

**PROPERTY TAX
Delinquent property tax
interest rate modified**

February 8, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2800 (Hertaus) / S.F. 2764 (Osmek) as introduced

Effective beginning January 1, 2023.

EXPLANATION OF THE BILL

Under current law, the interest rate on delinquent property taxes is equal to the prime rate charged by banks during the six-month period ending on September 30 of the preceding year, rounded to the nearest full percent, but no lower than 10% and no higher than 14%.

Also under current law, the unpaid balance on any contract to repurchase tax-forfeited property is subject to the same interest rate as delinquent property taxes.

Under the proposal, for both delinquent property taxes and the unpaid balance on any repurchase contract:

- 1) the 10% minimum interest rate would be removed, and
- 2) counties would be granted the authority to set an alternative interest rate that is lower than the rate based on the prime rate charged by banks.

Interest collected on delinquent property taxes is distributed to the county (50%) and to the school districts within the county (50%). When property taxes are delinquent for one year or more, school districts continue to receive 50%, but the county share is reduced by an amount distributed to the city or town in which the property is located.

Proceeds from a repurchase agreement are apportioned to the county (40%), the school district (40%), and the town or city (20%) in which the property is located.

REVENUE ANALYSIS DETAIL

- The current interest rate on delinquent property taxes is 10%.
- The current interest rate based on the prime rate charged by banks is 3%.
- By removing the 10% minimum interest rate, the total amount of interest distributed to counties, school districts, and towns and cities would be reduced.
- This would not impact local government aids administered by the Department of Revenue.
- However, the amount of interest distributed to school districts reduces state-paid general education aids, so the proposal would increase Department of Education payments to school districts by an unknown amount.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral	
<i>Efficiency & Compliance</i>	Neutral	
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Neutral	
<i>Competitiveness for Businesses</i>	Neutral	
<i>Responsiveness to Economic Conditions</i>	Increase	Widens range between minimum and maximum interest rates.

The bill is scored on a three-point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
<https://www.revenue.state.mn.us/revenue-analyses>

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