

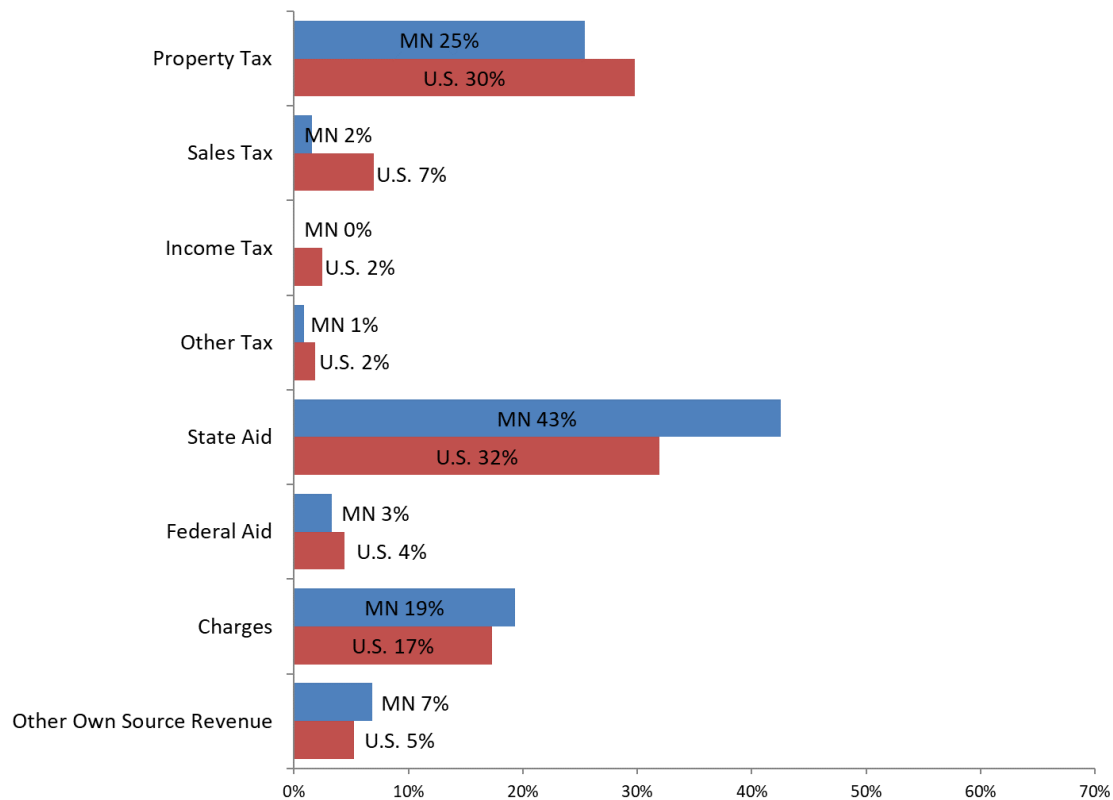
Minnesota

Highlights

Minnesota has earned a reputation for having one of the most complicated property tax systems in the nation because it uses 55 different property tax classifications based on combinations of property type and value (figure MN-1). In addition, the state employs a unique “tax capacity” system in which assessed values are multiplied by class rates established in statute and then summed to determine the total tax base. This system, rather than the more common practice of using assessment rate differentials, serves as a method to deliver preferential treatment to certain property types. Nine forms of credits, five types of value exclusions, three types of special valuations, and two special rate preferences further add to the complexity.

Minnesota features a major state property tax—the “state general tax”—that is levied only on businesses (95 percent of levy) and seasonal recreational properties (5 percent of levy). This state levy does not directly support education finance but remains undedicated general fund revenue.

Figure MN-1
Sources of Minnesota Local General Revenue, 2014



Source: U.S. Census via Significant Features of the Property Tax

The state is also home to the nation's longest-running experiment in regional tax base sharing. The Fiscal Disparities Program shares 40 percent of the post-1971 growth in the commercial-industrial property tax base of the seven-county Twin Cities metropolitan area. The state had established a parallel program on the Iron Range of northeastern Minnesota in 1995.

Property Tax Reliance

Minnesota's property tax burden measured either as tax per capita or as a percent of personal income is close to the U.S. average (table MN-1).

Table MN-1
Selected Minnesota Property Tax Statistics, 2014¹

	Minnesota	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,412	\$1,464	21
Property tax percentage of personal income	2.9%	3.2%	24
Total property tax as percentage of state-local revenue	14.7%	16.9%	28
Median owner-occupied home value ²	\$186,200	\$178,600	21
Median real estate taxes paid for owner-occupied home ²	\$2,200	\$2,149	20
Effective tax rate, median owner-occupied home ³	1.2%	1.2%	19

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2011-2015.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In Minnesota, 145 counties, municipalities, townships, school districts, and special districts levy property taxes. Special districts provide a wide range of services, such as transit, watershed management, parks, and mosquito control.

All local property tax collections are based on levies established by the local units of government and are derived by subtracting non-property tax revenues from budgeted spending.

Counties, with isolated exceptions, are responsible for assessing property. Parcels are revalued every year and are required to be reassessed through physical inspection every five years. Minnesota exempts business personal property from taxation with the exception of some utility property.

Minnesota uses classification for both the local levy and the state levy. For the local levy, assessment ratios vary from 0.45 percent for the first \$50,000 of homestead property for blind and disabled to 2

percent for unmined or low-recovery iron ore. The classification system for the state levy uses varying tax rates and varying assessment ratios.

Limits on Property Taxation

The state levy, originally established in statute at \$450 million, increased each year at the rate of inflation, until the state legislature eliminated the automatic annual inflator in 2017. In 2013, the state limited increases in local property tax levies to 3 percent (Minnesota Center for Fiscal Excellence 2013). Override is by a majority vote of the electorate at a referendum. Minnesota has no assessment limitations (table MN-2). Prior to the subsequent tax year, all property owners are sent a truth-in-taxation statement breaking down the total property tax burden by each levying entity and allowing year-on-year comparisons.

Property Tax Relief and Incentives

Minnesota's strong historical interest in progressive taxation is reflected in some of the most generous and broadly accessible property tax refund programs in the country. The state features an income-tested circuit breaker for all homeowners, a universal income-tested renter's credit based on estimates of rent constituting property taxes, and a special refund program to mitigate large year-on-year homeowner property tax increases. There are also two homestead exemptions: (1) all owners of homesteads or farmsteads qualify for an exclusion of 40 percent of the first \$76,000 of market value, which is reduced by 9 percent of the value over \$76,000 and phased out at about \$414,000 of market value; and (2) disabled veterans are eligible for an exemption of up to \$300,000 of their home's value.

There is a wide array of incentives for economic development that include property tax abatements or earmarking of incremental property tax revenues as in Tax Increment Finance (TIF). Minnesota has separate TIF programs for housing districts, hazardous substances subdistricts, and soils conditions districts, among others.

Table MN-2
Property Tax Features of State Governments, United States, 2015

Feature	Minnesota	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

In 1971, the state embarked on a landmark buydown of local property taxes and a monumental restructuring of the state/local finance system. Known as the “Minnesota Miracle,” this series of reforms raised both corporate and individual income taxes; boosted the general sales tax rate from 3 percent to 4 percent; and increased beer, liquor, cigarette, and severance taxes. In return, the state increased its school foundation aid formula by 95 percent, eliminated the existing statewide property tax, established a new local government aid program, increased categorical aid for public welfare spending, and expanded an existing homestead credit.

Budget surpluses of the late 1990s and resurfacing property tax resentment led to further property tax reform, which this time fundamentally changed school finance in the state. In 2001, the state government eliminated the entire general education levy, replacing it with state education aid, and exempted agricultural and cabin properties from school district referendum levies. The state also significantly compressed property tax class rates, providing substantial relief to businesses, some of which was offset by a new statewide property tax on business properties.

After these reforms were enacted, state support for education was buffeted by two significant recessions and intense program competition within the state general fund. This resulted in rapid growth of, and greater reliance on, school referenda levies to support general school operations. As a result, the 2001 reforms have been reconsidered by some policymakers, leading to interest in reestablishing the state general education levy in some form. In 2010, the state created a property tax working group to develop recommendations on how to make the property tax system more simple, understandable, transparent, accountable, and efficient. The final report, delivered in 2012, offers 19 separate recommendations covering all dimensions of the property tax system in support of these policy objectives (Property Tax Working Group 2012).

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Significant Features of the Property Tax. <http://datatoolkits.lincolninst.edu/subcenters/significant-features-property-tax/>. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

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