes payable in 2003. It corrects an error discovered in simulation #3A1. The payable 2003 simulation uses actual market values and truth-in-taxation (TNT) levies reported by the counties, plus any additional referendum levies approved after TNT levies were certified. Note that when final levies are reported, they will (in the aggregate) be somewhat less than TNT levies.

Note that in this report property value increases due to new construction are not separated out from other valuation increases, so both market value increases and tax increases (by property type) appear somewhat higher than in previous reports where those effects were separated. For this reason, it may be more instructive to look at tax changes on hypothetical properties in the table at the bottom of each page to assess the impact on individual property owners.

KEY POINTS

- **Statewide, property taxes would increase by \$463 million, or 10.1%**, if TNT levies were adopted. The overall tax increases would be 9% in Greater Minnesota and 10.7% in the Metro area.
- **Statewide property tax impacts by property type vary from -3% to +34%**. Property types experiencing the largest increases are low-income apartments (33.3%) and single-unit residential nonhomesteads (28.6%). Property types experiencing the largest reductions are electric generation machinery (-3.1%) and two-three unit residential nonhomesteads (-0.9%).
- **Statewide, property taxes on commercial-industrial (C/I) property show only a 3.7% increase from pay 2002 to pay 2003**. There are four reasons for the relatively small tax increase on C/I property: (i) relatively small growth in C/I market values due to economic factors; (ii) higher growth in taxable value of other types of property due to the increase in the limited market value limit; (iii) the one-year lag in the fiscal disparities program, causing a portion of the 2001 class rate compression effect to be delayed until 2003; and (iv) moderate growth in the state levy for pay 2003.

The simulations are estimates only. House Research strives to make property tax simulations accurate, but simulations are only approximations of reality. Generally the results are most accurate on a statewide level, and tend to be less accurate as the area under scrutiny gets smaller.

ASSUMPTIONS:**BASELINE: Final Pay 2002**

- **Market values** (limited market values) are actual values reported by county assessors on the abstracts of assessment.
- **Levies** are actual levies reported by county auditors on the abstracts of tax lists.
- **The state levy** was set at \$585.3 million, which is the amount reported on the abstract of tax lists.

ALTERNATIVE: Preliminary Pay 2003: Actual market values; TNT Levies

- **Market values** (limited market values) are actual values reported by county assessors on the abstracts of assessment.
- **Levies** are preliminary levies (also called truth-in-taxation, or TNT levies) reported by county auditors to the Dept. of Revenue. In the case of school districts, TNT levies have been augmented with information about referendum levies that have been approved after TNT levies were certified. In the aggregate, final certified levies will be less than TNT levies, although they may not be for any specific jurisdiction.
- **The state levy** is \$594.9 million, which is the certified level set by the Dept. of Revenue.
- **Tax increment financing net tax capacities** are derived from the abstracts of assessment; generally these figures will undergo some changes before the final figures are certified on the abstract of tax lists.
- **Fiscal disparities** contribution and distribution net tax capacities are preliminary, based on data from the abstracts of assessment, with some adjustments applied based on Dept. of Revenue data. Fiscal disparities distribution tax amounts are preliminary.

SIMULATION PARAMETERS

	Baseline	Alternative
Residential Homestead:		
<\$500,000	1.0%	1.0%
>\$500,000	1.25	1.25
Residential Non-homestead:		
Single unit:		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
2-3 unit and undeveloped land	1.5	1.25
Apartments:		
Regular	1.8	1.5
Low-income	0.9	1.0
Commercial-Industrial-Public Utility:		
<\$150,000	1.5	1.5
>\$150,000	2.0	2.0
Electric generation machinery	2.0	2.0
Seasonal Recreational Commercial:		
Homestead resorts (1c)	1.0	1.0
Seasonal resorts (4c):		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
Seasonal Recreational Residential:		
<\$500,000	1.0	1.0
>\$500,000	1.25	1.25
Disabled homestead	0.45	0.45
Agricultural land & buildings:		
Homestead:		
<\$600,000	0.55	0.55
>\$600,000	1.0	1.0
Nonhomestead	1.0	1.0
Credits:		
Homestead:		
Rate	0.4%	0.4%
Maximum	\$304	\$304
Phase-out rate	0.09%	0.09%
Agricultural:		
Rate	0.2%	0.3%
Maximum	\$230	\$345
Phase-out rate		0.05%

House Research Department