

Property Tax Abatements for Economic Development

What is economic development property tax abatement?

Minnesota law authorizes political subdivisions to grant property tax abatements for economic development (e.g., to encourage a business to locate or expand at a location or to redevelop an area). [Minn. Stat. §§ 469.1813 - 469.1816](#).

Abatements can be used for purposes similar to tax increment financing (TIF), a widely used development tool.

These economic development tax abatements should be distinguished from property tax abatements that are granted by the county board primarily to correct errors (e.g., to reduce the assessor's market value or to change the classification of the property). [Minn. Stat. § 375.192](#).

For what purposes may abatements be used?

The law allows abatements to be used for a broad range of purposes, if the political subdivision finds that public benefits exceed the costs. Permitted uses of abatements include:

- General economic development, such as increasing the tax base or jobs
- Construction of public facilities or infrastructure (e.g., streets and roads)
- Redevelopment of blighted areas
- Providing access to services for residents (e.g., housing or retail would be common examples)
- Deferring or phasing in a large (over 50 percent) property tax increase
- Stabilizing the tax base resulting from the updated utility valuation administrative rules

Which property taxes may be abated?

Counties, cities, towns, and school districts may grant abatements of the taxes they impose by resolution. For towns, action at the town meeting is not required. Taxes imposed by special taxing districts (e.g., watersheds or regional agencies) cannot be abated. Similarly, the state general property tax (on commercial/industrial and seasonal-recreational properties) cannot be abated. In the Twin Cities metropolitan area and on the Iron Range, the fiscal disparities tax cannot be explicitly abated. However, a political subdivision may increase its abatement amount to reflect the amount of the tax imposed under fiscal disparities. The abatement does not directly enter into the fiscal disparities calculations.

How long does an abatement apply?

The political subdivision sets the length of the abatement, which cannot exceed 15 years. The term can be extended to 20 years if only two of the three political subdivisions (city/town, county, and school district) grant an abatement.

What is the limitation on abatements?

The total amount of property taxes abated may not exceed the larger of:

- 10 percent of the net tax capacity of the political subdivision, or
- \$200,000.

How do the mechanics of abatement work?

The abatement resolution, approved by the political subdivision, sets the duration and the amount to be abated. The political subdivision has considerable flexibility in setting the terms of the abatement; for example, it may set the abatement as a percentage of tax payable, a dollar amount, the tax attributable to a portion of the parcel’s market value, or something else. The local government adds the abatement to its property tax levy. The owner pays property tax and the political subdivision uses the payments as provided by the abatement resolution. For example, the abatement may be used to pay bonds or be paid to the property owner.

May abatements be used to pay bonds used to fund public or private improvements?

The abatement law authorizes the issuance of bonds to be paid with the abatements. For example, bonds could be issued to construct public improvements or to pay for a site for a business. The bonds can be general obligation bonds or revenue bonds. The abatement bond provisions parallel those in the TIF law: the abatement bonds are not subject to referendum approval and are excluded from debt limits.

Under Department of Education administrative guidance, school districts may only issue abatement bonds for certain school parking improvements without voter approval. School districts have issued about \$47 million of these abatement bonds for parking improvements. The \$5 million annual levy to pay these bonds is not included in the school abatement levies in the table below.

How do abatements compare with TIF?

The legislature designed the abatement law as an alternative to and a supplement to TIF; both programs can be used for similar purposes, rely on property tax funding, and have very similar bonding powers. But they differ in these important respects:

- TIF can be used for longer durations (up to 25 years in some cases) than abatements (typically 15 years)
- TIF requires approval only by the municipality (usually the city) to capture all local property taxes, while abatement requires each entity’s approval to capture its taxes and cannot capture special district taxes
- TIF use is subject to more legal restrictions than abatement. These include a blight test for redevelopment districts, but-for findings, and stricter limits on what increments may be spent on.

How widely has abatement been used?

The following amounts of abatement levies were reported for property taxes payable in 2018, as reported to the Departments of Revenue (cities and counties) and Education (schools).

	Number	Amount
Cities	73	\$12,485,808
Counties	31	2,409,625
Schools	12	1,608,875
Total	116	\$16,504,308

For more information: See the House Research publication *Tax Increment Financing*, September 2018.

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