Fiscal Analysis Department
Minnesota House of Representatives

Statewide General Property Tax – January 2013 Update

Background: The statewide general property tax on business (commercial/industrial) and seasonal residential recreational (resorts & cabins) property was enacted as part of the 2001 property tax reform. The amount of the initial statewide general levy was $592 million, beginning with taxes payable in calendar year 2002. Each subsequent year the amount of the levy is increased by the rate of increase in the price index for state and local government expenditures (the implicit price deflator) published by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

January 2013 Update: The November 2012 forecast projects statewide property tax revenues for FY 2012 at $799.3 million, and FY 2013 at $816.7 million making a FY 12-13 biennial total of $1.616 billion. When compared to August 2012 end-of-session estimates of $780.0 million for FY 2012 and $801.2 million for FY 2013, the new biennial figures are $34.9 million higher or about 2.2 percent more than previously anticipated, reflecting a decrease in property tax delinquencies and an uptick in the BEA's implicit price deflator. Revenue projections for the FY 2014-2015 biennium total $1.677 billion, up $24 million or 1.4 percent from August 2012 estimates of $1.653 billion.

Revenues and Fiscal Year Match-ups: The statewide general property tax is collected at the county level at the same time as local property taxes and is remitted to the state for deposit into the general fund semiannually, on June 5 and November 2. The collection of the tax occurs in the "taxes payable" year or calendar year, which is different than the state's fiscal year that runs from July 1 to June 30th. Accounting adjustments are necessary to track these revenues across state fiscal years, with slightly more than half of the tax collected prior to June 30th and the other half collected after July 1st. For example, tax receipts submitted in May 2012 will be counted among revenues for state fiscal year 2012. Tax receipts submitted in October 2012 will be counted among revenues for state fiscal year 2013. See the adjacent table for detail.

State General Property Tax Levy, FYs 2006 to 2015
($ in Millions)

Year Taxes Payable	Amount of levy	% Change	Fiscal Year	Total Revenues	% Change
2006	$655	4.63%	2007	$665.7	5.45%
2007	$693	5.83%	2008	$704.2	5.79%
2008	$729	5.21%	2009	$729.4	3.57%
2009	$774	6.10%	2010	$758.9	4.04%
2010	$782	1.03%	2011	$766.8	1.04%
2011	$800	2.35%	2012	$799.3	5.33%
2012	$821	2.63%	2013	$816.7	6.51%
2013	$844	2.84%	2014	$831.5	4.03%
2014	NA		2015*	$845.0	3.47%

* Dec 2012 Forecast estimate

Tax rate calculation: The state general property tax rate is determined by dividing the total amount of the levy by the total statewide tax capacity for commercial / industrial and seasonal recreational property.[i] A single rate existed for payable years 2002 to 2005. Beginning in 2006, the legislature provided for separate tax rates so that 95 percent of the levy would always be borne by commercial-industrial property and 5 percent would be borne by seasonal recreational property. The table below gives a ten-year summary of statewide property tax rates and their resulting revenues.

For taxes payable in 2013, the commercial industrial rate is 52.523 percent ($840.6 million x 95%) / ($1.527 billion) and the seasonal recreational rate is 22.327 percent ($840.6 million x 5%) / ($189.7 million). These tax rates were finalized by the Department of Revenue on December 30, 2012.

Historic Statewide Property Tax Rates										
	PAY 2004	PAY 2005	PAY 2006	PAY 2007	PAY 2008	PAY 2009	PAY 2010	PAY 2011	PAY 2012	PAY 2013
State General Levy Rate	54.109%	51.121%								
Commercial Industrial			50.827%	48.032%	45.949%	45.535%	45.881%	49.043%	51.100%	52.523%
Seasonal Residential Recreational			28.385%	24.225%	20.385%	18.214%	17.755%	19.145%	20.750%	22.327%
Revenues (in millions)	**$624.5**	**$629.3**	**$658.7**	**$696.3**	**$734.5**	**$776.6**	**$781.9**	**$800.3**	**$821.1**	**844.337**

Applying the tax rate to a specific property: Generally speaking, three factors are used to calculate a property's statewide general property tax:

taxable market value times ***class rate*** times ***statewide property tax rate***.

The *taxable market value* is the estimated market value minus any property tax exemptions, exclusions or other limitations. Each property in Minnesota is classified by property type and assigned one or more *class rates*, e.g. 1percent for homesteads up to $500,000 in value, 1.25 percent for market-rate apartments, 1.5 percent for commercial/industrial up to $150,000 in value. The taxable market value times the class rate (or rates) determines a property's tax base or its net tax capacity. The *property tax rate* is applied to the net tax capacity to yield the amount of tax to be paid.

To better understand this application, sample calculations for three hypothetical properties – a commercial property, a seasonal recreational commercial resort (4c), and a seasonal recreational residential property – are provided using payable year 2013 rates, as follows:

Calculation 1: Statewide Property Tax for a Hypothetical Commercial Property	
1. Determine the property's ***taxable market value***	$1,000,000
2. Determine the ***class rate*** based on property type Value up to $150,000 Value greater than $150,000	Commercial/Industrial: 1.5% Commercial/Industrial: 2.0%
3. Multiply taxable market value by class rate to obtain the ***net tax capacity (NTC)*** Value up to $150,000 Value greater than $150,000	$ 150,000 X 1.5% = $ 2,250 $ 850,000 X 2.0% = <u>$17,000</u> Total NTC = $19,250
4. Determine the ***statewide property tax rate***	Commercial/Industrial 52.503%
5. Multiply net tax capacity by statewide property tax rate to determine the ***gross tax***	$19,250 X 52.503% = $10,107

Calculation 2: Statewide Property Tax for a Hypothetical Seasonal Recreational – Commercial Resort (4c) Property	
1. Determine the property's ***taxable market value***	$600,000
2. Determine the ***class rate*** based on property type Value up to $500,000 Value greater than $500,000	 Seasonal/Recreational: 1.00% Seasonal/Recreational: 1.25%
3. Multiply taxable market value by class rate to obtain the ***net tax capacity (NTC)*** Value up to $500,000 Value greater than $500,000	 $500,000 X 1.00% = $5,000 $100,000 X 1.25% = $1,250 Total NTC = $6,250
4. Determine the ***statewide property tax rate***	Seasonal/Recreational: 22.301%
5. Multiply net tax capacity by statewide property tax rate to determine the ***gross tax***	$6,250 X 22.301% = $1,394

Calculation 3: Statewide Property Tax for a Hypothetical Seasonal Recreational – Residential Property	
1. Determine the property's ***taxable market value***	$150,000
2. Determine the ***class rate*** based on property type: Value up to $76,000 Value greater than $76,000	 Seasonal/Recreational: 0.4% Seasonal/Recreational: 1.0%
3. Multiply taxable market value by class rate to obtain the ***net tax capacity (NTC)*** Value up to $76,000 Value greater than $76,000	 $76,000 X 0.4% = $ 304 $74,000 X 1.0% = $ 740 Total NTC = $1,044
4. Determine the ***statewide property tax rate***	Seasonal/Recreational: 22.301%
5. Multiply net tax capacity by statewide property tax rate to determine the ***gross tax***	$1,044 X 22.301% = $233

Potential changes to the statewide general tax levy: If a change in the statewide general levy were to be considered, it would affect all taxable business and seasonal recreational property.

For more information, contact ***Katherine Schill*** *at* ***651/ 296-5384*** *or at* ***katherine.schill@house.mn.***

---

[i] For the purposes of the state general tax only, non-commercial seasonal residential recreational property has a class rate of .40% for the first $76,000 of market value.