Overview of Property Taxes

January 2025

by

Jared Swanson
Sean Williams
Justin Cope

House Research Department

and

Katrina Heimark

Fiscal Analysis Department

Minnesota House of Representatives

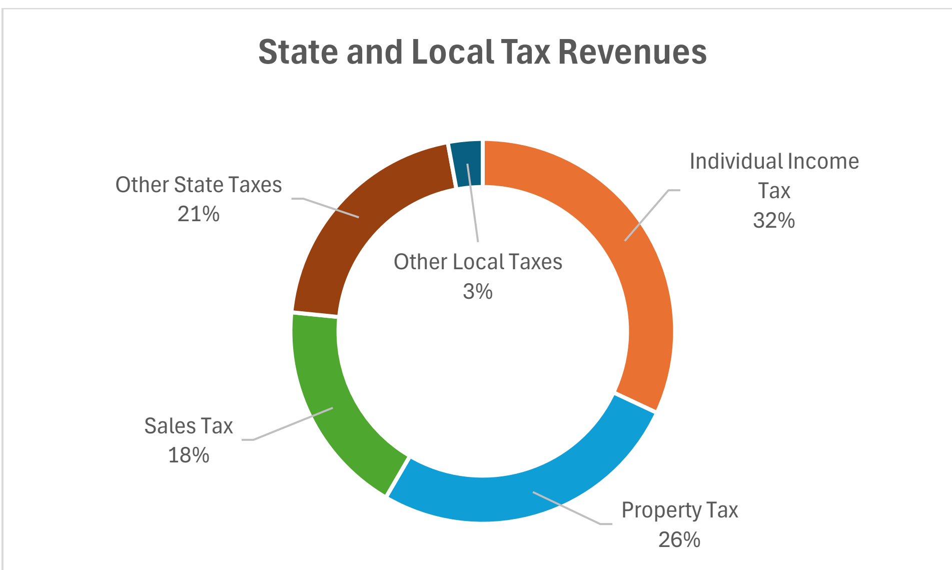
Contents

State and Local Taxes

Minnesota State and Local Tax Collections
($46.53 billion in FY 2024)
$ in millions

Tax	Amount
Individual Income	$14,873
Property	$12,307
Local Property Tax	$11,589
State Property Tax	$718
Sales (state only)	$8,455
Other State Taxes	$9,541
Other Local Taxes	$1,357
Total	$46,533

Of the $46.53 billion in state and local tax collections for FY 2024, $33.5 billion are state tax revenues and $12.9 billion are local tax revenues.



House Research and House Fiscal Graphics

Income, Sales, and Property Taxes

Ten Years of the Big Three

House Research and House Fiscal Graphics

Ten Years of the Big Three
$ in millions

Tax	FY 2014	FY 2019	FY 2024
Sales	$6,355	$7,494	$8,455
Individual Income	$9,660	$12,166	$14,873
Property	$8,500	$10,005	$12,307

Of the $46.53 billion in state and local tax collections for FY 2024, the big three taxes—sales, individual income, and property—accounted for 76.58 percent of the total.

Property Tax Administration

Who does what

Counties are responsible for property tax administration; the Department of Revenue provides assistance and oversight. The list below shows each county office's responsibilities for property tax administration. In some counties these offices are merged and one or two offices may perform the functions.

Assessor

- Values property
- Determines proper classification
- Sends valuation notices to taxpayers
- Directs and instructs local assessors, where applicable
- Accepts abatement requests
- Advises and assists local boards of review and county board of equalization

Auditor

- Determines each taxing jurisdiction's total tax capacity (i.e., its tax base)
- Calculates proposed and final tax rates
- Prepares truth-in-taxation notices (based on proposed levies)
- Maintains records on all parcels
- Collects delinquent property tax payments
- Collects special assessments for cities and townships
- Administers special programs (i.e., TIF and fiscal disparities)
- Conducts process for tax forfeited land and conducts land sales

Treasurer

- Prepares and mails property tax statements to taxpayers
- Collects non-delinquent property tax payments
- Distributes property tax receipts to each taxing jurisdiction
- Collects deed and mortgage registration taxes
- Prepares settlement for payment after each tax deadline

State (Department of Revenue)

- Assesses certain real and personal property (i.e., flight property, railroads, utilities, and pipelines)
- Assesses solar and wind energy production taxes
- Certifies assessment to counties
- Trains local officials

- Conducts sales ratio study
- Provides general oversight to property tax administration

Property tax timeline

The process of calculating, imposing, and collecting Minnesota property taxes for a year actually spans two full calendar years. As shown on the table below, the two-year cycle begins with the January 2 statutory assessment date and extends all the way through the next calendar year until the property taxes have been paid. For example, for taxes payable in 2025, the cycle begins on January 2, 2024, and doesn't end until the final payments are made in October/November 2025.

Appeal process

If a property owner disagrees with the assessor's valuation (shown on the valuation notice), the taxpayer can seek relief directly from the assessor. This may resolve the matter, so that no further action is necessary. If it does not, there are two separate avenues of appeal:

1) A three-step appeal process, consisting of an appeal to:
   - the local board of review; if not satisfied, appeal to,
   - the county board of equalization; if not satisfied, appeal to,
   - the Minnesota Tax Court.
2) A single-step appeal to the Minnesota Tax Court. There are two divisions:
   - The regular division, which can be used for any property. Proceedings are formal (an attorney is recommended), and the decision may be appealed to the Minnesota Supreme Court; or
   - The small claims division, which can be used only for homesteads (regardless of value) and other property where the market value is under $300,000. Proceedings are less formal, and decisions are final.

Property Tax System Timeline

Year	Month	Assessment Year 2024 Taxes Payable 2025	Assessment Year 2025 Taxes Payable 2026
2024	January	Assessment date (2nd)	—
	March	Valuation notices mailed	—
	April	Local boards of appeal and equalization	—
	June	County board of appeal and equalization; state board of equalization	—
	July	Certification of state aid amounts	—

	September	Truth-in-taxation levy certifications (15th, 30th)	—
	November	Truth-in-taxation notices mailed	—
	December	Final budget hearings; final levy certifications (27th)	—
2025	January	County auditors compute tax rates	Assessment date (2nd)
	March	Property tax statements mailed	Valuation notices mailed
	April	—	Local boards of appeal and equalization
	May	1st half tax payments due (15th)	—
	June	—	County board of appeal and equalization; state board of equalization
	July	1st half state aid payments made (20th)	Certification of state aid amounts
	September	—	Truth-in-taxation levy certifications (15th, 30th)
	October	2nd half tax payments due – except on agricultural property (15th)	—
	November	2nd half tax payments due – on agricultural property (15th)	Truth-in-taxation notices mailed
	December	2nd half state aid payments made (26th)	Final budget hearings; final levy certifications (27th)
2026	January	—	County auditors compute tax rates
	March	—	Property tax statements mailed
	May	—	1st half tax payments due (15th)
	July	—	1st half state aid payments made (20th)
	October	—	2nd half tax payments due – except on agricultural property (15th)
	November	—	2nd half tax payments due – on agricultural property (15th)
	December	—	2nd half state aid payments made (26th)

Tax Notices

Valuation Notice

Each year the county assessor mails valuation notices to all property owners that depicts the market value and classification of their property. Notices must be mailed at least ten days before the meeting of the Local Boards of Appeal and Equalization, which typically meet between April 1 and May 31. Counties often mail these notices along with the property tax statement for the current year.

The information contained in the valuation notice shows the property's assessment as of January 2 of the year the notice is received. The taxpayer will pay the tax owed based on this notice's information in the following year (taxes payable year).

Relevant to the property, the county assessor is required provide in the notice:

- The property's classification for both the current year and the prior year's assessment.
- The property's value for both the current year and the prior year's assessment, broken down into specific values of the property's estimated market value, the value of any new improvements, the value of any exclusions applied to the property, and values attributable to special programs such as Green Acres.

The assessor is also required to include the meeting information of the Local Board of Appeal and Equalization at which time taxpayers may dispute the information contained on the notice.

Truth in Taxation Notice

The "Truth in taxation" (TNT) notice is a result of each local taxing jurisdiction with levy authority (e.g., counties, cities, school districts, etc.) formally adopting its proposed levy for the upcoming year. Proposed levies are formally adopted each September. The TNT process is explained in further detail below.

The TNT notice is a parcel-specific notice that is sent to property owners depicting their proposed tax amount specific to each taxing jurisdiction. These tax amounts show the taxpayer's share of each taxing jurisdiction's proposed levy. The notice also shows changes in overall levy amounts for each jurisdiction as well as a basic summary of each jurisdiction's overall budget (revenues and expenditures). Some items not included on the TNT notice include special assessments and referenda approved by voters after the date proposed levies are certified, such as school district or bond referenda. The addition of these items may cause a taxpayer's proposed tax shown on this notice to increase when the taxpayer receives his or her final property tax bill (property tax statement) in the spring.

The TNT notice must also contain information regarding the public meetings held by local taxing jurisdictions during which time they discuss their budgets and proposed levies. Members of the public are able to speak on these items at that time.

Notices must be mailed between November 11 and November 24 each year.

Property Tax Statement

The property tax statement is a property owner's "tax bill." It contains a list of the amount of tax due to each taxing jurisdiction. Taxes may be paid in two one-half payments, the first due May 15 and the second due October 15 (November 15 for agricultural real property).

The property tax statement is the final notice sent to property owners in a given tax year cycle. County treasurers are required to send this notice by March 31 each year.

Truth in Taxation Process

The Truth in taxation is a process first enacted by the legislature in 1988 to enhance public participation in Minnesota's property tax system.

The TNT process consists of these three components:

- Each local government is required to formally adopt a "proposed levy" in September for the upcoming year; the final levy, when ultimately adopted, may not exceed the proposed levy.
- County auditors generate parcel-specific notices of proposed taxes for all parcels of property based on the proposed levies.
- Each local government is required to hold a public meeting after the notices come out where budget and tax issues are discussed, and where public testimony must be allowed, prior to adopting its final levy.

Rationale for the Program

Prior to TNT, the only involvement most taxpayers had with the property tax system was on the valuation side of the equation. Taxpayers received a market value notice in the spring of the year prior to the tax year, but nothing about how that valuation would actually relate to property taxes. Taxpayers could choose to become involved in tax and budgeting decisions by attending meetings of county commissioners, city councils, and school boards, but few did.

TNT was enacted with a goal of improving accountability by focusing taxpayers on the relationship between budget decisions and property taxes, and providing taxpayers with a greater opportunity to become involved in the local government budgeting process.

Basic Terms and Concepts

Estimated market value

The assessor determines each property's **estimated market value** based on sales of comparable properties, cost of construction minus depreciation, income generated by the property (if applicable), and other relevant available information.

Market value exclusions, taxable market value

For some properties, a portion of the market value is excluded from taxation. All homesteads with an estimated market value below $517,200 have a portion of the market value excluded under the homestead market value exclusion. Other market value exclusions are provided through the "Green Acres" program and the disabled veteran's exclusion. A property's **taxable market value** is its **estimated market value** less any applicable **market value exclusions**.

Net tax capacity, class rate

A property's **net tax capacity** is determined by multiplying the property's **taxable market value** by the relevant **class rate** or rates. Class rates are set by statute, vary by property type, and are uniform statewide.

Local taxing jurisdiction

A **local taxing jurisdiction** is any local unit of government that has the authority to levy property taxes. Examples are counties, school districts, cities, towns, and "special taxing districts" such as watershed districts, housing and redevelopment authorities, and regional development commissions.

Taxable net tax capacity

A taxing jurisdiction's **taxable net tax capacity** is the total **net tax capacity** of all properties within the jurisdiction, excluding a portion of the value of property located in a tax increment financing district.

Levy

Each local taxing jurisdiction certifies a **levy** equal to the amount it intends to raise from property taxes in the upcoming year.

Local tax rate, total local tax rate

The **local tax rate** of a taxing jurisdiction is determined by dividing the jurisdiction's **levy** by the jurisdiction's **taxable net tax capacity**. The **total local tax rate** for an individual property is the sum of the local tax rates of all taxing jurisdictions in which the property is located.

Market value levy and tax rate

Some voter-approved levies apply to a property's market value rather than its net tax capacity. The **market value tax rate** is determined by dividing the jurisdiction's **market value levy** by the total market value of all properties within the jurisdiction (excluding properties classified as agricultural or seasonal-recreational, since those property types are exempt from market value levies).

Gross tax, property tax credits, net tax

Property tax credits reduce the **gross tax** that would otherwise be due upon a property. The most common property tax credits are the agricultural market value credit, the taconite homestead credit, the disparity reduction credit, and the school building bond agricultural credit. The remaining amount after subtraction of property tax credits is the **net tax**.

Computation of Property Tax for a Hypothetical Property (Residential Homestead)

1. Determine the property's ***estimated market value***	$245,000
2. Determine the property's ***homestead market value exclusion***	$24,500
3. Determine the property's ***taxable market value***	$245,000 - $24,500 = $220,500
4. Determine the ***class rate*** based on property type	Residential homestead: 1.0%
5. Multiply taxable market value by class rate to obtain the ***net tax capacity***	$220,500 x 1.0% = $2,205
6. Determine the ***total local tax rate*** by summing the tax rates of all jurisdictions authorized to levy property taxes upon the property (i.e., jurisdictions whose boundaries include the property)	County 45% City/town 35 School district 25 Special districts 5 Total 110%
7. Multiply net tax capacity by total tax rate to determine the ***net tax capacity-based tax***	$2,205 x 110% = $2,425.50
8. Determine the total ***market value tax rate*** by summing the market value tax rate for all taxing jurisdictions authorized to levy property taxes upon the property	County 0.00% City/town 0.00 School district 0.15 Special districts 0.00 Total 0.15%
9. Multiply estimated market value by total market value tax rate to determine the ***market value-based tax***	$245,000 x 0.15% = $367.50
10. Add the net tax capacity-based tax to the market value-based tax to obtain the total ***net tax***	$2,425.50 + $367.50 = $2,793

Property Tax Variation by Property Type

Causes of property tax variation between property types

The primary cause of variation in property tax burdens is Minnesota's classified property tax system. In a classified system, each class of property is assigned one or more class rates. The property's taxable market value is multiplied by the class rate(s) to determine the property's tax base, known as its net tax capacity[1].

Besides the class rates, variations in tax by type of property also occur because the state general tax and school district operating referendum levies apply to some types of property but not to others. School district operating referendum levies are levied on a separate tax base known as referendum market value, which is not classified and excludes certain agricultural and seasonal recreational property. The state general tax only applies to commercial/industrial/public utility property and seasonal recreational property.

Class Rates Schedule for Taxes Payable in 2025

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to School Operating Referendum Levies?
1	**Homestead**			
1a	Residential homestead			
	First $500,000	1.00%	No	Yes
	Over $500,000	1.25	No	Yes
2	**Agricultural**			
2a	Agricultural homestead			
	House, garage, & 1 acre: first $500,000	1.00	No	Yes
	House, garage, & 1 acre: over $500,000	1.25	No	Yes
	Agricultural land & buildings			
	First $3,500,000	0.50	No	No
	Over $3,500,000	1.00	No	No
2b	Agricultural nonhomestead	1.00	No	No
2c	Nonhomestead rural vacant land	1.00	No	No

[1] For more information on net tax capacity and other property tax related terms, see Property Tax 101: Basic Terms and Concepts.

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to School Operating Referendum Levies?
3	**Commercial/Industrial/Public Utility**			
3a	Commercial/Industrial/Public Utility			
	First $150,000	1.50	Yes*	Yes
	Over $150,000	2.00	Yes*	Yes
	Electric generation attached machinery	2.00	No	Yes
4	**Other residential**			
4a	Apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit:			
	First $500,000	1.00	No	Yes
	Over $500,000	1.25	No	Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial):			
	First $500,000	1.00	Yes**	No
	Over $500,000	1.25	Yes**	No
4d(1)	Low-income apartments:	0.25	No	Yes

* Subject to state general tax at commercial-industrial rate.
** Subject to state general tax at seasonal recreational rate.

Other factors that cause variation

Variations also occur because of various property tax exclusions and credits. Homesteads benefit from the homestead market value exclusion, which provides for up to $38,000 of a homestead's market value to be deducted before determining the taxes payable. Other exclusions are the disabled veterans' exclusion and the agricultural "Green Acres" program. Certain types of property also qualify for property tax credits that reduce the net tax on the property. The property tax credit programs with the most recipients are the agricultural market value credit, the taconite homestead credit, the disparity reduction credit, and the school building bond agricultural credit.

Local variation also occurs because of local levy decisions. Local officials set property tax levies and corresponding tax rates, which can vary between jurisdictions.

Effective tax rate

Effective tax rate is a measure of tax burden useful in making property tax comparisons between different jurisdictions and property types. It is defined as net tax divided by market value (i.e., tax as a percent of market value). It allows comparison of tax burdens between properties of different values, different types, and different locations.

Comparison of Property Taxes on Various Types of Property, Within the Same Taxing Jurisdiction, Each with an Estimated Market Value of $250,000
(Property taxes payable in 2025)

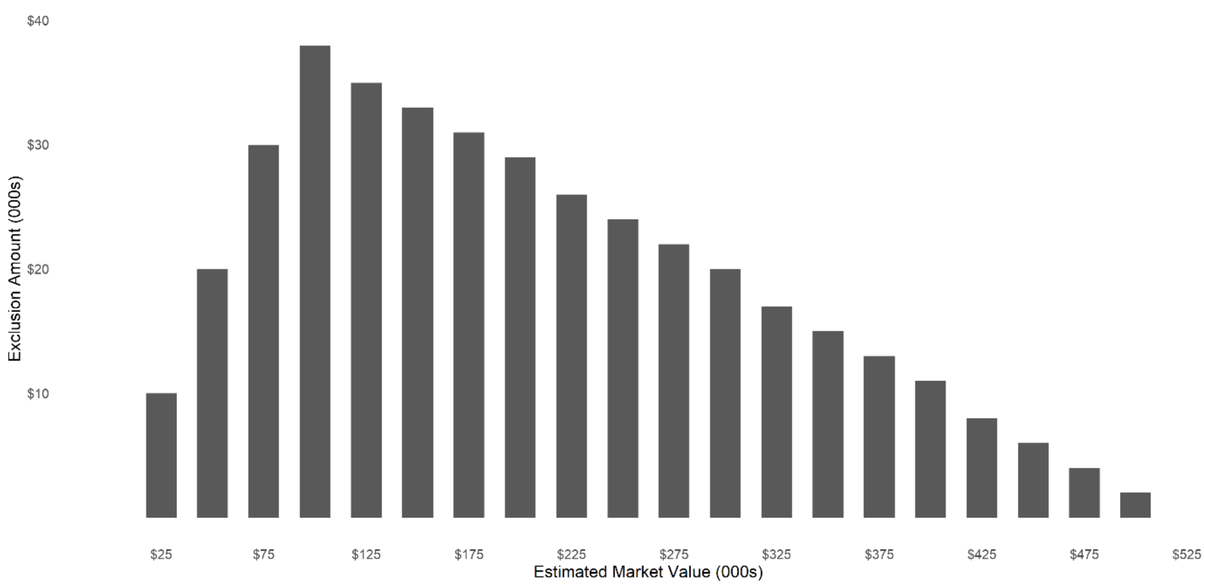
Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	$1,300	$1,265	$813	0.33%
Agricultural nonhomestead	1.0	2,500	2,250	2,250	0.90
Residential homestead	1.0	2,260	2,509	2,509	1.00
Seasonal recreational residential (i.e., cabin)	1.0	2,500	2,521	2,521	1.01
Residential nonhomestead (1 unit)	1.0	2,500	2,725	2,725	1.11
Residential nonhomestead (2-3 units)	1.25	3,125	3,288	3,288	1.32
Apartment	1.25	3,125	3,288	3,288	1.32
Low-income apartment	0.25	625	1,038	1,038	0.42
Commercial/Industrial	1.5/2.0	3,875	4,560	4,560	1.82
Commercial/Industrial @ $2,000,000***	1.5/2.0	39,250	50,173	50,173	2.51

* These examples assume a total local net tax capacity tax rate of 90 percent, a total market value tax rate of 0.19 percent, a state commercial-industrial tax rate of 29.86 percent, and a state seasonal recreational tax rate of 10.64 percent.
** The agricultural homestead is assumed to consist of a house valued at $50,000 and agricultural land and buildings valued at $200,000. The property is assumed to receive $452 in property tax credits.
*** This property has a market value of $2,000,000 to show a typical effective tax rate on a larger commercial/industrial property.

Homestead Market Value Exclusion

- In 2011, the homestead market value exclusion was created as a new feature of the property tax system
- The exclusion was instituted to provide relief similar to the homestead market value credit, which was eliminated
- Each home's exclusion amount is subtracted from its market value prior to computing the tax on the homestead
- For agricultural homesteads, the exclusion applies to the value of the house, garage and one acre of land only
- In 2023, the legislature increased the thresholds and maximum exclusion amount
- For homes with an estimated market value of $95,000 or less, the exclusion is 40 percent of the estimated market value
- For homes with an estimated market value over $95,000, the exclusion amount gets smaller as the estimated market value becomes larger – the exclusion amount is $38,000 for a home valued at $95,000, and then decreases at the rate of $90 for each $1,000 in estimated market value above $95,000
- The homestead market value exclusion does not apply to homes valued over $517,200

Homestead Market Value Exclusion Amounts

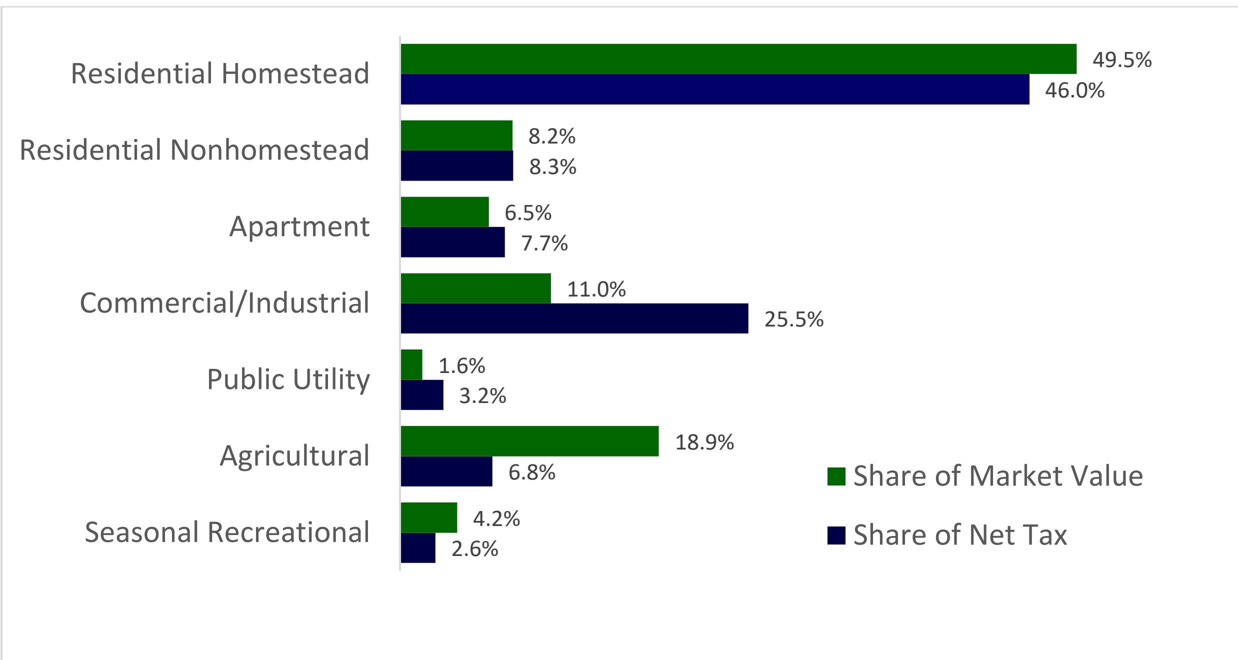


Who Pays Property Taxes and Who Receives Them

Where property taxes are generated

Total property taxes statewide were $13.0 billion in calendar year 2024, after the application of state-paid property tax credits. The total amount of property value (excluding the value of property exempt from taxation) was $1,084 billion. The graph below shows the breakdown of the state's total market value and total property taxes paid by property type. The differences between the shares of property value and the shares of tax paid result primarily from the state's classified property tax system, but also from various property tax credits, the application of the state general levy, variation in local rates, and certain voter-approved levies that apply to some property types but not others.

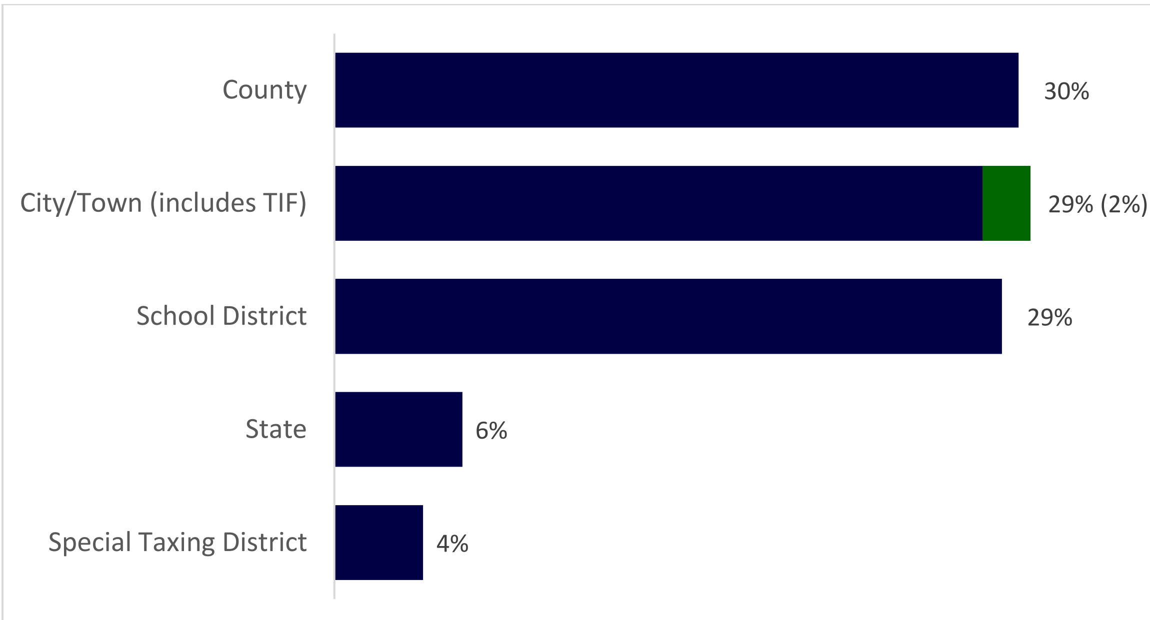
Statewide Shares of Market Value and Property Tax, by Property Type (Taxes Payable in 2024)



Where property taxes go

The chart below shows the distribution among various types of taxing jurisdictions of the $13.0 billion in property tax paid in calendar year 2024.

Statewide Property Tax by Type of Government* (Taxes Payable in 2024)



*Amounts shown are after allocation of property tax credits

How do property taxes in Minnesota compare to other states?

The Minnesota Center for Fiscal Excellence, in collaboration with the Lincoln Land Institute based in Cambridge, Massachusetts, issued a report comparing property taxes in all 50 states in July 2024. The report covers property taxes payable in 2023.

Tax burdens are considered for four classifications of property – residential homestead, commercial, industrial, and apartments. For each type of property, tax burdens are compared for the most populous city in each state, and for a representative rural city in each state. (For Minnesota, the rural city used in the comparison is Glencoe.)

Minnesota ranking among large cities

Type of Property	National Ranking (out of 53)
Median valued home ($347,300)	24th
$1 million commercial property	13th
$1 million industrial property*	37th
$600,000 apartment	27th

Minnesota ranking among rural cities

Type of Property	National Ranking (out of 50)
Median valued home ($204,500)	24th
$1 million commercial property	6th
$1 million industrial property*	12th
$600,000 apartment	22nd

* Based on assumption of 60 percent personal property.

State General Tax

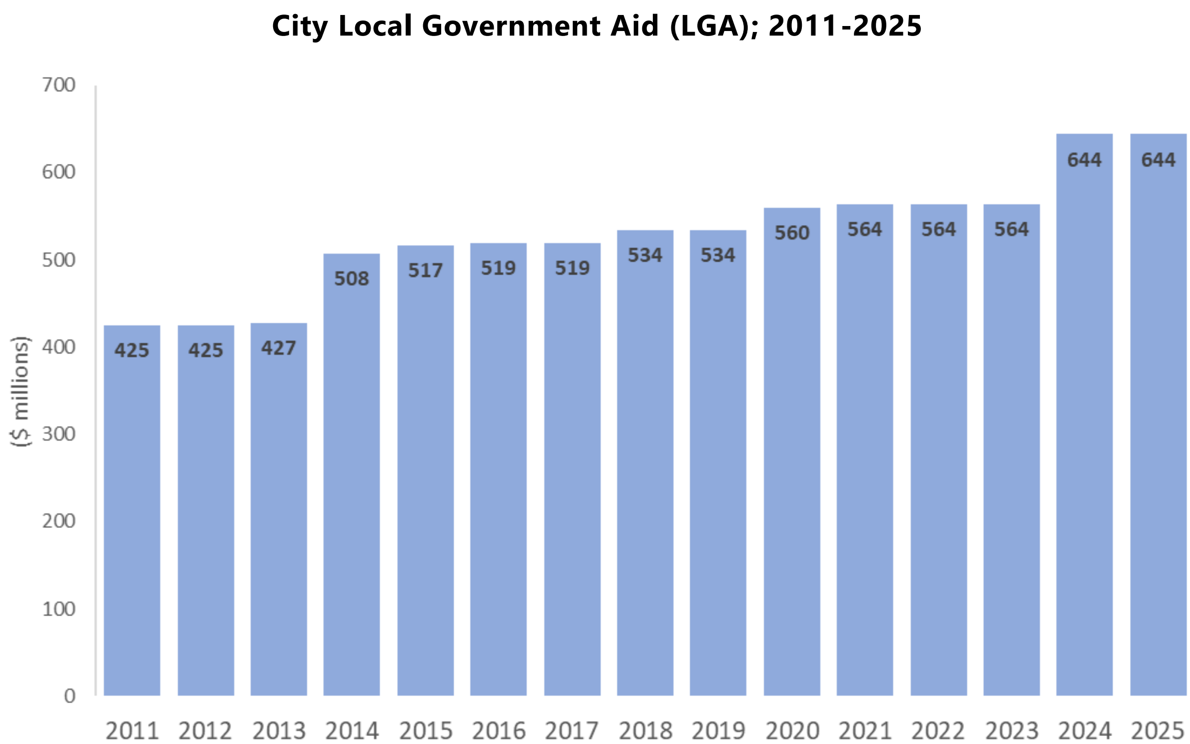
- The state general tax is divided into two separate levies: the commercial-industrial portion of the levy is $716,990,000; and the seasonal-recreational portion of the levy is $41,690,000.
- The state general tax was instituted in 2001 as part of a major overhaul of the property tax system. The levy was initially set at $592 million for taxes payable in 2002. For a time, the law provided for the levy to increase each year by the percentage increase in the implicit price deflator for government consumption expenditures and gross investment for state and local governments, as prepared by the U.S. Dept. of Commerce. In 2017, this annual increase was removed.
- The state levy is apportioned into separate pools. About 95 percent is borne by commercial-industrial property (including public utility), and about 5 percent is borne by seasonal recreational property (both commercial and noncommercial). Separate tax rates are determined for each pool. Each property's tax is determined by multiplying its net tax capacity by the applicable state tax rate, except that for noncommercial seasonal-recreational property up to $76,000 in value, the state tax is levied at only forty percent of the full rate. Additionally, the first $150,000 of market value of commercial-industrial property and the portion of public utility property consisting of attached machinery used in the generation of electricity are not subject to the state general tax.
- Revenues from the state general tax are deposited in the state general fund. The initial 2001 legislation provided that the amount levied each year over and above the FY 2003 amount would be dedicated to education funding, but that dedication was eliminated in 2003.
- The table below lists the state levy and the state tax rate(s) for each year since the state levy was initiated:

Payable Year	State Levy (millions)	Commercial Industrial Tax Rate	Seasonal recreational Tax Rate
2004	615.2	54.109	54.109
2005	625.9	51.121	51.121
2006	654.9	50.827	28.385
2007	693.1	48.032	24.225
2008	729.2	45.949	20.385
2009	773.7	45.535	18.214
2010	779.0	45.881	17.755
2011	795.1	49.043	19.145
2012	817.4	51.100	20.750
2013	840.6	52.523	22.327

2014	844.4	52.160	22.836
2015	854.4	50.840	21.703
2016	856.8	48.641	21.167
2017	862.6	45.802	20.845
2018	828.8	43.865	20.779
2019	828.8	42.416	19.962
2020	778.8	38.846	17.997
2021	778.8	35.978	17.306
2022	778.8	36.289	16.306
2023	758.7	33.003	12.321
2024	758.7	29.294	10.640

Major Property Tax Relief Programs and Ongoing Aids and Credits

CY '23/FY '24 ($ in millions)	Program	Recipients
Aids		
$564.1	Local government aid	Cities
264.3	County program aid	Counties
9.6	Township aid	Towns
20.0	Local homeless prevention aid	Counties and Tribes
22.5	Statewide local housing aid	Counties, cities, and Tribes
162.6	Local pension aids	Various jurisdictions
0	Tribal Nations aid ($35.0 million starting in FY 2025)	Tribes
15.0	Soil and water conservation district aid	SWCD districts
10.0	Aquatic invasive species aid	Counties
17.8	Disparity reduction aid	Counties
25.5	Miscellaneous aids	Various jurisdictions
Credits		
$39.7	Payment in lieu of taxes (PILT)	Counties and towns
86.0	School building bond agricultural credit	School districts
36.9	Agricultural market value credit	All taxing jurisdictions
13.3	Border city disparity credit	Cities
Direct Payments		
$844	Homestead credit refund–homeowners	Individuals
304	Property tax refund–renters	Individuals
47.1	Targeting property tax refund	Individuals
14.5	Sustainable forest incentive payments	Individuals



The City LGA Program

The city local government aid (LGA) program annually distributes $644.4 million in state aid to cities. The program has existed since 1972 and has gone through several changes. The current program uses a formula that was enacted in 2023.

The 2023 changes to the LGA program updated factors that determine "need" within the formula and increased the overall annual appropriation by $80 million. Additionally, sparsity adjustments—which increased aid for certain cities with low population density—and certified aid adjustments were both repealed. Prior to these changes, the city of Mahnomen was the only city receiving a certified aid adjustment. This "off formula" additional aid amount was moved to a separate state aid payment and is no longer tied to the LGA program.

LGA need formula and aid calculation

The LGA formula calculates increases and decreases in each city's aid based on the gap between its "unmet need" (the city's "need" minus its "ability to pay") and its current aid level. Cities with large gaps will get larger aid increases, and cities whose aid is more than their current "unmet need" will gradually lose aid over time.

The measure of a city's "need" depends on its population:

- **For small cities (population less than 2,500):** need per capita is based on the logarithm to the base 10 of the city's population

- **For medium-size cities (population between 2,500 and 10,000):** need per capita is based on (1) percent of housing built before 1940; (2) share of the city's tax base classified as commercial, industrial, or utility property; and (3) population decline from the city's peak population in the last 40 years
- **For large cities (population over 10,000):** need per capita is determined by (1) percent of housing built before 1940; (2) share of the city's population age 65 and over; (3) share of the city's tax base classified as commercial, industrial, or utility property; and (4) population decline from the city's peak population in the last 40 years

Each city's unmet need is equal to the difference between (1) its need per capita multiplied by its population, and (2) its equalized net tax capacity multiplied by the average tax rate for all cities in the previous year. If the city's "unmet need" is greater than the amount of aid it received in the previous year, its aid will increase.

The increase equals a percentage of the gap between the city's unmet need and its previous aid amount. The percentage is the same for all cities and depends heavily on annual appropriation increases. For aid payable in 2024, this percentage is 12.44.

If a city's aid in the previous year is greater than its unmet need, its aid will decrease; either to the unmet need amount or by the maximum allowed annual decrease (see next page).

A city whose current aid is far below its "unmet need" measure will see larger dollar increases than a city whose aid is close to its "unmet need." Over time all cities will gradually move toward receiving aid equal to their unmet need amount. Because aid is based on each city's need rather than on changes in need for all cities, payments to individual cities will be more stable, relative to previous versions of the LGA formula.

Characteristics of the Current LGA Program

Funding level	$644.4 million
"Formula need"[1]	**For cities with a population of less than 2,500:** Need per capita = $196.487 + (220.877 x logarithm of city's population) **For cities with a population of at least 2,500 but less than 10,000:** Need per capita = 1.15 x ($497.308 + (6.667 x percent of housing built before 1940) + (9.215 x share of tax base classified as commercial, industrial, or utility property) + (16.081 x population decline from the city's peak census population)) **For cities with a population of 10,000 or more:** Need per capita = 1.15 x ($293.056 + (8.572 x percent of housing built before 1940) + (11.494 x share of city's population age 65 and over) + (5.719 x share of tax base classified as commercial, industrial, or utility property) + (9.484 x population decline from the city's peak census population))
"Unmet need"	= ("Formula need" x population) – (city net tax capacity x average city tax rate)

Formula aid	**For cities whose unmet need is *less* than its previous year aid:** Formula aid = "unmet need" **For cities whose unmet need is *greater* than its previous year aid:** Formula aid = last year's formula aid + X% of the difference between its "unmet need" and its aid in the previous year
Final aid	= Formula aid; subject to the maximum annual decrease
Limits on annual decreases	No city's aid can decrease from the previous year's amount by more than an amount equal to the *lesser* of: ▪ $10 multiplied by the city population; or ▪ 5% of the city's levy in the previous year
[1] To avoid sudden changes in city formula need measures, a city with a population between 2,500 and 3,000 or between 10,000 and 11,000, has a formula need based partially on the formula for its current size and partially on the formula for the cities of the next smaller size.	

Township LGA

The local government aid (LGA) program for townships was enacted in the 2013 session, and the first payments were made beginning in 2014. The original LGA program enacted in 1971 provided aid to all local governments but over the years, distributions to townships were reduced as the program became a city aid program only. No LGA payments were made to townships from 2002 to 2013.

Aid factors

The amount received by each township is based on three factors:

- Town area factor: the most recent estimate of the acreage in the township, up to 50,000 acres
- Population factor: the square root of the most recent population estimate for the township
- Agricultural property factor: the proportion of property value in the township that comes from agricultural land. This is calculated as the ratio of the adjusted net tax capacity of all agricultural property in the township to the adjusted net tax capacity of all other property in the township, up to a maximum factor of eight. "Agricultural property" includes homestead and nonhomestead agricultural land, rural vacant land, and noncommercial seasonal recreational property (i.e., cabins), but it does not include managed forest land or tax-exempt natural resource land.

Total annual aid is $10 million

The formula distributes $10 million annually to organized townships in the state. The actual formula for each town's aid is:

Aid = X of (agricultural property factor x town area factor x population factor x .0045)

where X% is the percentage needed so the total paid to all townships does not exceed $10 million.

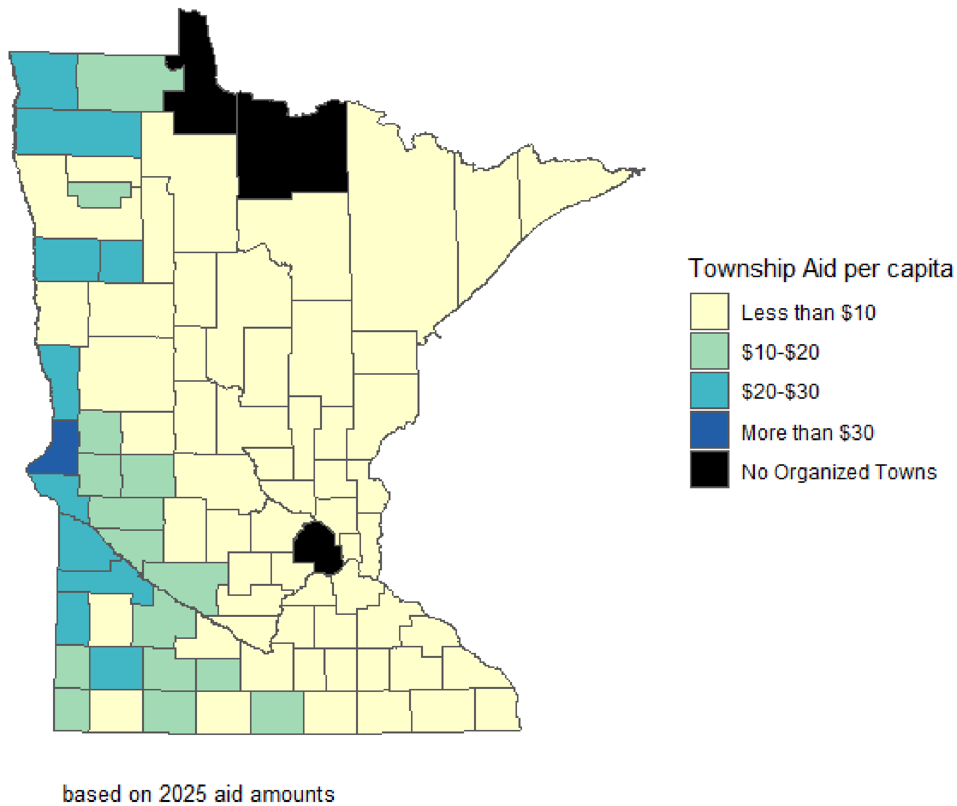
Formula favors organized, agriculture-based townships

The formula tends to provide more aid per capita to townships that have a large amount of land meeting the definition of "agricultural property" used in the agricultural property factor. Townships with large amounts of other property such as residential, commercial, or forest property will get less aid per capita. The aid is limited to organized townships; no aid is paid to counties for providing township services to unorganized townships in the state. Because of this, payments tend to be highest in the western and southwestern counties in the state.

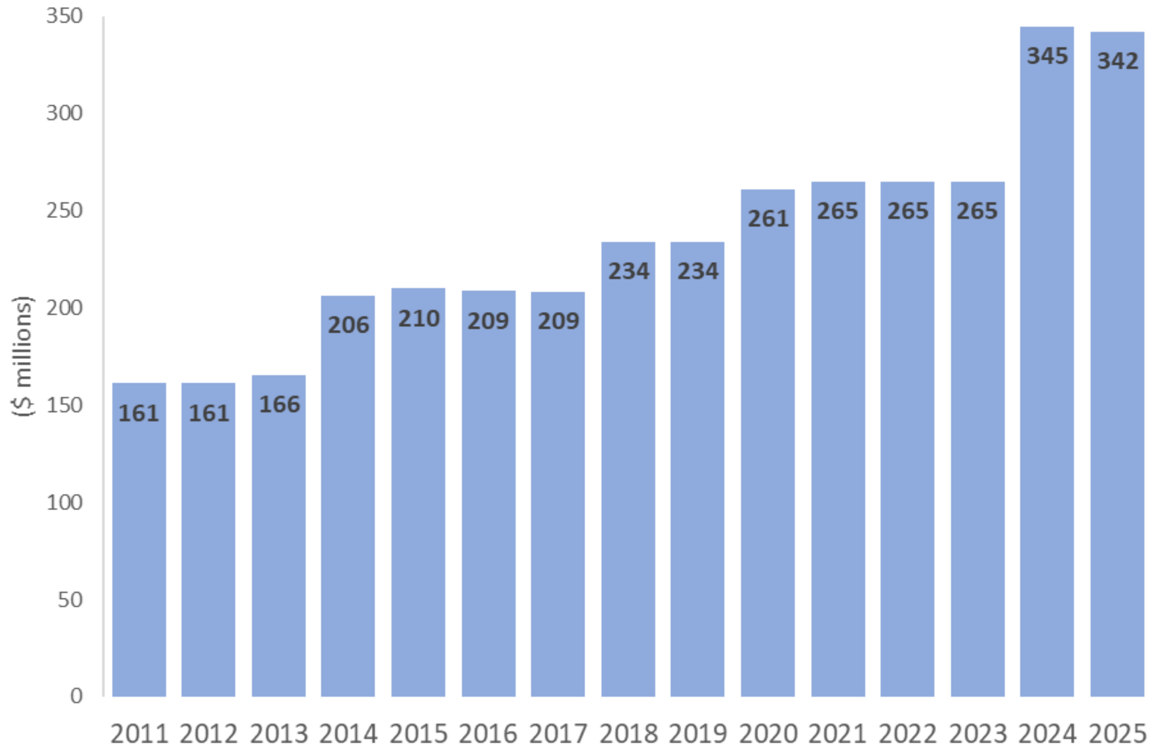
Three counties receive no aid

No township aid is paid in Hennepin, Koochiching, or Lake of the Woods counties. This is because either the entire county is incorporated into cities (Hennepin County) or the county only has unorganized townships (Koochiching and Lake of the Woods counties).

2022 Total Township Aid, Per Capita by County



County Program Aid (CPA)
(in $ millions)*



*In 2011, the amount of aid paid was less than the amount originally certified. For aids payable in 2014 through 2024, Beltrami County received an additional $3,000,000 for out-of-home placement costs. Those additional funds expire in 2025.

County Program Aid

County Program Aid is a program that distributes aid to counties based on property tax base, population, and other factors.

Prior to 2004, property tax aid to counties was distributed under a number of different programs. Beginning in 2004, the legislature consolidated these aid programs into one general aid program, called county program aid (CPA).

CPA is allocated by two formulas, need aid and tax-base equalization aid. From 2005 through 2017, the total amounts distributed under the two different formulas were roughly equal; however, beginning in 2018 the amount distributed through tax-base equalization aid is approximately 25 percent greater than the amount distributed through need aid. The table on the next page shows how a county's aid is calculated under each formula.

County program aid amounts have changed over time

For 2008 to 2011, county program aid payments were reduced due to state budgetary conditions. The total appropriation was permanently reduced by approximately $34 million in 2010 and reduced by another $32 million in 2011. By 2014, increases in the appropriation returned county program aid payments to where they were prior to these reductions. In 2019, the total aid amount was increased by $26 million for aids paid in 2020 and by an additional $4 million for aids paid in 2021. In 2023, the total aid amount was increased by $80 million, bringing the total annual appropriation to $344,668,444 beginning with aids paid in 2024.

Other program changes

In 2017, the legislature instituted a guarantee that a county's tax-base equalization aid could not be less than 95 percent of its tax-base equalization aid in the previous year, or 0.27 percent of the total statewide appropriation for tax-base equalization aid, whichever is greater. This was in response to significant reductions in tax-base equalization aid in many rural counties due to rapid growth in agricultural property values.

In 2023, the legislature updated the crime measure used in the aid formula. The FBI and Bureau of Criminal Apprehension stopped classifying crimes as "Part I" or "Part II," instead classifying them as "Group A" or "Group B" offenses. The legislature set Group A offenses as the new crime measure in the county program aid formula, replacing Part I crimes. Group A offenses include all crimes that had previously been classified as Part I, plus additional types of serious offenses.

Calculation of County Program Aid

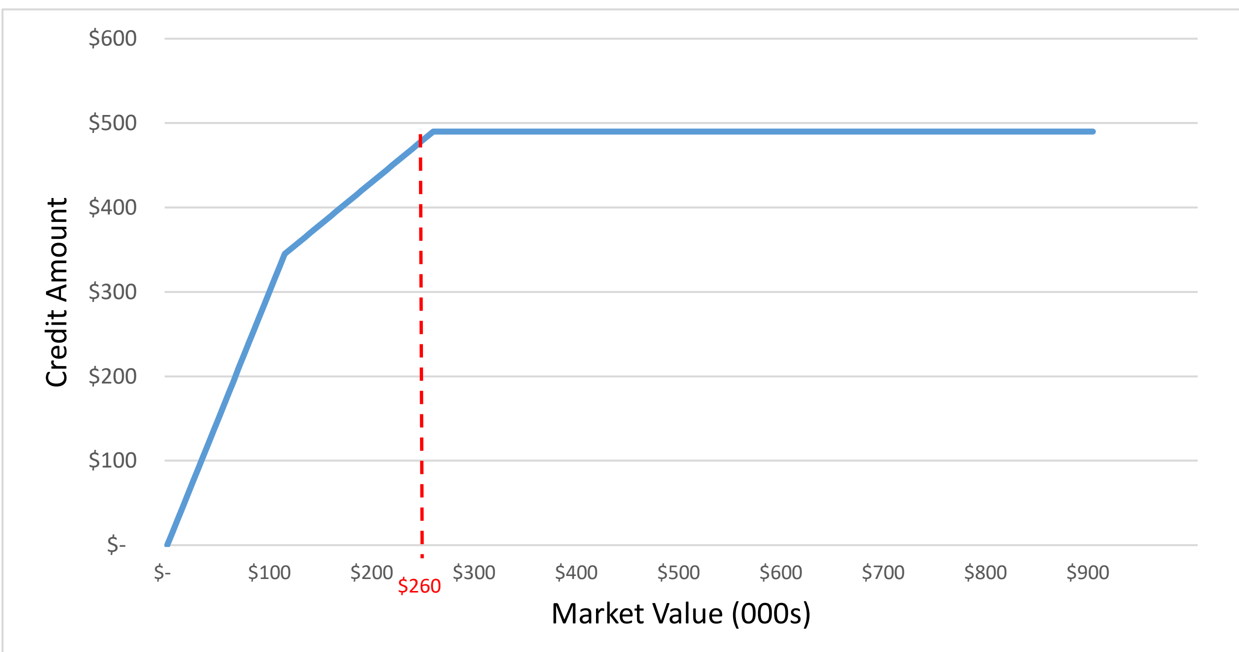
Need Aid	Tax-base Equalization Aid
Share of Appropriation (after reductions): $103.4 million (CY 2018) $103.3 million (CY 2019) $116.3 million (CY 2020) $118.3 million (CY 2021) $118.4 million (CY 2022) $118.7 million (CY 2023) $153.9 million (CY 2024)	**Share of Appropriation (after reductions):** $130.7 million (CY 2018) $130.7 million (CY 2019) $143.7 million (CY 2020) $145.7 million (CY 2021) $145.7 million (CY 2022) $145.7 million (CY 2023) $190.3 million (CY 2024)
Reductions from the appropriation: $500,000 is annually transferred to the Board of Public Defense for court-ordered counsel and public defense costs	**Reduction from the appropriation:** $207,000 is annually paid to the Legislative Budget Office and $7,000 is annually paid to the commissioner of education for the preparation of local impact notes
Factors used in the formula: ▪ **age-adjusted population,** which ranges from 80% to 180% of the county's actual population, is based on the percentage of the county's population over age 65, compared to the statewide average ▪ **average monthly number of households receiving Supplemental Nutrition Assistance Program (SNAP) benefits** in the county over the last three years ▪ **average number of Group A offenses** reported in the county over the last three years (These are the most serious crimes)	**Tax-base equalization factor used in the formula:** **Factor = N** times ($190* x population - 9% of the county adjusted net tax capacity) **where N equals:** ▪ 3 if the county population is less than 10,000 ▪ 2 if the county's population is at least 10,000 but less than 12,500 ▪ 1 if the county's population is at least 12,500 but less than 500,000 ▪ 0.25 if the county's population is 500,000 or more *Each year, this number is increased by the ratio of the statewide adjusted net tax capacity (ANTC) per capita to the statewide ANTC per capita in the 2016 assessment year. For calendar year 2024, the value is $240.
The formula: ▪ 40% of the appropriation is distributed to each county based on its relative share of the total age-adjusted population in the state ▪ 40% of the appropriation is distributed to each county based on its relative share of the total average monthly number of households receiving SNAP benefits in the state ▪ 20% of the appropriation is distributed to each county based on its relative share of the average number of Group A offenses reported in the state	**The formula:** ▪ 100% of the appropriation is distributed based on each county's relative share of the sum of the tax-base equalization factors for all the counties in the state, provided that no county's aid may be less than the greater of (a) 95% of its aid in the previous year, or (b) 0.27% of the statewide appropriation

Agricultural Market Value Credit

- The credit applies to agricultural homesteads only
- The credit amount is based on the taxable value of the agricultural portion of the property, excluding the value of the house, garage and surrounding one acre of land
- The credit amount is shown on the tax statement as a subtraction after the gross tax has been computed
- The credit is deducted from each local government's tax on the homestead in proportion to its share of the gross tax (excluding school referendums)
- The maximum credit amount is $490; all farms valued over $260,000 receive the maximum credit amount
- The credit is 0.3 percent of the market value up to $115,000, plus 0.1 percent of the market value over $115,000, until the maximum credit of $490 is reached at a market value of $260,000

The state cost of the credit for taxes payable in 2024 (FY 2025) is $37.3 million

Agricultural Market Value Credit



Homestead Credit Refund Program

What is the homestead credit refund program?

The homestead credit refund is a state-paid refund that provides tax relief to homeowners whose property taxes are high relative to their incomes. The program was previously known as the homeowner's property tax refund program, or PTR, and sometimes popularly called the "circuit breaker." If the property tax exceeds a threshold percentage of income, the refund equals a percentage of the property tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay (the "copay percentage") increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income, including income that is not subject to income tax. Deductions are allowed for dependents and for claimants who are over age 65 or disabled. The refund is based on taxes payable after subtracting any targeting refund claimed by the homeowner. (The targeting refund is an additional refund available to homeowners who have large property tax increases from one year to the next.)

What are the maximums?

For refund claims filed in 2024, based on property taxes payable in 2024 and 2023 household income, the maximum refund is $3,310. Homeowners whose income exceeds $135,410 are not eligible for a refund.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, which is filed separately from the individual income tax form. Claims based on taxes payable in 2024 that are filed before August 15, 2024, will be paid beginning in late September 2024; claims filed electronically may be paid a month earlier. The deadline for filing claims based on taxes payable in 2024 is August 15, 2025; taxpayers filing claims after that date will not receive a refund.

How many homeowners receive refunds, and what is the total amount paid?

494,627 homeowners received refunds based on 2022 property taxes payable and 2021 incomes. The average refund was $1,129, and the total dollar amount of refunds paid statewide was $558.5 million. The average refund for senior and disabled claimants ($1,188) was slightly higher than the average for those under age 65 and not disabled ($1,079).

What are the most recent changes to the program?

The 2023 tax law (Laws 2023, chapter 64) reduced co-pay percentages for all filers by three percentage points. The law also provided a onetime increase of 20.572 percent for all property tax refunds payable in 2023. Additionally, the law converted the renter's credit program, which had previously been administered together with the homestead credit, into a refundable income tax.

How do refunds vary depending upon the filer's income and property tax?

The following table shows the refund calculations for four example families with different incomes—two families in the seven-county metro area and two in Greater Minnesota. Although the program parameters are the same statewide, the average residential homestead property tax in the metro area is higher than in Greater Minnesota. The example metro area families have homes valued at $420,700 and property taxes of $4,910, the average amounts for the metro area in 2023. The example families in Greater Minnesota have homes valued at $289,000 and property taxes of $2,926, the average amounts for Greater Minnesota in 2023. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, two dependents
Example refunds for claims to be filed in 2024,
based on taxes payable in 2024 and 2023 income

		Metro Area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #3	Taxpayer #4
1	Property tax	$4,910	$4,910	$2,926	$2,926
2	Gross income	$40,000	$83,000	$40,000	$83,000
3	Deduction for dependents	$12,960	$12,960	$12,960	$12,960
4	Household income (2 – 3 = 4)	$27,040	$70,040	$27,040	$70,040
5	Threshold income percentage	2.0%	2.0%	2.0%	2.0%
6	Threshold % x income (4 x 5 = 6)	$541	$1,401	$541	$1,401
7	Property tax over threshold (1 – 6 = 7)	$4,369	$3,509	$2,385	$1,525
8	Statutory copay percentage	22%	32%	22%	32%
9	Taxpayer copay amount (7 x 8 = 9)	$961	$1,123	$525	$488
10	Remaining tax over threshold (7 – 9 = 10)	$3,408	$2,386	$1,860	$1,037
11	Maximum refund allowed	$3,310	$2,680	$3,310	$2,680

12	Net property tax refund	$3,310	$2,386	$1,860	$1,037
13	Net property tax paid after refund (1 – 12)	$1,600	$2,524	$1,066	$1,889

Renter's Property Tax Refund Program

What is the renter's credit?

The renter's credit is a refundable income tax credit that provides tax relief to renters whose rent and "implicit property taxes" are high relative to their incomes. Prior to 2025, the credit was administered separate from the income tax system, together with the homestead credit property tax refund. Beginning with refunds paid in 2025 (tax year 2024), taxpayers will file and claim the credit as part of their income tax returns.

How are renter's property taxes calculated?

"Rent constituting property taxes" is assumed to equal 17 percent of rent paid. If rent constituting property taxes exceeds a threshold percentage of income, the credit equals a percentage of the tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay increases, and
- the maximum refund decreases.

Beginning with credits paid in 2025, the program will use adjusted gross income to determine eligibility, with deductions allowed for dependents and for claimants who are over age 65 or disabled.

Property owners or managing agents are required to provide renters with a Certificate of Rent Paid (CRP) by February 1 of each year. The CRP provides a record of the rent paid in the previous year.

What are the maximums?

For tax year 2024 credit claims paid in 2025 (based on rent paid in 2024), the maximum refund is $2,640. Renters whose income exceeds $75,389 are not eligible for refunds.

How are claims filed?

Beginning with refunds payable in 2025 for tax year 2024, taxpayers will file and claim the credit as part of their income tax returns. The Minnesota Department of Revenue (DOR) will pay taxpayers refunds at the same time as any income tax refunds owed to a taxpayer.

How many renters receive refunds, and what is the total amount paid?

295,520 renters received refunds in 2022 (based on rent paid in 2021 and 2021 incomes). The average refund was $731, and the total dollar amount of refunds paid statewide was $216.1 million.

When was the program last changed?

The 2023 tax policy and finance bill (Laws 2023, chapter 64) significantly restructured the program's administration. That law converted the credit from a stand-alone refund program to a refundable income tax credit and also changed the income measure used to calculate the credit. Under prior law, the income measure used to calculate the credit was "household income," which included most nontaxable income.

How do refunds vary depending on income and property taxes?

The following table shows the credit amount for four example families (married couples without dependents). Although the threshold percentage, copayment rates, and maximum credit amounts are the same statewide, the estimated median rent (based on 2022 Census Bureau ACS 1-year estimates for 1 bedroom) is higher in the metro area than in Greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, no dependents
Example credit for claims filed in 2025,
based on rent paid in 2024 and 2024 household income

		Metro Area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #3	Taxpayer #4
1	Monthly rent, one bedroom apartment	$1,050	$1,050	$625	$625
2	Annual rent (1 x 12 = 2)	$12,600	$12,600	$7,500	$7,500
3	Rent constituting property tax (2 x 17% = 3)	$2,142	$2,142	$1,275	$1,275
4	Gross income	$20,000	$40,000	$20,000	$40,000
5	Deduction for dependents	0	0	0	0
6	Household income (4 - 5 = 6)	$20,000	$40,000	$20,000	$40,000
7	Statutory threshold percentage	1.4%	2.0%	1.4%	2.0%
8	Threshold % x income (7 x 6 = 8)	$280	$800	$280	$800
9	Property tax over threshold (3 – 8 = 9)	$1,862	$1,342	$995	$475
10	Copay percentage	15%	30%	15%	30%
11	Taxpayer copay amount (9 x 10 = 11)	$279	$403	$149	$143
12	Remaining tax over threshold (9 – 11 = 12)	$1,583	$939	$846	$333
13	Maximum refund allowed	$2,370	$2,180	$2,370	$2,180

14	Net property tax refund	$1,583	$939	$846	$333

Targeting Property Tax Refund

What is targeting?

The "additional" or "special" property tax refund, generally referred to as "targeting," directs property tax relief to homeowners who have large property tax increases from one year to the next.

Who qualifies?

A homeowner qualifies if the property tax on the home has increased by more than 12 percent over the previous year's tax and if the increase is over $100. In determining eligibility, the previous year's tax amount is the net amount paid by the homeowner after deduction of any targeting refund received in that year.

The homeowner must have owned and lived in the same home for both years. If any improvements were made to the home, that portion of the tax increase resulting from the improvements must be subtracted when determining the refund.

How does targeting work?

Generally, the refund equals 60 percent of the increase over the greater of (1) 12 percent of the previous year's tax after deduction of targeting, or (2) $100. The refund is not allowed if the increase was attributable to improvements made to the home. The maximum refund is $1,000. The targeting refund is calculated prior to calculation of the homestead credit refund. The following example shows how the refund is calculated.

Last year's property tax (payable 2023 property tax minus 2023 targeting refund)	$1,600
This year's property tax (payable 2024 property tax)	$2,000
2024 tax increase (over 2023). Refund only available if this amount exceeds $100.	$400
Taxpayer pays the first 12% of the increase compared to previous year's tax (12% x $1,600).	$192
Increase amount eligible for targeting refund ($400 - $192 = $208)	$208
Targeting refund amount (60% of increase in excess of 12%, up to a $1,000 maximum) or (60% x $208 = $125)	**$125**

The taxpayer's $400 increase (i.e., 25 percent) is reduced to an out-of-pocket property tax increase of $275 (i.e., 17.2 percent) as a result of the $125 refund.

The taxpayer pays the full $2,000 amount of the 2024 property tax to the county, the first half in May and the second half in October. The taxpayer applies to the state for a targeting refund on form M1PR. The targeting refund is paid at the same time the regular homestead credit refund ("circuit breaker") is paid in late September.

Does targeting have any other restrictions?

No, unlike the homestead credit refund, the targeting refund is not tied to the taxpayer's household income. Under the homestead credit refund, the taxpayer's household income may not exceed a specified maximum and the amount of household income affects the amount of the refund.

However, the targeting refund does not use income as a factor, nor is there any limitation on the taxpayer's household income. Therefore, higher income taxpayers who do not qualify for the homestead credit refund due to income restrictions are eligible for the targeting refund.

What are the dollar amounts of refunds paid for the state, metro, and nonmetro areas?

The table below shows the statewide amount, with a breakdown for the metro and the 80 nonmetro counties, for the past four years. Homeowners claimed $6.4 million on targeting refund claims filed in 2022. Changes in targeting refunds from one year to the next are volatile but generally track changes in property taxes on homesteads.

Targeting Refunds, Filed 2019 – 2022 (dollars in thousands)

	Filed 2019	Filed 2020	Filed 2021	Filed 2022
Total Metro	$5,461	$5,319	$5,319	$3,426
Total Nonmetro	$4,129	$4,577	$4,523	$2,934
State	$9,611*	$9,896*	$9,896*	$6,367*
* Includes a small number of refunds in which counties cannot be assigned				

Some taxpayers (e.g., those who typically don't qualify for the homestead credit refund) may not be aware of the targeting program, resulting in lower total refunds statewide than if all eligible taxpayers had filed.

How many homeowners claim the refund?

In 2022, over 60,100 homeowners claimed refunds based on their property tax increase from payable 2021 to 2022. The average refund amount was $106.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, the homestead credit refund form. There is a separate schedule on the back of the M1PR ("Schedule 1 – Special Refund") for the targeting program. The taxpayer files for this refund after receiving his or her property tax statement in February or March. Claims filed before August 15, 2024, will be paid beginning in late September 2024. The deadline for filing claims based on taxes payable in 2024 is August 15, 2025; taxpayers filing claims after that date will not receive a refund. Forms are available [online at DOR's website].

School Building Bond Agricultural Credit

The school building bond agricultural credit was established by the 2017 Legislature, became available beginning in 2018, and was modified in 2019. The credit is available to all agricultural property, except the house, garage, and immediately surrounding one acre of land of an agricultural homestead.

The credit is equal to a percentage of the tax on an agricultural property that is attributable to school district bonded debt levies. For property taxes payable in 2018 and 2019, the credit equaled 40 percent of this amount. Changes in 2019 increased this percentage to 50 percent in 2020, 55 percent in 2021, 60 percent in 2022, and 70 percent in 2023 and thereafter.

In 2024, 544,610 parcels received the credit. The state cost of the credit was $108,967,629, which covered about 8.2 percent of the school debt service levies statewide.

Senior Citizens Property Tax Deferral Program

What is the Senior Citizens Property Tax Deferral Program?

The Senior Citizens Property Tax Deferral Program allows property taxpayers who are 65 years or older, and whose total household income is $96,000 or less, to defer a portion of their homestead property taxes until some later time. It provides senior citizens whose property taxes are high relative to their incomes, but who wish to stay in their homes, an option for paying their property taxes.

How does it work?

Regardless of how high the tax is on the homestead, the taxpayer initially pays an amount equal to 3 percent of the total preceding year's household income. The state pays any amount over 3 percent, called the "deferred tax," to the county in which the home is located. A lien attaches to the property. The deferred tax is a loan. Interest on the loan is calculated at the same rate as unpaid state taxes—a floating rate that cannot exceed 5 percent. Before the owner can transfer the title of the property, the deferred tax plus interest must be repaid.

For example, John and Mary Jones own a home; its total property tax is $1,400. They have a total household income of $30,000. Under this program, they must pay $900 in tax (3 percent of $30,000); the remaining $500 ($1,400 minus $900) is deferred.

Who qualifies?

In order to qualify for the program, **all** of the following criteria must be met:

- The property must be owned and occupied as a homestead by a person at least 65 years old (If married, one spouse must be at least 65 years old and the other must be at least 62 years old)
- Total household income must be $96,000 or less for the calendar year preceding the year of the initial application
- The home must have been owned and occupied as the homestead of at least one of the homeowners for at least five years before the initial application
- There must be no state or federal tax liens or judgment liens on the property
- The total unpaid balances of debts secured by mortgages and other liens on the property do not exceed 75 percent of the assessor's estimated market value of the property for the current year. Debts and liens include deferred tax and interest under the program, unpaid and delinquent special assessments and property taxes, and associated penalties and interest. Current year property taxes and Property Assessed Clean Energy liens are not included in the total.

What information is the applicant required to provide?

An applicant must provide, at their own expense, a report detailing any mortgages, liens, judgments, or unpaid property taxes on the property. For "Abstract" properties, the report is an owners and encumbrances report that is prepared by a licensed abstracter. For "Torrens" properties, the report is a current certificate of title that is available from the county recorder. If owners are unsure which type of property they have, they may find out from the county recorder.

Does the taxpayer need to annually reapply?

No, once a taxpayer is enrolled in the program, annual applications are not required. However, if household income exceeds $96,000 in any calendar year, the owner must notify the Department of Revenue, and no further property taxes may be deferred. However, the owners will remain enrolled in the program, and once their income falls below the $96,000 threshold again, they may notify the state and request that the deferral be resumed.

Can the taxpayer still file for refunds?

Yes, a taxpayer is still allowed to file for the property tax refund and any other property rebates that the state offers. However, no direct cash payments will be made to the taxpayer. Rather, the amount of the refund will be applied to the total amount of the deferred property tax on the taxpayer's home. The property tax refund is calculated on the full tax amount.

When does it terminate?

The deferral terminates when **any one** of the following events occurs:

- the property is sold or transferred
- all qualifying homeowners die
- the homeowner notifies the Commissioner of Revenue, in writing, of intent to withdraw from the program
- the property no longer qualifies as a homestead

How many people participate in the program?

In calendar year 2023, the program had 405 active participants with $1.74 million in taxes deferred.

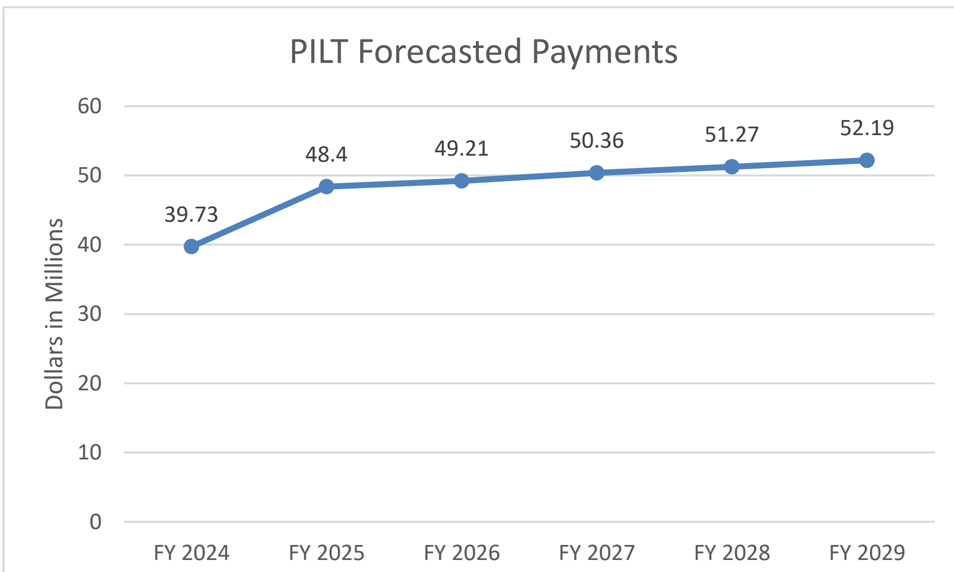
Where does a taxpayer apply for the program?

Applications are available in the county auditor's office or from the Department of Revenue's website at www.revenue.state.mn.us/property-tax-deferral-senior-citizens.

Payment in Lieu of Taxes (PILT)

PILT payments reimburse counties and towns for lost revenues attributable to the removal of tax-generating properties from their property tax rolls to support preservation of natural resources lands. The commissioner of revenue provides payment in lieu of tax (PILT) payments to local governments for this land. In 2024, with 8.5 million acres of PILT land located in all 87 counties, a total of $39.7 million was distributed. PILT payments are adjusted every six years when property values are reassessed, with the most recent adjustment taking place in 2023.

The 2023 Tax Act made two changes in the PILT payment law. First, for aids payable in FY 2025 and beyond, it increased the per acre payment rate from $2.00 to $3.00 for lands administered by counties or by the Department of Natural Resources. Second, it included a multiplier for the total acreage that is eligible for payment. This multiplier is $0.18 for counties with a total number of eligible acres that are equal to or greater than 25 percent of the total county acreage. It is $0.08 for counties with lands with a total number of eligible acres that are equal to or greater than 10 percent but less than 25 percent of the total county.



House Research and House Fiscal Graphics

Sustainable Forest Investment Act (SFIA)

Sustainable Forest Investment Act (SFIA) payments provide reimbursements to private landowners who practice long-term (8-year minimum) forest management investment in accordance with the Sustainable Forest Incentive Act (2001). Since 2011, the program has undergone several changes. Most recently, the 2017 Legislature tied SFIA payment rates to the length of conservation covenants required by the act. The flat rate of $7 per acre in 2018 became a payment range in 2019.

Table 3a: SFIA Payment Rates

Covenant length	2024 Per Acre Payment Up To 1,920 Acres	2024 Per Acre Payment More Than 1,920 Acres
50 years	$18.54	$22.57
20 years	$14.51	$18.54
8 years – no easement	$10.48	$14.51

Land enrolled after 2017 that is in a conservation easement receives a per acre payment of $4.03. Claimants enrolling land that is in a conservation easement must enroll their land under a covenant of at least eight years in duration. Land enrolled in 2017 or earlier that is in a conservation easement receives $7.00 per acre.

Table 3b: Sustainable Forest Incentive Act (SFIA) Expenditures

Fiscal Year	Nov. 2024 Forecast ($ in millions)
FY 2024	$14.5
FY 2025	$15.4
FY 2026	$16.6
FY 2027	$17.5

Mining Taxes

Mines and facilities used in the production of taconite are exempt from the property tax. In lieu of the property tax, the iron mining industry pays a production tax based on the tons of taconite produced. The industry is also exempt from the corporate income tax and pays an occupation tax in lieu of it. The structure of the occupation tax is quite similar to that of the corporate income tax.

The mining industry paid about $159 million in taxes in 2024. The taconite production tax constitutes about 77 percent ($123 million) of the total taxes. The remaining $36 million includes the occupation tax, the sales tax, and some miscellaneous taxes. This overview focuses on the production tax, since it is primarily used to fund local governments, and is therefore similar to a property tax.

Because it is in lieu of the property tax, the taconite production tax is paid to local governments and is a major revenue source for qualifying taxing jurisdictions—counties, cities, towns, and school districts, located in the taconite assistance area. The "taconite assistance area" includes all or a portion of Cook, Lake, St. Louis, Itasca, Koochiching, Aitkin and Crow Wing Counties.

The production tax collected and distributed in 2024:

- was based on a tax rate of $3.259 per taxable ton (the tax rate is established by the legislature);
- was based on the three-year average tonnage produced in 2021, 2022, and 2023, which was 35.3 million taxable tons. (A three-year average is used to keep the tax base more stable.);
- was required to be paid in two equal installments on or before February 24th, and on or before August 24th; and
- was paid to the respective counties in the taconite assistance area and to the Iron Range Resources and Rehabilitation Agency (often referred to simply as IRRR). The counties then make payments to the cities, towns, and school districts.

The formula for distributing production tax revenues is a complex one that has evolved over many years. It is specified in statute and is generally defined on a cents per taxable ton (CPT) distribution. The 2024 distribution of the production tax was distributed as follows:

Distribution	Amount ($ in 000s)	Cents per taxable ton (CPT)*
Cities and townships	$13,132	37.3
School districts	19,328	54.8
Counties	12,112	34.4
Property tax relief and misc.	15,032	42.6

Iron Range Resources & Rehabilitation (IRRR) includes distribution to the Taconite Environmental. Protection Fund and the Douglas Johnson Economic Protection Trust Fund	53,680	152.3
Other	9,353	26.5
Total	$122,636**	$3.259

* This includes a state general fund appropriation equal to 22.0 CPT.

**This includes $7,755,094 from the state general fund.

The Fiscal Disparities Program

What is the fiscal disparities program?

The fiscal disparities program is a system for the partial sharing of commercial-industrial (C/I) property tax base among all jurisdictions within a geographic area. In Minnesota, the program operates in two areas: the first one was enacted in 1971 and operates in the seven counties of the Twin Cities metropolitan area; a second version was enacted in 1995 operating within the Iron Range in northeastern Minnesota.

Why share commercial-industrial tax base?

The main purposes and goals of the program are to:

- Support a regional approach to development. Tax-base sharing spreads the fiscal benefit of business development spawned by regional facilities, such as shopping centers, airports, freeway interchanges, and sports stadiums. It also may make communities more willing to accept low-tax-yield regional facilities, such as parks.

- Equalize the distribution of fiscal resources. Communities with low tax bases must impose higher tax rates to deliver the same services as communities with higher tax bases. These high tax rates make poor communities less attractive places for businesses to locate or expand in, exacerbating the problem. Sharing C/I tax base can reduce this effect.

- Reduce competition for commercial-industrial development. Communities generally believe that some kinds of C/I properties pay more in taxes than it costs to provide services to them. This encourages communities to compete for these properties by providing tax concessions or extra services, which can weaken their fiscal condition. Tax-base sharing reduces the incentive for this competition, thereby discouraging urban sprawl and reducing the cost of providing regional services such as sewage and transportation.

How does the fiscal disparities program work?

Contributions to the areawide tax base. Each taxing jurisdiction annually contributes 40 percent of the growth in its C/I tax base since the year of enactment to an abstract entity called the "areawide tax base." This contribution value is not available for taxation by the jurisdictions where the property is located.

Distributions from the areawide tax base. Each municipality receives a share of the areawide tax base through a formula based on its share of the area's population and its relative property tax wealth (tax base per capita). The municipality is allowed to tax this distribution value at the same rate as the tax rate paid by its residents. All taxing jurisdictions whose boundaries encompass the municipality are also allowed to tax the municipality's distribution value (i.e., counties, school districts, and special taxing districts).

Calculating the property tax for each commercial-industrial property. The property tax statement for each C/I property has a local portion and an areawide portion, based on the relative amount of the tax base that is contributed and the amount that is retained by the municipality where the property is located.

How much tax base is redistributed through the programs?

In 2024, the areawide tax base accounted for 8 percent of the total tax base in the metropolitan area. In the Iron Range program, the areawide tax base constituted 2 percent of the total tax base.

How much does the fiscal disparities program affect taxes in the metro area?

A House Research Department study based on taxes payable in 2018 found that the average homestead tax in Columbia Heights, which is one of the largest net beneficiaries of the program, was 18.0 percent lower because of fiscal disparities. The study found that the average homestead tax in Rogers, which is one of the largest net contributors, was 4.6 percent higher. Homestead effects throughout the area generally varied between these extremes.

For commercial-industrial properties, average taxes were 13.3 percent lower in Columbia Heights due to fiscal disparities and 12.4 percent higher in Eden Prairie, another suburban city that is a large net contributor. Commercial-industrial property tax impacts elsewhere in the metro area generally fall between these extremes.

The study looked only at the direct effect of fiscal disparities, i.e., the redistribution of tax base, and made no attempt to factor in alternative development patterns that might have occurred without fiscal disparities.

What are the effects of the Iron Range program?

The same study found that the average homestead tax in McKinley (St. Louis County) was 45.6 percent lower because of fiscal disparities, while homestead taxes in Nashwauk (Itasca County) were 6.9 percent higher, with other municipalities generally falling between those extremes.

For commercial-industrial properties, average taxes were 31.3 percent lower in Kinney (St. Louis County) due to fiscal disparities and 19.9 percent higher in Emily (Crow Wing County). Commercial-industrial property tax impacts elsewhere on the Iron Range generally fall between these extremes.

Tax Increment Financing

What is TIF? Who can use it?

Minnesota law allows local governments to finance real estate development by using tax increment financing, or TIF, to capture increases in local property taxes caused by development. TIF can be used by a variety of local government units but is most commonly used by cities and by development authorities created by a city or a county. A local government unit overseeing a TIF project is called an "authority."

How does TIF generate revenue for a TIF authority?

When a local government decides to use TIF, it must create a TIF plan that (among other things) lists the parcels that make up the new TIF district. After a plan is adopted, the county auditor certifies (1) the district's original net tax capacity (the product of the property's taxable market value and the relevant class rate) and (2) the local property tax rates. Over time, TIF development usually increases the taxable market value of property in a district. TIF does not impact how property owners in a district pay their taxes; however, when property taxes are distributed, the revenue generated by applying the original local property tax rates to any increase in net tax capacity is captured and delivered to the authority as the "increment." While a TIF district is active, the local taxing jurisdictions cannot collect taxes on the full value of property within the district, except for the local taxing jurisdiction acting as the authority, which receives increased revenue from the property as increment. TIF does not capture state-imposed property taxes.

How are up-front development costs paid with TIF?

Because a TIF district will not generate increment until after development starts, tax increment cannot pay for up-front development costs, and a TIF authority must borrow money or incur debt to pay these costs. Usually, an authority will use pay-as-you-go financing, in which the authority agrees to reimburse a developer who bears the up-front development costs. An authority may also pay for up-front costs by issuing bonds or by borrowing money either from other funds or from other TIF districts. Once a district begins generating increment, the authority can begin using increment to pay off its debt.

When can TIF be used? What is the "but-for test"?

TIF can only be used when the proposed TIF district passes the "but-for test." Before creating a TIF district, the but-for test requires that the appropriate municipality (usually the city containing the district) find that: (1) the proposed development would not occur without TIF; and (2) the market value of the site will be higher (after subtracting the projected value of tax increments) than what would occur on the site without TIF. The latter finding is not required for housing districts. Additional findings and criteria may be required depending on the type of district.

How and where may tax increment be spent?

There are many restrictions on the use of increment. Generally, an authority must spend increment on addressing the conditions that warranted creation of a district and on administrative costs. A percentage of increment must be spent in the TIF district, but the in-district percentage varies depending both on the type of district and on decisions made in the TIF plan. Usually, an authority must complete development in the district within five years after the county auditor certifies the original net tax capacity. In the sixth year after the original net tax capacity is certified, the authority must begin spending the applicable in-district percentage of increment on paying off development debts. When those debts are paid, the district must be decertified.

What types of TIF districts may be created?

Minnesota allows several different types of TIF districts. The legal restrictions on how long increments may be collected, the sites that qualify, and the purposes for which increments may be used vary with the type of district.

District type	Use of increment	Maximum years of increment collection
Redevelopment	Redevelop blighted areas	26 years
Renewal and renovation	Redevelop areas with substandard buildings and obsolete land uses	16 years
Economic development	Encourage manufacturing and other footloose industries	9 years
Housing	Assist low- and moderate-income housing	26 years
Soils	Clean up contaminated sites	21 years

How many TIF districts are there?

According to the 2024 report of the Office of the State Auditor, there were 1,669 active TIF districts in 2022. The graph shows the relative shares by type of district.