

Economic Development Property Tax Abatement

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What is economic development property tax abatement?

Minnesota law allows political subdivisions—cities, counties, school districts, and towns—to abate property taxes in order to promote local economic growth. [Minn. Stat. §§ 469.1812-469.1815](#). Economic development property tax abatements differ from traditional abatements where the valuation of the property, its property taxes, or its costs, interest, or penalties of property taxation are reduced. An economic development abatement allows a political subdivision to expend money to benefit a property in one of a number of ways, including by reducing property taxes, deferring payment of property taxes, or spending the money directly on improving the property. A political subdivision will often grant an abatement pursuant to an abatement agreement with the landowner; in exchange for the abatement, the land owner agrees to develop the land in a way that will promote local economic development.

When and how can an economic development abatement be granted?

To grant an abatement, the political subdivision must expect the benefits of the abatement to equal or exceed its costs. The political subdivision must also find that the abatement will serve the public good in one of a number of ways, such as increasing the tax base, redeveloping blighted areas, or providing employment opportunities, public facilities, or access to services.

Before granting an abatement, a political subdivision must provide notice of the prospective abatement and hold a public hearing. After the hearing, the governing body of the political subdivision may grant an abatement by adopting an abatement resolution that specifies the terms of the abatement.

Which property taxes may be abated?

A political subdivision may only abate the property taxes it imposes by resolution. It cannot abate the taxes imposed by another political subdivision, by the state, or by a special taxing district, such as a watershed district. It also cannot abate taxes imposed pursuant to state law, such as the fiscal disparities tax. Despite these limitations, a political subdivision may grant an economic development abatement at an amount that offsets one of these taxes.

What are the limits on an abatement?

Usually, an abatement can last no more than 15 years, but a political subdivision may extend the duration to 20 years if it asks the other political subdivisions containing the property to grant the property an abatement and if any of the other political subdivisions refuses the request.

When adopting the abatement resolution, the political subdivision may limit the abatement to a specific dollar amount per year or in total, to increases in property taxes resulting from increases in property value, or to interest and penalties if it chooses to grant the abatement as a deferral of property tax payments by the parcel owner. The annual value of all economic development abatements granted by a political subdivision may not exceed the greater of (1) \$200,000, or (2) 10 percent of the net tax capacity of the political subdivision.

How is an abatement implemented?

An abatement may take several forms: the political subdivision may pay the parcel owner the amount of the abatement; the political subdivision may defer payment of property taxes on the parcel and forgive interest and penalties for late payment; or the political subdivision may use the money directly to improve public infrastructure. No matter how the political subdivision implements the abatement, the amount of the abatement is added to the subdivision's property tax levy, which is collected through taxation on all properties in the subdivision, including the parcel receiving the abatement.

What bonding powers does a political subdivision granting an abatement have?

A political subdivision granting an economic development abatement may issue bonds to be paid with the abatement. The bonds can be general obligation bonds or revenue bonds and can be used for a number of purposes, including paying for public improvements, acquiring land, or reimbursing the property owner for improvements to the land. The Department of Education advises school districts that without voter approval, they may only issue abatement bonds for school parking improvements.¹

How do abatements compare with tax increment financing?

The legislature designed the abatement law as an alternative to and a supplement to tax increment financing (TIF). Both tools can be used for similar purposes, rely on property tax funding, and have similar bonding powers, but they differ in at least three important respects. First, some TIF districts last 25 years, while abatements typically last only 15 years. Second, TIF allows a municipality acting unilaterally to capture all local property taxes, while an abatement captures only the property taxes imposed by the granting political subdivision. Finally, TIF is subject to more legal restrictions than an abatement. Restrictions on TIF include a blight test for redevelopment districts, the but-for test, and strict limits on how increments may be spent. (See the House Research website for more information on TIF at www.house.mn/hrd/issinfo/tifmain.aspx.)

How widely has abatement been used?

The following amounts of abatement levies were reported for property taxes payable in 2022, as reported to the Departments of Revenue (cities and counties) and Education (schools).

Political Subdivision	Number	Amount
Cities	70	\$13,052,859
Counties	40	\$2,517,907
School districts	11	\$347,000
Total	121	\$15,917,766



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¹ <https://education.mn.gov/MDE/dse/schfin/fac/MDE073628>