MINNESOTA · REVENUE

Property Tax Inventory

Property Tax Research
11/17/2010

Introduction

Minnesota's property tax is a complex system. It provides preferences to various properties in many different ways: aid to jurisdictions to reduce their property tax reliance, reductions in taxable value through exemptions and exclusions, differential weighting of taxable value through multiple tax bases, reductions in final tax bills through credits, and refunds after taxes are paid.

This document was created for the Property Tax Working Group as it looks for opportunities to simplify the system. It is an attempt to catalogue all the components of the system that result in some properties being treated more favorably than others. This document is a work in progress and will be refined and updated as additional information is prepared.

This Property Tax Preferences Inventory is divided into four sections:

I. Levies and Aids
II. Tax Base Preferences
III. Tax Rate Preferences
IV. Tax Preferences

For Governments:

Property Tax Levy ÷ Tax Base = Tax Rate

Levies are impacted by:

Number and scope of *taxing authorities*

Service demands/mandates

Property Tax Aids and other Revenues

State-imposed *levy limitations*

Tax Bases are impacted by:

Exemptions

Exclusions

Special valuations/deferments

Tax base definitions/classification

Tax Rates are impacted by:

Disparity Reduction Aid

Special service areas

For Taxpayers:

Parcel Tax Base x Tax Rate = Parcel Tax Bill

Parcel **Taxes** are impacted by:

Credits

Senior Deferral Program

Refunds

Levies and Aids

Property Tax Levies are the amount of property taxes collected by governmental units. In 2010 Minnesota state and local governments collected approximately $8.2 billion in property taxes, or $1,550 per capita.

Most levies in 2010 are limited by state law. The state levy increases by inflation each year. School district levies are strictly limited by state laws. Counties and cities over 2,500 population have had levy limits in place for most of the past 40 years, although they are scheduled to expire for taxes payable in 2012. Most special taxing districts have limitations established in statute or session law.

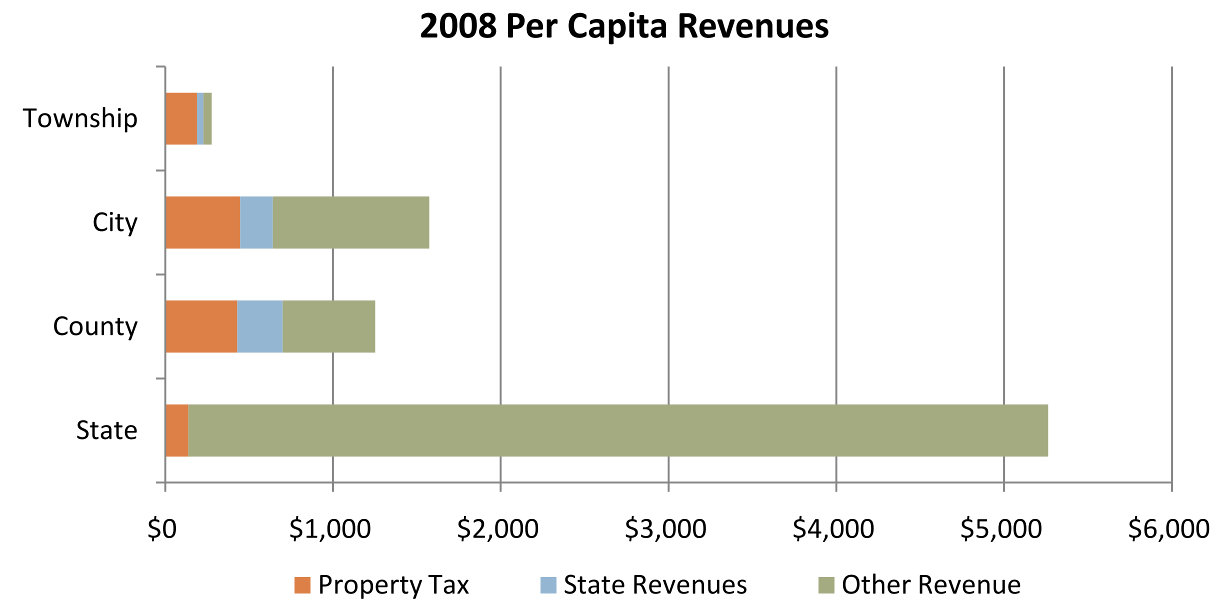
Levies by Authority	Number of units	2010 Levies	Levy per capita
State	1	$782	$147
County	87	$2,627	$496
City	854	$1,828	$422
Township	1,802	$211	$217
School District	336	$2,195	$414
Special Taxing District	242	$306	$58
Tax Increment Financing (TIF) District	2,006	$273	

Special taxing districts are a diverse mix of special-purpose taxing districts. The table below only includes districts that directly levied property taxes in 2010. Hundreds more districts exist that receive property tax revenues indirectly through another local government.

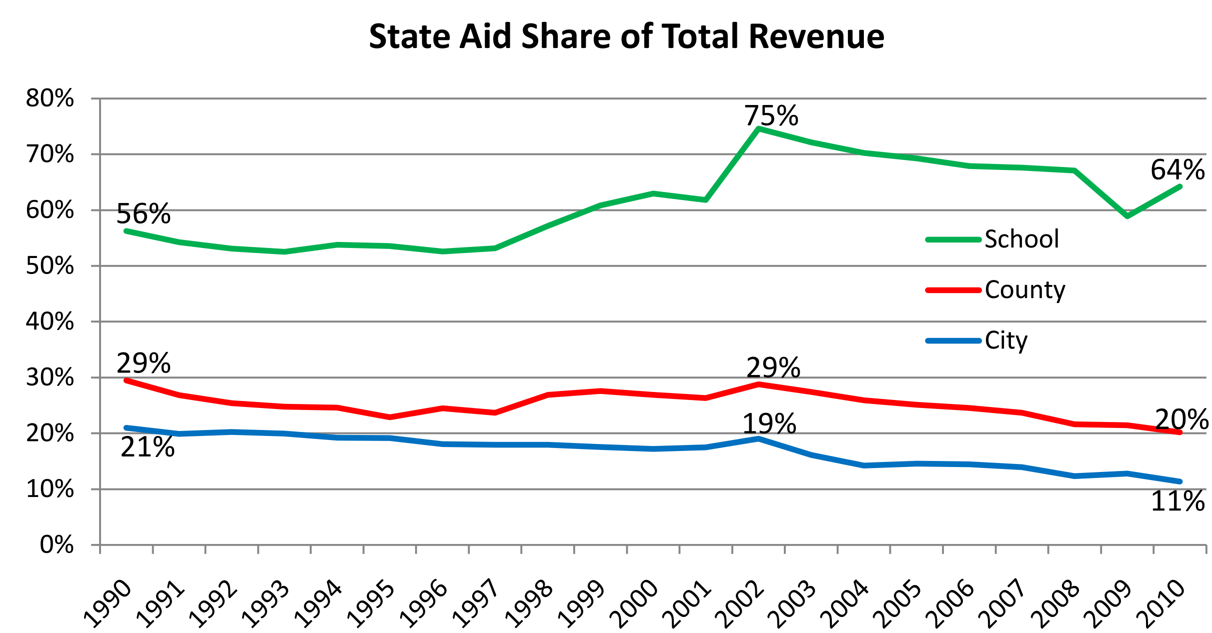
Special Districts by Type	2010 Levy	Count
Rail/Transit	89,070,135	15
HRA/EDA/Port Auth.	52,317,839	117
Met Council	50,405,774	3
Watershed/Water Mgmt	45,690,530	58
Suburban Hennepin County Parks	40,465,666	1
Hospital	6,761,840	14
Regional Development	3,071,598	11
Other	18,076,987	23
Total	305,860,369	242

Levies and Aids

Property taxes are a significant share of total revenues for local governments.



State aids supplement property taxes for local governments. In the past 20 years state aids have been steadily declining as a share of total revenues for cities and counties. For schools, state aids peaked at 75% of total revenues in 2002 and have been declining since then.



Levies and Aids

Program	Jurisdictions	2010 Certified (millions)	2010 Paid (millions)
City Local Government Aid (LGA)	City	536.7	426.4
County Program Aid	County	231.9	165.0
Casino Aid to Counties	County	0.75	
Performance Measurement Reimbursement	County, City	*Not yet in effect*	
Utility Valuation Transition Aid	City, Town	3.0	
PILT - DNR & DOT Lands	County	21.8	
Police Aid	Law enforcement agencies	57.0	
Fire Aid	Fire relief associations	22.5	
PERA Aid	Non-school local governments	14.4	
Pension Amortization aids	Various	6.0	

Tax Base Preferences: Exemptions

Exemptions

All real and personal property in the state is taxable except Native American lands and such other property as is by federal or state law exempt. Taxation is the rule and exemption is an exception, so all property is presumed taxable and the burden of proof is on the taxpayer to establish entitlement to the exemption. The basis of tax exemptions is the accomplishment of public purposes and not the favoring of particular persons or corporations at the expense of taxpayers generally. Ownership, use, and necessity of ownership are key elements in determining exemption.

It is important to note that property that is exempt from property tax is not exempt from special assessments. Special assessments are not taxes; they are fees for a service or improvement.

Type	# parcels	Value $ million	% total
Public Property (Federal, state and local)	119,020	27,252	43.4%
K-12 Schools	6,166	13,529	21.6%
Church Property	13,496	6,624	10.6%
Colleges & Universities	2,467	6,539	10.4%
Hospitals	1,130	3,768	6.0%
Charitable Institutions / Nonprofits	4,513	2,607	4.2%
Native American Lands	3,328	1,124	1.8%
JOBZ Property	151	493	0.8%
Other	15,140	791	1.2%
Total	165,411	62,727	100.0%

The Job Opportunity Building Zone (JOBZ) program provides qualified businesses exemptions from sales, income, and property taxes and a refundable jobs credit based on increased payroll. The property tax exemption applies only to improvements to real property, and personal property, that is classified as class 3 property (commercial/industrial). The land value and any improvements that do not qualify (because they may be excluded from the Zone in the business subsidy agreement or because they are not class 3 property) continue to be subject to all property taxes. In addition, the exemption does not apply to levies to pay general obligation bonds or to levies approved by voters prior to 2004 to pay school district operating costs.

Tax Base Preferences: Exclusions

Exclusions

Exclusions reduce the amount of taxable value of a property. Most beneficiaries of exclusions have a portion of their value taxable after the exclusion is applied.

Exclusions	# parcels	$ million	avg % excluded
This Old House	27,323	364	6%
Disabled Veterans	8,538	1,241	81%
Metro Vacant Land Plat Law	43,346	854	32%
Improvements to Certain Business Property	no data		
Homestead Property Damaged by Mold	no data		
Lead Hazard Properties	no data		

This Old House
This program allowed for certain improvements to older homestead property to be fully or partially excluded from the value assessed for property taxes. It was enacted in 1993 and was designed to provide owners of older homes with an incentive to renovate them so as to preserve and revitalize older neighborhoods. This program has expired for new entrants but continues in effect for existing participants until their exclusions expire and are fully phased-in. The exclusions run for ten years, unless sold or reclassified, and are phased-in over the following two or five years.

Disabled Veterans
The market value exclusion for disabled veterans contains two different levels of exclusions. Veterans with 70 to 100 percent service-connected disability are eligible for a market value exclusion of $150,000 on homestead property. Veterans with total (100 percent) and permanent service-connected disability are eligible for a market value exclusion of $300,000 on homestead property.

Metro Vacant Land Plat Law
The Metro Vacant Land Plat Law provides a property tax exclusion for vacant land platted on or after August 1, 2001 in a metropolitan county. The market value of bare land generally increases significantly when it is platted for development. This increases is phased in over three years under the law as long as the land is not transferred and not yet improved with a permanent structure.

Improvements to Certain Business Property
Two separate but similar market value exclusion provisions exclude the value associated with improvements for certain business property. The first set of these provisions was created in 1997 and is commonly dubbed “This Old Business” for its similarity to “This Old House” in that it provides an exclusion for improvements to older business properties. 1997 was also a year in which significant flooding occurred in several cities and these provisions were also made available to flood damaged business properties without any building age requirement. The second set of provisions came in

response to floods in 2002. While quite similar to the earlier provisions of subdivision 19, there are some differences, including the dropping of the “old” option.

Homestead Property Damaged by Mold

M.S. 273.11, subdivision 21, provides for a reduction in market value for homestead properties that have been damaged by mold. In order to receive this reduction, the owner of the homestead property must file an application to the assessor upon completion of the repair work. The estimated cost of the repairs must be at least $20,000. There is no maximum. When these requirements have been met, the county board must grant a reduction in the market value equal to the estimated cost of repairing the mold damage. If the county board denies the reduction, the denial may be appealed to the tax court.

Lead Hazard Properties

Owners of the certain residential properties are eligible for a reduction in market value due to a lead hazard. In order to qualify, the property must be located in a city that has authorized valuation reductions for this purpose. A city that authorizes reductions must establish guidelines for qualifying lead hazard reduction projects and must designate an agency within the city to issue certificates of completion of qualifying projects. The property owner must obtain a certificate from the agency stating that the project has been completed and that the total cost incurred by the owner was at least $3,000. The maximum amount of valuation reduction is $20,000. The project must have originated after July 1, 2005 and must be completed before July 1, 2010. The property owner must then apply to the county assessor and include a copy of the certificate of completion from the city agency.

The reduction is a one-year valuation reduction equal to actual costs.

Tax Base Preferences: Special Valuation / Deferments

Other tax base preferences

Four other provisions provide preferences that have the effect of reducing the amount of taxable value for qualifying properties.

Special Valuation/Deferments	# parcels	$ million	avg % deferred
Open Space property (golf, skiing, etc.)	646	668	70%
Green Acres Program	64,758	7,228	36%
Rural Preserve Program	*not yet in effect*		
Aggregate Resources Preservation Property Tax Law	*no participants*		

Open Space Property
The Minnesota Open Space Property Tax Law recognizes that development pressures for residential, commercial, or other uses can jeopardize the supply of private outdoor, recreational, open space, and park lands whose valuations have increased in excess of their open space uses. This law allows owners of open space property to apply for the deferment of the market value that exceed the open space use value, and its associated taxes. Properties leaving the program are required to pay back the last seven years of deferment.

Green Acres Program
The Green Acres Program was established in 1975 and provides for deferment of assessment and taxes payable on farmlands whose valuations reflect prices in excess of farmland values due to non-agricultural factors such as potential residential or commercial development or hunting land. The law is intended to protect agricultural land from development pressures. The law states that certain property owners, who are engaged in agricultural pursuits, can apply for deferment of higher valuations and associated taxes, including special assessments, and continue to have the property valued based upon its valuation for agricultural purposes. Properties that leave the Green Acres program are subject to payback of a portion of the deferred taxes.

Rural Preserve Program
The Rural Preserve Program (effective assessment year 2011) provides for deferment of assessment and taxes payable on predominantly class 2b rural vacant lands whose valuations reflect prices in excess of other rural vacant land values due to non-agricultural factors such as potential residential or commercial development or hunting land. Rural Preserve is designed to work in conjunction with the changes that were made to the Green Acres program in 2008 and 2009. Qualifying class 2b land that was previously enrolled in Green Acres may be enrolled in Rural Preserve by May 1st, 2013, without being subject to the payback of Green Acres deferred taxes.

Aggregate Resources Preservation Property Tax Law

The Aggregate Resource Preservation Property Tax Law (effective beginning assessment year 2009) provides deferment of assessment and taxes payable (much like Green Acres) for certain properties containing commercial aggregate deposits not being actively mined whose valuations reflect prices as if the land was being used for some other purpose other than agricultural use. The purpose of this law is to provide an incentive to property owners to remove any aggregate deposits from the land prior to development. The law states that certain property owners, who are engaged in aggregate mining, can apply for deferment of higher valuations and associated taxes, including special assessments, and continue to have the property valued based upon its valuation for agricultural purposes. To date this program has no participants and it is believed that most or all counties have opted out of the program.

Tax Base Preferences: Tax Bases

Minnesota's property tax system provides for several different tax bases. Which tax base is applied to a particular levy determines which properties pay the levy and what each property's share of the levy is.

Levy	2010 Amount	Base
Local government spread levies	$5,834 million	Net Tax Capacity (classification)
Referendum levies	$794 million	Referendum Market Value (excludes cabins and some farm land)
State General levy	$777 million	Only business and cabin property
Fiscal Disparities	$524 million	Business property in metro and iron range
Tax Increment Financing	$273 million	Properties in TIF districts, uses net tax capacity
Power Line	$0.1 million	10% of net tax capacity of high voltage lines

Local Government Spread Levies. These levies are the general levies certified by local governments as part of the local budgeting process, less any fiscal disparities levies received by the local governments. They represent more than 70 percent of all property tax levies. These levies are applied to Net Tax Capacity, which is discussed more below in the Classification section.

Referendum Levies. These levies are generally approved directly by voters. Most referendum levies are imposed by school districts. Most referendum levies are spread against referendum market value rather than net tax capacity, which means homesteads pay a greater share of each dollar than is the case with spread levies. Cabins and some farm land are exempt from paying referendum levies.

State General Levy. The state general levy is spread statewide. Ninety-five percent of the levy is paid by commercial and industrial property and five percent is paid by cabin property.

Fiscal Disparities. The fiscal disparities program is a complex system for the partial sharing of commercial-industrial property tax base among all jurisdictions within two geographic areas. The primary one was created in 1971 and operates in the seven counties of the Twin Cities metropolitan area and a second version was created in 1995 and operates on the Iron Range in northern Minnesota.

The legislature recognized that commercial-industrial growth tends to congregate around public infrastructure such as highways and airports that are paid for by taxpayers in the region and decided that all cities should share that growth, not just those cities that directly benefited from the placement of the infrastructure. The program also had the effect of equalizing tax rates throughout the region that, in turn, helped facilitate a regional approach to development.

Tax Base Preferences: Tax Bases

Tax Increment Financing. Tax increment financing (TIF) is a method of financing real estate development costs to promote development, redevelopment and housing in areas where it would not otherwise occur. TIF Authorities such as cities and various development authorities use TIF revenues to encourage developers to invest in new projects. These projects exclude from the general net tax capacity tax base the increases in market value of properties within the district. The taxes from the applying the local tax rates to the TIF tax base are used to construct buildings or other private improvements, clean polluted areas, redevelop areas that contain blight, or pay for public improvements such as streets, sidewalks, sewer and water, parking and similar improvements.

Power Line. Ten percent of the net tax capacity of electrical transmission lines over 200KV in organized townships and cities is excluded from the net tax capacity tax base. After local tax rates are determined, the taxes produced by applying the prevailing local tax rate to the excluded 10% of value is then used to finance the power line credit for cities and organized townships.

Sales Ratios. The department annually studies sales data to ensure that assessment levels are relatively uniform across jurisdictions statewide. These ratios are used to adjust tax bases to allocate school levies within each school district’s boundaries. They are also used for allocating state aids.

Tax Base Preferences: Tax Bases

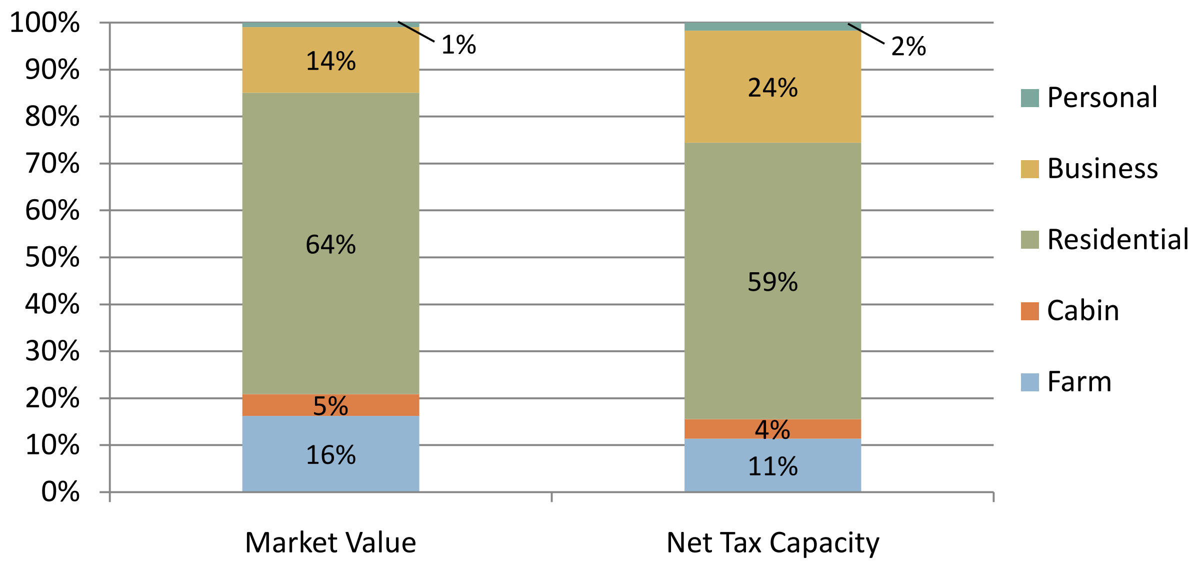
Classification

Classification is the most significant feature of Minnesota's property tax system. Classification provides for different classes of property to be taxed at different rates. Many states weight properties' values for tax purposes through classification. Minnesota's classification system is more complex than that of most states. Minnesota has 55 classifications and tiers that apply eight different class rates. The use and ownership of property determines its classification. Classifications have rates that determine a property's net tax capacity, which is the basis for most property taxes. See table on next page for a complete list of classifications.

The various classes of property can be aggregated to five broad categories:

Category	Class rates	Market Value	Net Tax Capacity
Farm	.45% to 1%	94,678,815,078	743,662,192
Cabin	1% to 1.25%	26,822,154,620	272,956,278
Residential	.45% to 1.25%	374,582,021,423	3,850,304,908
Business	.5% to 2%	81,614,838,704	1,565,708,423
Personal	1% to 2%	5,510,839,650	108,249,887
Total		583,208,669,475	6,540,881,688

By spreading most property taxes on the basis of net tax capacity instead of taxable market value, the incidence of taxes is shifted significantly:



Classification Rate Table for Assessment Year 2010

Class	Description	Tiers	Class Rate	State Rate
1a	**Residential Homestead**	First $500,000	1.00%	NA
		Over $500,000	1.25%	NA
1b	**Blind/Disabled Homestead**	First $50,000	0.45%	NA
1c	**Ma & Pa Resort**	First $600,000	0.50%	NA
		$600,000 - $2,300,000	1.00%	NA
		Over $2,300,000	1.25%	1.25%
1d	**Migrant Housing** (Structures Only)	First $500,000	1.00%	NA
		Over $500,000	1.25%	NA
2a	**Homestead House, Garage, One Acre (HGA)**	First $500,000	1.00%	NA
		Over $500,000	1.25%	NA
2a/2b	**1st Tier Homestead Property**	First $1,140,000 (2a+2b)	0.50%	NA
2a/2b	**Farming Entities Excess 1st Tier** (Unused From Hmstd)	Unused First $1,140,000	0.50%	NA
2a	**Agricultural Land** (Hmstd Remainder & Non-Hmstd; Includes Structures)		1.00%	NA
2b	**Rural Vacant Land** (Hmstd Rem. & Non-Hmstd; Incl. Minor Ancil. Structures)		1.00%	NA
2c	**Managed Forest Land**		0.65%	NA
2d	**Private Airport**		1.00%	NA
2e	**Land with a Commercial Aggregate Deposit**		1.00%	NA
3a	**Commercial/Industrial and Public Utility**	First $150,000	1.50%	1.50%
		Over $150,000	2.00%	2.00%
	Electric Generating Public Utility Machinery		2.00%	NA
	All Other Public Utility Machinery		2.00%	2.00%
	Transmission Line Right-Of-Way (Owned in fee by a utility)		2.00%	2.00%
3b	**Employment Property** (Border City Zones)	First $150,000	1.50%	1.50%
		Over $150,000	2.00%	2.00%
4a	**Apartment** (4+ Units, Including Private For-Profit Hospitals)		1.25%	NA
4b(1)	**Residential Non-Homestead** (1-3 Units Not 4bb or SRR)		1.25%	NA
4b(2)	**Unclassified Manufactured Home**		1.25%	NA
4b(3)	**Ag Non-Homestead** (2 or 3 Units, Garage, One Acre)		1.25%	NA
4b(4)	**Unimproved Residential**		1.25%	NA
4bb(1)	**Residential Non-Homestead** (Single Unit)	First $500,000	1.00%	NA
		Over $500,000	1.25%	NA
4bb(2)	**Ag Non-Homestead** (Single Unit, Garage, One Acre)	First $500,000	1.00%	NA
		Over $500,000	1.25%	NA
4c(1)	**Seasonal Residential Recreational (SRR)**			
	Commercial (Resort)	First $500,000	1.00%	1.00%
		Over $500,000	1.25%	1.25%
	Non-Commercial (Cabin)	First $76,000	1.00%	0.40%
		$76,000 - $500,000	1.00%	1.00%
		Over $500,000	1.25%	1.25%
4c(2)	**Qualifying Golf Course**		1.25%	NA
4c(3)(i)	**Non-Profit Comm. Service Oriented Organization (Non-Revenue)**		1.50%	NA
4c(3)(ii)	**Non-Profit Comm. Service Oriented Organization (Donations)**		1.50%	1.50%
4c(4)	**Post-Secondary Student Housing**		1.00%	NA
4c(5)(i)	**Manufactured Home Park**		1.25%	NA
4c(5)(ii)	**MH Park Cooperative (Over 50% Shareholder Occupied)**		0.75%	NA
4c(5)(ii)	**MH Park Cooperative (50% or Less Shareholder Occupied)**		1.00%	NA
4c(6)	**Metro Non-Profit Recreational Property**		1.25%	NA
4c(7)	**Certain Non-Comm Aircraft Hangars and Land: Leased Land**		1.50%	NA
4c(8)	**Certain Non-Comm Aircraft Hangars and Land: Private Land**		1.50%	NA
4c(9)	**Bed and Breakfast** (Up To 5 Units)		1.25%	NA
4c(10)	**Seasonal Restaurant on a Lake**		1.25%	NA
4c(11)	**Marina**	First $500,000	1.00%	NA
		Over $500,000	1.25%	NA
4d	**Qualifying Low-Income Rental Housing**		0.75%	NA
5(1)	**Unmined Iron Ore and Low-Grade Iron-Bearing Formations**	2.00%	2.00%	
5(2)	**All Other Property Not Otherwise Classified**		2.00%	NA

Tax Rate Preferences

Tax rate preferences apply different rates to parts of the same jurisdiction.

Disparity Reduction Aid

Disparity Reduction Aid (DRA)was created by the 1988 Legislature to provide relief for high tax rate areas as part of the conversion from mill rates and assessed values to net tax capacities. While initially paid to all qualifying local jurisdictions, the city amounts were cancelled (and shifted to LGA) beginning with aids paid in 1994. In addition, the amounts originally computed for special taxing districts were rolled into county DRA beginning with aids paid in 1995.

Disparity Reduction Aid is calculated and applied at unique taxing area level. This means different parts of the same jurisdiction may receive different amounts of DRA. After the initial tax rate is determined, DRA is applied to further reduce the rate to the properties within the unique taxing area. DRA amounts generally remain unchanged from year to year unless the total tax rate in a unique taxing area drops below 90 percent. In 2010 the state paid $18 million in DRA to local governments. About 15 percent of the state's unique taxing areas receive DRA.

Exception Rates

Occasionally there are exception rates in a taxing district, where some unique taxing areas may have a lower initial tax rate for a taxing jurisdiction than other unique taxing areas. One example of an exception rate is a rural/urban service district where a more rural part of a city that does not fully benefit from municipal services has a lower tax rate than the balance of the city. A second example is subordinate service districts which are a portion of a municipality that pays a higher rate and receives an increased level of municipal services.

Tax Preferences: Credits

Property Tax Credits reduce taxes owed before they are collected. A gross tax is determined for a property by multiplying a property's tax base times the local rate for all the applicable tax bases. Credits are applied to this gross tax, and the taxpayer receives a bill for net taxes.

The state (generally) reimburses local governments for the amount of credited property taxes. These credit reimbursements combine with property taxes collected to equal property tax levies.

Credit	# receiving	$(000)	$ avg.
Market Value Homestead Credit	1,417,268	278,581	197
Market Value Ag Land Credit	96,289	23,914	248
Power Line Credit	1,718	80	47
Disparity Reduction Credit	1,356	5,134	3,786
Disaster Credit	388	86	222
Local Option Disaster Credit	5	2	400
County Conservation Credit	1,530	199	130
Ag Preserves Credit	2,949	439	149
Taconite Homestead Credit	39,148	11,418	292
Supplemental (Taconite) Homestead Credit	18,930	5,215	275
Bovine Tuberculosis Credit	1,462	431	295

Residential Homestead Market Value Credit

As part of the 2001 property tax reform measures, a new homestead credit was enacted for agricultural and residential homesteads. This was done to lessen the fiscal impact of the classification rate changes for homesteads.

Residential and agricultural homesteads receive a benefit from the state-funded market value credit that is shown on their property tax statement as a subtraction from their property taxes. The residential homestead market value credit amount is equal to 0.4 percent of market value up to a maximum credit of $304, which occurs on a home valued at $76,000. The credit begins to decrease by 0.09% of each dollar over $76,000, but may never be less than $0. Homes valued above $414,000 do not receive the credit.

Local governments receive a state reimbursement for the reduction in property taxes due to residential and agricultural homestead market value credit. The reimbursement is paid out twice a year to local governments, once in October and once in December. During some budget shortfall periods, the state has not fully compensated local governments for the credit. However, the taxpayer still received the credit which showed as a reduction on their property tax statement.

Tax Preferences: Credits

Agricultural Market Value Credit

The agricultural credit is designed to reduce the tax on agricultural homestead land beyond the house, garage and immediately surrounding one acre of land (non-HGA). The home, garage, and immediately surrounding one acre of land would receive the residential homestead market value credit the same as it applies to other homestead properties

The agricultural homestead market value credit is a state funded credit that is shown on the property tax statement as a subtraction from their property taxes. Property in the 2a agricultural homestead classification is eligible for an agricultural credit. For agricultural homestead property with a taxable market value on the non-HGA property of $115,000 or less, the credit is equal to 0.3 percent of the taxable market value of the property. The maximum credit is limited to $345 and this amount is reached at $115,000. This credit decreases as the market value increases to $345,000. At $345,000 of agricultural land value or more, the credit is equal to $230.

Power Line Credit

The power line credit provides a credit for certain types of properties that have a high voltage transmission line of greater than 200kw capacity run over the property. The credit is funded by the power line levy.

Disparity Reduction Credit

Starting for taxes payable in 1989, the Disparity Reduction Credit reduces property taxes for commercial/industrial, public utility and apartment properties located in five designated border cities of Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville. This property tax credit does not apply to the debt service levy or school district taxes, other than the state equalized levies. The credit is an amount sufficient to reduce the property taxes to 2.3% of the qualified properties market value. The state reimburses those border cities for the reduction in property taxes.

Disaster Credit

Homestead property in a disaster or emergency area which is physically damaged is eligible for disaster credits.

Local Option Disaster Credit

Damaged property not eligible for the disaster credit is eligible for the local option disaster credit if the county opts to offer it. This credit is sometimes reimbursed by the state.

Ag Preserves Credit

The Metropolitan Agricultural Preserve Act was designed to encourage agricultural use retention on land specifically located in close proximity to the Minneapolis-St. Paul Metropolitan Area. The program was established in 1980 and the structure of the law is very similar to that of Green Acres in that the valuation is based solely on the land's agricultural use. However, lands entered into the Ag Preserve program are protected from substantial tax levy increases by limiting annual tax capacity rate increases to 105% of the average statewide levy. Agricultural lands are also protected from special assessments and eminent domain rights of local governments. Unlike Green Acres, Ag Preserve land is protected from repayment of any taxes or special assessments when terminating status under this law.

The eligibility requirements for Ag Preserve land are more restrictive than those of Green Acre agricultural lands. Unlike Green Acres, which allows eligibility statewide, Ag Preserve status is granted only to:

- Land located within the 7-county metropolitan area;
- Land that is at least 40 acres in size; and
- Land that is specifically zoned for long-term agricultural use by the planning board.

Although no penalty is imposed upon withdrawal of the land from this law, land owners are required to commit the property to provisions of the law for a minimum of 8 years. In addition, an 8-year termination notice is required before the land can be removed from Ag Preserve.

County Conservation Credit

Non-metro counties can to participate in similar agricultural land preservation in M.S. chapter 40A. However, from a property tax perspective, this program is significantly different from the Metropolitan Agricultural Preserve Act. Instead of the valuation and tax reduction approach, with a reimbursement credit, the non-metro preserve law provides for a simple County Conservation credit of $1.50 per acre (M.S. 273.119). Currently, we are only aware of three counties: Wright, Waseca, and Winona, which participate in this program. In order to participate in the program, a county must submit a proposed agricultural land preservation plan and a proposal for controls in implementing the plan to the Commissioner of Agriculture for approval.

Taconite Homestead Credit

The taconite homestead credit was created by the 1970 Legislature. This credit benefits homeowners on the Iron Range, where taconite production companies pay a production tax in lieu of certain property taxes. Homestead property located within a taconite tax relief area is eligible to receive the taconite homestead Credit. The credit is equal to either 57% or 66% of the tax depending on its location. The maximum amount of this credit is $289.80 for those receiving the 57% credit and $315.10 for those receiving the 66% credit. The credit is reimbursed from taconite production tax revenues.

Supplemental (Taconite) Homestead Credit

The supplemental (taconite) homestead credit was created by the 1980 Legislature. It provides credits that are equivalent to the regular taconite credits to certain areas that are outside the taconite relief area but face similar issues. The credit is equal to either 57% or 66% of the tax depending on its location. The maximum amount of this credit is $289.80 for those receiving the 57% credit and $315.10 for those receiving the 66% credit. The credit is reimbursed from the state general fund.

Bovine Tuberculosis Credit
Agricultural and rural vacant land located within a bovine tuberculosis modified accredited zone is eligible for a credit equal to the greater of $5 per acre on the first 160 acres of property where the herd was located, or $5 per acre times the highest number of animals tested in 2006, 2007, or 2008. The credit is paid in Roseau, Marshall, Beltrami, and Lake of the Woods Counties. The credit expires in the taxes payable year after the state is certified tuberculosis free by the Board of Animal Health.

Economic Development Abatements
Political subdivisions may 'abate' all or a portion of taxes to one or more parcels for economic development purposes. The abatement can work as a rebate or credit of property taxes to the taxpayer, or be used to pay bondholders for an improvement, or can be used to pay for public infrastructure costs.

Tax Preferences: Senior Deferral

The senior deferral program delays when a portion of a participant's taxes are paid. This program allows senior homeowners whose property taxes are high relative to their incomes to be able to defer a portion of their property taxes until some later time. The tax deferred is a loan that must be paid back when the property is sold, transferred, upon death or if property no longer qualified as a homestead. The tax deferral constitutes a lien on the property. The deferral amount is the property taxes that are greater than 3% of the participant's household income. The eligibility requirements for the program include the following: the homeowner must be 65 years or older (if married the other spouse must be older than 62); total household income must be $60,000 or less; and the home must have been owned and occupied as a homestead for at least 15 years.

273 homesteads currently participate. There was $838,000 of deferral in 2010, an average $3,000 per homestead.

Tax Preferences: Refunds

After the tax is paid, eligible recipients receive refunds for a portion of their property taxes

Refund	# claims	$ million	avg. refund
Property Tax Refund – Homeowner	404,700	$293	$725
Property Tax Refund – Renter	316,400	$187	$590
Property Tax Refund – Targeting	57,800	$7	$129
Forest Land Refunds (SFIA)	1,350	$7	$5,173

Homeowner's Property Tax Refund Program (PTR) is a state-paid refund providing property tax relief directly to homeowners whose property taxes are high relative to their incomes. The refund varies depending on the income and the property tax of the homeowner. The maximum refund is $2,350 and homeowners whose income exceeds $98,289 are not eligible (income threshold for refunds claims filed in 2010). The program uses household income which is a broad measure that includes most type of income.

Renter's Property Tax Refund Program is a state-paid refund providing tax relief directly to renters whose rent and "implicit" property taxes are high relative to their incomes. For ease of administration the portion of the rent assumed to be attributed to property taxes paid on the apartment is assumed to equal 19% of rent paid. Renters whose income exceeds $53,539 are not eligible for refunds (income threshold for refund claims filed in 2010). The program uses a broad measure of household income that includes most type of income. The maximum refund is $1,520. The refund will vary depending on the amount of rent and the amount of income.

Targeting Property Tax Refund Program is a state-paid refund providing property tax relief to homeowners who have large property tax increases from one year to the next. A homeowner qualifies if the property tax increase on their home has increased more than 12% over the previous year's tax and the increase is over $100. There is no maximum income limit for eligibility for this refund. The refund equals 60% of the increase over the greater of (1) 12% of the previous year's tax or (2) $100. The maximum refund is $1,000.

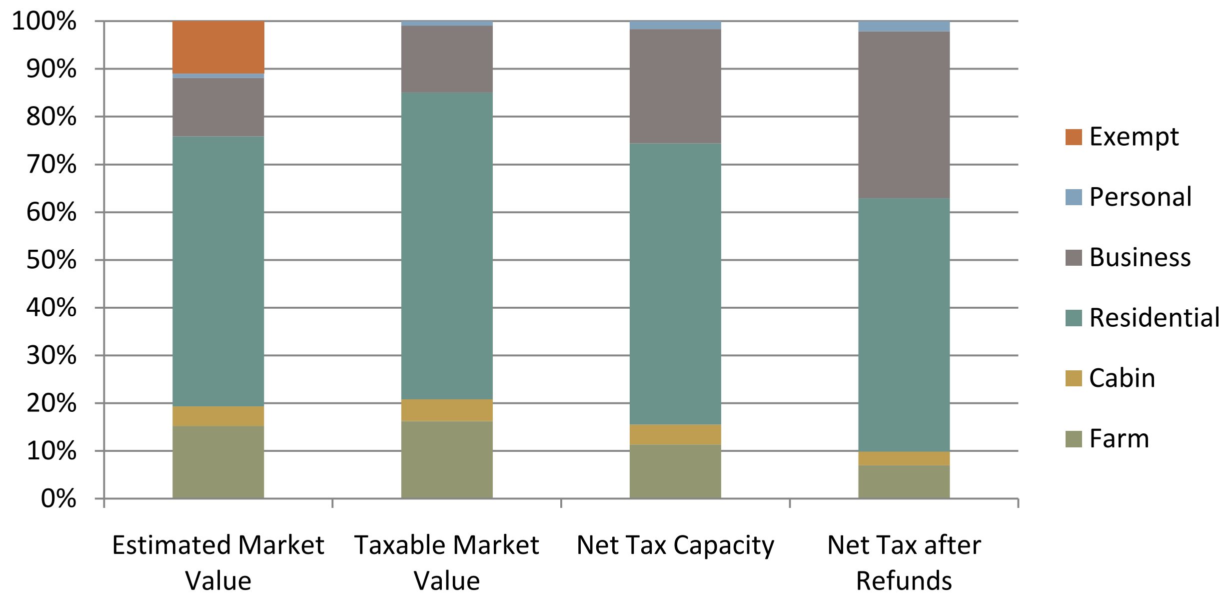
The Sustainable Forest Incentive Act (SFIA) was created in 2001 and allows annual payments to be made to enrolled owners of forested land as an incentive to practice long-term sustainable forest management. The participants must be enrolled for a minimum of 8 years and a covenant is recorded. The payment is calculated using 3 formulas based on the average property tax for timberland. The formula that provides the largest payment per acre will be used and the minimum incentive amount is $7.00 per acre.

To be enrolled in the program, a participant must meet all of the following requirements:

- Participants must own 20 or more contiguous acres of land in Minnesota, of which at least 50% is forested. Participants may be private individuals, corporations or partnerships, and can be either residents or nonresidents of Minnesota.
- There can be no delinquent property taxes owed on the land prior to enrolling and participants must stay current with their taxes while enrolled in the program.
- The land must have an active forest management plan in place that was prepared by an approved plan writer that is approved by the Department of Natural Resources. All management activities prescribed in the plan must meet the recommended timber harvesting and forest management guidelines created by the Minnesota Forest Resources Council. The land cannot be used for residential or agricultural purposes.
- Participants with more than 1,920 acres enrolled must allow year-round non-motorized access to fish and wildlife resources.

Property Tax Preferences: Estimated Market Value to Net Tax

Property tax preferences occur throughout the stages of the tax system, from valuation to net tax:



Estimated Market Value (EMV) = assessor's estimated value

EMV minus exemptions, exclusions, deferrals = Taxable Market Value (TMV)

TMV * classification = Net Tax Capacity (NTC)

NTC * local tax rate and state tax rate if applicable (and Referendum Market Value * Market Value rate); minus credits and refunds = Net Tax after refunds