Fiscal Analysis Department
Minnesota House of Representatives

Statewide General Property Tax – December 2018 Update

December 2018 Update:

The November 2018 forecast projects statewide property tax revenues for FY 2018 at $811.4 million, and FY 2019 at $807.7 million making a FY 2018-19 biennial total of $1.619 billion. When compared to June 2018 end-of-session revenue projections of $1.621 billion for the FY 2018-19 biennium, the new biennial figures are -$2.4 million or 0.1 percent lower than previously anticipated. The adjusted outlook for the FY 2020-21 biennium now totals $1.638 billion, which is $4.0 million or 0.2 percent higher than June 2018 EOS 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 through 2017, the amount of the levy was 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 was $863.8 million.

The 2017 Tax Act made two changes to the state general property tax levy. First, for commercial-industrial property only and for taxes payable in 2018 and beyond, the levy excludes the first $100,000 of market value from taxation. Second, beginning with taxes payable in 2018, the 2017 Tax Act set 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, plus any prior year corrections. In future years, that base levy amount will not change because beginning with taxes payable in 2019, the inflation adjustment and the apportionment requirement (95 percent commercial-industrial property and five percent seasonal recreational property) were 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 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 2019 will be counted among revenues for state fiscal year 2019. Tax receipts submitted in October 2019 will be counted among revenues for state fiscal year 2020. See the following table for detail.

State General Property Tax Levy, FYs 2012 to 2022 ($ in Millions)					
Year Taxes Payable	**Amount of levy**	**% Change**	**Fiscal Year**	**Total Revenues**	**% Change**
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	1.87%
2016	$857	0.29%	2017	$840.1	-1.60%
2017	$863	0.67%	2018	$811.4	-3.42%
2018	$829	-3.92%	2019*	$807.7	-0.46%
2019	$829	0.00%	2020*	$820.8	1.63%
2020	$829	0.00%	2021*	$817.2	-0.44%
2021	$829	0.00%	2022*	$817.2	-0.01%

*** Nov 2018 Forecast General Fund Balance Analysis 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 (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 2019, the commercial industrial rate is 41.0 percent ($784.59 million / ($1.91 billion in C/I net tax capacity) and the seasonal recreational rate is 20.0 percent ($44.19 million / ($220.95 million in SR net tax capacity). These preliminary tax rates were issued by the Department of Revenue on September 28, 2018.

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 2011	**PAY 2012**	**PAY 2013**	**PAY 2014**	**PAY 2015**	**PAY 2016**	**PAY 2017**	**PAY 2018**	**PAY 2019**	**PAY 2020**	**PAY 2021**
State General Levy Rate											
Commercial Industrial	49.043%	51.100%	52.523%	52.160%	50.840%	48.641%	45.802%	43.865%	41.000%	41.000%	41.000%
Seasonal Residential Recreational	19.145%	20.750%	22.327%	22.836%	21.703%	21.167%	20.845%	20.779%	20.000%	20.000%	20.000%
Estimated Revenues (millions)	**$795.1**	**$817.4**	**$840.6**	**$844.4**	**$854.4**	**$856.8**	**$862.6**	**$828.8**	**$828.8**	**$828.8**	**$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 2019 rates. The examples for commercial properties also make a comparison to payable year 2017, the year prior to the enactment of the market value exclusion of up to the first $100,000 in taxable market value.

CY 2019 Statewide Property Tax Sample Calculations
including Market Value Exclusion (MVE) Comparisons for C/I Property

	Calculation 1: Statewide Property Tax for Hypothetical Commercial Property 1	Pay 2017 No MVE	Pay 2019 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 2017	45%	
	Commercial/Industrial, payable 2019		41%
5	Determine the **gross tax:** Multiply net tax capacity by statewide property tax rate to (3A x 4)		
	CY 17 $2,250 * 45% =	**$1,013**	
	CY 19 $ 750 * 41% =		**$308**

	Calculation 2: Statewide Property Tax for Hypothetical Commercial Property 2	Pay 2017 No MVE	Pay 2019 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		
	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
	$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 2017	45%	
	Commercial/Industrial, payable 2019		41%
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 * 41% =		**$7,278**

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*** – Payable 2019	Seasonal/Recreational: 20%
5. Multiply net tax capacity by statewide property tax rate to determine the ***gross tax***	$6,250 x 20% = **$1,250**

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*** – Payable 2019	Seasonal/Recreational: 20%
5. Multiply net tax capacity by statewide property tax rate to determine the ***gross tax***	$1,044 x 20% = **$209**

[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 topic of debate. Fiscal year 2019 will reflect the first full-year period without an inflation adjustment. Unofficial extrapolations of the freeze's impact over ten years reveal a cumulative, state general fund revenue reduction of more than $1 billion by the end of FY 2026.

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