

THE RESEARCH



To better understand our state's real estate tax competitiveness, NAIOP Minnesota contracted with the Minnesota Center for Fiscal Excellence (MCFE) for a multi-phase project. The project is to compare and contrast the Minnesota State General Levy (statewide tax on commercial/industrial and cabin properties) with other states that impose property taxes at the state level.

THE FINDINGS



- **MINNESOTA AND ALASKA ARE THE ONLY TWO STATE GOVERNMENTS THAT LIMIT STATE TAXATION OF REAL PROPERTY TO SPECIFIC PROPERTY TYPES.**

Minnesota taxes only commercial/industrial property and cabins.

Alaska taxes only oil and gas properties.

- **MINNESOTA IS ONE OF ONLY FOUR STATES THAT USE ALL REAL PROPERTY TAX COLLECTIONS FOR GENERAL FUND APPROPRIATIONS.**

Most states dedicate their real property tax revenues to specific spending purposes, such as K-12 education or state debt service.

THE CONCLUSION



According to MCFE's findings, Minnesota's state general levy is unique in the nation, with its restricted tax base targeting commercial/industrial property, levy-driven structure, and general-purpose use of resulting revenues.

NAIOP's view is that this is a competitive disadvantage for Minnesota business.

Commercial/industrial properties pay 95% of Minnesota's State General Levy. Since these taxes are paid by tenants, the C/I levy is an annual \$737 million expense to Minnesota businesses!



MINNESOTA is the only state that exclusively taxes all commercial/industry property for general-purpose appropriation only.

REAL PROPERTY TAXATION BY STATE GOVERNMENTS

"Real Property = fixed property, principally land and buildings. Taxation of real property in some states may or may not include some taxation of personal property associated with the parcel like inventory, machinery, and fixtures.

4 STATES TAX REAL PROPERTY FOR GENERAL-PURPOSE STATE APPROPRIATION

STATE	WHAT GETS TAXED	REVENUE GENERATED FROM STATE REAL PROPERTY TAXATION
MINNESOTA	Limited to commercial/industrial (95%) and cabin property (5%)	C/I Levy: \$737 million Cabin Levy: \$42 million <hr/> Total Levy: \$779 million (2020)
ALASKA	Limited to oil and gas exploration and production; pipeline transportation property	\$125 million (2018)
KENTUCKY	ALL real property	\$294 million (2018)
WEST VIRGINIA	ALL real property	\$7 million (2018)

12 STATES TAX **ALL** REAL PROPERTY FOR DEDICATED STATE USES



FOR EDUCATION

- Alabama
- Kansas
- Michigan
- Montana
- North Dakota
- Vermont
- Washington
- Wyoming



FOR DEBT SERVICE

- Maryland
- Nevada
- New Mexico



FOR ASSISTANCE FOR THE BLIND

- Missouri

Other states not included in this list either do not tax real property or have another method of taxation in either personal property/fixtures and or real estate transfers that typically apply to ALL property types.

These findings are phase one of a multi-phased research project to show the competitive disadvantage Minnesota has with its State General Levy on commercial-industrial property.

Of the 16 states identified on the previous page that impose a statewide property tax, **MINNESOTA IS AN EGREGIOUS OUTLIER IN MULTIPLE WAYS:**



1. It is the only state to tax a specific property type: commercial-industrial property.
2. The effective tax rate from this is almost **3X** greater than the next closest state.
3. The funds are not to a dedicated purpose and instead go into the State's General Fund.
4. Even with eliminating the State General Levy, Minnesota's effective tax rate is above the national average.

HERE'S WHAT THE RESEARCH BY THE MINNESOTA CENTER FOR FISCAL EXCELLENCE FOUND:

STATES THAT HAVE A STATE-IMPOSED TAX ON REAL PROPERTY

RANKED BY HIGHEST EFFECTIVE TAX RATE	STATE	What Gets Taxed		This is what the state-imposed tax is adding to the commercial property tax bill paid by tenants.		
		ALL REAL PROPERTY TYPES	C/I & CABINS	REAL PROPERTY VALUE: \$500,000	REAL PROPERTY VALUE: \$5,000,000	REAL PROPERTY VALUE: \$25,000,000
1	MINNESOTA		☑ *	\$3,696 *	\$39,656	\$199,480
2	MICHIGAN*	☑		\$1,628	\$16,281	\$81,405
3	WASHINGTON*	☑		\$1,337	\$13,373	\$66,864
4	MONTANA*	☑		\$895	\$10,339	\$52,308
5	ALABAMA*	☑		\$782	\$7,820	\$39,098
6	WYOMING*	☑		\$684	\$6,840	\$34,200
7	KENTUCKY	☑		\$569	\$5,691	\$28,457
8	MARYLAND	☑		\$531	\$5,306	\$26,529
9	NEVADA*	☑		\$349	\$3,485	\$17,425
10	NEW MEXICO*	☑		\$251	\$2,510	\$12,549
11	KANSAS*	☑		\$197	\$1,974	\$9,872
12	VERMONT*	☑		\$170	\$1,701	\$8,507
13	MISSOURI	☑		\$55	\$546	\$2,730
14	WEST VIRGINIA	☑		\$29	\$293	\$1,463
15	NORTH DAKOTA*	☑		\$22	\$221	\$1,104

* Personal property - In 11 of these 15 states the state-imposed property tax includes personal property taxes associated with parcels and these are included in the calculations.

** Alaska is not listed due to their unique stature in only taxing oil and gas properties.



* Minnesota is the only state that exclusively taxes commercial-industrial property for general-purpose appropriate only.

* Minnesota's resulting effective tax rate on commercial-industrial property is more than double the next highest tax. It is five or more times higher than most states that also impose a general levy or tax on real property.

EXAMPLES OF THE REAL IMPACT TO MINNESOTA BUSINESSES FROM THE STATE GENERAL LEVY

CURRENTLY ON A COMMERCIAL PROPERTY VALUED AT \$500,000:



Minnesota's State General Levy adds \$3,696 on top of \$11,974 in commercial-industrial property taxes.

→ That's tacking 30% onto the property tax bill each year.



This results in Minnesota commercial-industrial property taxes of \$15,670, for an effective tax rate of 2.61%.

→ That is 37% higher than the U.S. average of \$11,421 for this size property.

→ The U.S. average effective tax rate is just 1.90% for this size property.

CURRENTLY ON A COMMERCIAL PROPERTY VALUED AT \$5,000,000:



Minnesota's State General Levy adds \$39,657 on top of \$133,960 in commercial-industrial property taxes.

→ That's tacking 30% onto the property tax bill each year.



This results in Minnesota commercial-industrial property taxes of \$173,617, for an effective tax rate of 2.89%.

→ That is 48% higher than the U.S. average of \$116,950 for this size property.

→ The U.S. average effective tax rate is 1.95% for this size property.

BY REMOVING THE STATE GENERAL LEVY:

- Minnesota commercial-industrial taxes would become \$11,974 instead of \$15,670, for an effective tax rate of 2.00%.
- Minnesota would still be higher than the U.S. average effective tax rate of 1.9% for this size property, but Minnesota business would become much more competitive to other states.

BY REMOVING THE STATE GENERAL LEVY:

- Minnesota commercial-industrial property taxes would instead become \$133,960 instead of \$173,617, for an effective tax rate of 2.23%.
- Minnesota would still be higher than the U.S. average effective tax rate of 1.95% for this size property, but Minnesota business would be much more competitive.

ABOUT THIS RESEARCH:

The research is based on a commercial building located in each state's largest city by population. The research is for taxes payable in 2019 and includes all 50 states. Minnesota property types taxed are commercial, industrial, and seasonal residential. Minnesota exempts the first \$100,000 in real property value.

View additional examples at www.naiopmn.org. The examples include for properties valued at \$100,000, \$500,000, \$1 million, \$5 million, and \$25 million.

Minnesota's State General Levy on a commercial-industrial property is initially paid by the owners of commercial real estate in Minnesota. However, the expense is incurred by Minnesota businesses in a commercial lease or with the taxes on an owned property.