Fiscal Analysis Department
Minnesota House of Representatives

Statewide General Property Tax – October 2017 Special Update

October 2017 Special Update:

The February 2017 forecast projected statewide property tax revenues for FY 2018 at $861.2 million, and FY 2019 at $881.0 million making a FY 2018-19 biennial total of $1.742 billion. However, Laws 2017, SS1, Chapter 1 modified these projections by

1) reducing the commercial/industrial portion of the tax levy by excluding the first $100,000 of market value from each commercial/industrial property for taxes payable in 2018 and beyond, and

2) freezing the tax levy at the payable 2018 level for taxes payable in 2019 and thereafter. Thus, for taxes payable in 2018 and thereafter, the levy for commercial-industrial property is set at $784.59 million and the levy for seasonal recreational property at $44.19 million, yielding total revenues of $828.78 million for each calendar year.

End-of-session 2017 fiscal year projections show revenues totaling $1.646 billion for the FY 2018-19 biennium, which is -$96.2 million or 5.5 percent lower than February 2017 forecast figures. The adjusted outlook for the FY 2020-21 biennium now totals $1.627 billion, which is - $196.0 million or 11.9 percent lower than February 2017 forecast planning estimates for that biennium.

Levy Background: The statewide general property tax on business (commercial/industrial) and seasonal residential recreational (resorts & cabins) property was enacted in Minnesota Statutes 275.025 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. In each subsequent year, the amount of the levy has been adjusted by an inflation factor, defined as 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. For taxes payable in 2017, the statewide general levy is $863.8 million.

For taxes payable in 2018 and beyond, the 2017 Tax Act sets each levy—$784.59 million for commercial-industrial property and $44.19 million for seasonal recreational property—to generate an annual total of $828.78 million. In future years, that revenue amount will not change because beginning with taxes payable in 2019, the inflation factor adjustment has been eliminated.

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

State General Property Tax Levy, FYs 2010 to 2019 ($ in Millions)					
Year Taxes Payable	**Amount of levy**	**% Change**	**Fiscal Year**	**Total Revenues**	**% Change**
2009	$774	6.10%	2010	$758.9	4.04%
2010	$779	0.68%	2011	$766.8	1.04%
2011	$795	2.06%	2012	$799.3	4.24%
2012	$817	2.82%	2013	$816.7	2.18%
2013	$841	2.83%	2014	$835.6	2.31%
2014	$844	0.46%	2015	$838.1	0.30%
2015	$854	1.17%	2016	$853.8	2.18%
2016	$857	0.29%	2017	$840.1	0.54%
2017	$863	0.67%	2018*	$830.9	-0.56%
2018	$829	-3.92%	2019*	$815.1	-2.74%

*** July 2017 End-of-Session General Fund Balance Analysis estimate**

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 2017 will be counted among revenues for state fiscal year 2017. Tax receipts submitted in October 2017 will be counted among revenues for state fiscal year 2018. See the above table for detail.

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 (C/I) and seasonal recreational (SR) property. A single rate existed for payable years 2002 to 2005. For taxes payable in 2006-2017, 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 2017 Tax Act eliminated the apportionment of the levy, and in its place established specific levy amounts ($784.59 million for C/I and $44.19 million for SR) beginning with taxes payable in 2018. Thus, for 2018, the commercial industrial rate is 45.000 percent ($784.59 million / ($1.66 billion in C/I net tax capacity) and the seasonal recreational rate is 21.000 percent ($44.19 million / ($210.42 million in SR net tax capacity). These preliminary tax rates were issued by the Department of Revenue on September 29, 2017.

The table below gives a ten-year summary of statewide property tax rates and their resulting revenues.

10-Year History of Statewide Property Tax Rates										
	PAY 2009	**PAY 2010**	**PAY 2011**	**PAY 2012**	**PAY 2013**	**PAY 2014**	**PAY 2015**	**PAY 2016**	**PAY 2017**	**PAY 2018**
State General Levy Rate										
Commercial Industrial	45.535%	45.881%	49.043%	51.100%	52.523%	52.160%	50.840%	48.641%	45.802%	45.000%
Seasonal Residential Recreational	18.214%	17.755%	19.145%	20.750%	22.327%	22.836%	21.703%	21.167%	20.845%	21.000%
Estimated Revenues (millions)	**$773.7**	**$779.0**	**$795.1**	**$817.4**	**$840.6**	**$844.4**	**$854.4**	**$856.8**	**$862.6**	**$828.8**

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. 1 percent 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 four hypothetical properties – two commercial properties, a seasonal recreational commercial resort (4c), and a seasonal recreational residential property – are provided using payable year 2018 rates, as follows:

CY 2018 Statewide Property Tax Sample Calculations
including New Market Value Exclusion (MVE) for CI Property

	Calculation 1: Statewide Property Tax for Hypothetical Commercial Property 1	CY 2017 No MVE	CY 2018 With MVE
1	Determine the property's ***taxable market value***		
	Market Value	$150,000	$150,000
	For Exclusion, 100% of market value up to $100,000	NA	-$100,000
1A	**Taxable Market Value**	**$150,000**	**$50,000**
2	Determine the ***class rate*** based on property type		
	Commercial/Industrial - Value up to $150,000	1.5%	1.5%
	Commercial/Industrial - Value greater than $150,000	2.0%	2.0%
3	Multiply taxable market value by class rate (1A * 2) to obtain ***Net Tax Capacity (NTC)***		
	$150,000 * 1.5% =	$2,250	
	($150,000 -$100,000 (exclusion) = $50,000) * 1.5%		$750
3A	**Total NTC**	**$2,250**	**$750**
4	Determine the **statewide property tax rate**		
	Commercial/Industrial, payable 2018	45%	45%
5	Determine the **gross tax:** Multiply net tax capacity by statewide property tax rate to (3A x 4)		
	$2,250 * 45% =	**$1,013**	
	$750 * 45% =		**$338**

Calculation 2: Statewide Property Tax for Hypothetical Commercial Property 2		CY 2017 No MVE	CY 2018 With MVE
1	Determine the property's ***taxable market value***		
	Market Value	$1,000,000	$1,000,000
	For Exclusion, 100% of market value up to $100,000	NA	-$100,000
1A	**Taxable Market Value**	**$1,000,000**	**$900,000**
2	Determine the ***class rate*** based on property type		
	Value up to $150,000	1.5%	1.5%
	Value greater than $150,000	2.0%	2.0%
3	Multiply taxable market value by class rate (1A * 2) to obtain ***Net Tax Capacity (NTC)***		
	$150,000 * 1.5% =	$2,250	
	($150,000 -$100,000 (exclusion) = $50,000) * 1.5%		$750
	$850,000 * 2.0% =	$17,000	$17,000
3A	**Total NTC**	**$19,250**	**$17,750**
4	Determine the **statewide property tax rate**		
	Commercial/Industrial, payable 2018	45%	45%
5	Determine the **gross tax:** Multiply net tax capacity by statewide property tax rate to (3A x 4)		
	$19,250 * 45% =	**$8,663**	
	$17,750 * 45% =		**$7,988**

Calculation 3: 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: 21.000%
5. Multiply net tax capacity by statewide property tax rate to determine the ***gross tax***	$6,250 X 21.000% = **$1,313**

Calculation 4: Statewide Property Tax for a Hypothetical Seasonal Recreational – Residential Property[i]	
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 up to and including $500,000	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: 21.000%
5. Multiply net tax capacity by statewide property tax rate to determine the ***gross tax***	$1,044 X 21.000% = **$220**

[1] For the purposes of the state general tax only, non-commercial seasonal residential recreational property has a class rate of 0.4% for the first $76,000 of market value.

Potential changes to the statewide general tax levy: Of the major changes to the statewide property tax imposed by Laws 2017, SS1, Chapter 1, removing the inflation factor remains as a major topic of debate. When compared to estimates in the February 2017 forecast, the estimated revenue reduction due to the upcoming levy freeze is $10 million in FY 2019 (reflecting a six-month impact) and $85 million in the FY 20-21 biennium. Unofficial extrapolations of the freeze's impact for ten years reveal a cumulative revenue reduction to the state general fund of over $1 billion by the end of FY 2026. Since the levy freeze is scheduled to begin with taxes payable 2019, there is yet time to analyze and discuss concerns during the 2018 legislative session.

If some measure of inflation were to be reconsidered and re-activated, taxable business or seasonal recreational property or both, would be affected.

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