

Fiscal Analysis Department

Minnesota House of Representatives

Statewide General Property Tax – December 2021 Update

December 2021:

The November 2021 forecast projects statewide property tax revenues for FY 2022 at \$774.2 million, and FY 2023 at \$764.2 million making a FY 2022-23 biennial total of \$1.538 billion. When compared to August 2021 end-of-session revenue projections of \$1.531 billion for the FY 2022-23 biennium, the new biennial figures are \$7.7 million or 0.4 percent higher than previously anticipated. The adjusted outlook for the FY 2024-25 biennium now totals \$1.497 billion, a \$41.3 million drop from FY 22-23 but \$0.7 million more than expected in August 2021 EOS revenue 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 Legislature (1SS, CH 1) made two significant 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 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. These fixed levies eliminated the adjustment for inflation and the apportionment requirement (95 percent commercial-industrial property and five percent seasonal recreational property).

Recent Changes: In 2019, 1SS CH 6 reduced the state general levy by \$50 million, effective for taxes payable in 2020. The resulting levies are \$737.09 million for commercial industrial property and \$41.69 million for seasonal recreational property, producing an annual total of \$778.78 million. New language also provides an abatement from the state general levy for up to 12 years for qualifying personal property that is part of an intrastate natural gas or distribution pipeline system.

The 2021 omnibus tax act (1SS CH 14) includes an expansion of the exclusion for commercial-industrial property, from the first \$100,000 of market value to the first \$150,000 of market value, beginning with taxes payable in calendar year 2023.

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 2022 will be counted among revenues for state fiscal year 2022. Tax receipts submitted in October 2022 will be counted among revenues for state fiscal year 2023. See the following table for detail.

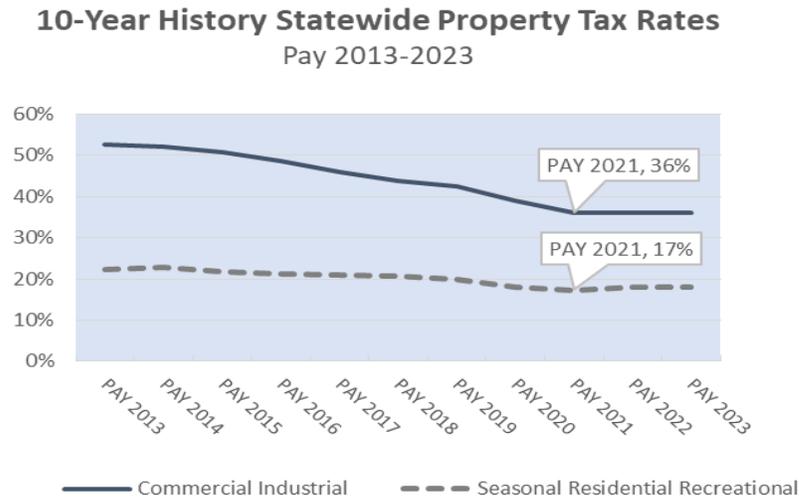
State General Property Tax Levy, FYs 2015 to 2025					
(\$ in Millions)					
Year Taxes Payable	Amount of levy	% Change	Fiscal Year	Total Revenues	% Change
2015	\$854	1.17%	2016	\$853.8	1.87%
2016	\$857	0.29%	2017	\$840.1	-1.60%
2017	\$863	0.67%	2018	\$811.4	-3.42%
2018	\$829	-3.92%	2019	\$807.7	-0.46%
2019	\$829	0.00%	2020	\$753.3	-6.73%
2020	\$779	-6.03%	2021	\$803.1	6.61%
2021	\$779	0.00%	2022*	\$774.2	-3.60%
2022	\$779	0.00%	2023*	\$764.2	-1.30%
2023	\$779	0.00%	2024*	\$748.5	-2.06%
2024	\$779	0.00%	2025*	\$748.6	0.02%
2025	\$779	0.00%			

* Nov 2021 General Fund Forecast - 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.

With changes in law from the 2017 and 2019 Tax Acts, current Pay 2021 levies are set at \$737.09 million for commercial industrial property and \$41.69 million for seasonal recreational property. Thus, for 2021, the commercial industrial rate is 35.978 percent (\$737.09 million / (\$2.049 billion in C/I net tax capacity) and the seasonal recreational rate is 17.306 percent (\$41.69 million / (\$240.90 million in SR net tax capacity). These certified tax rates were issued by the Department of Revenue on January 6, 2021. Note that these set levies closely retain the pre-2018 levy ratios: 94.6 percent borne by commercial-industrial property and 5.4 percent borne by seasonal recreational property.

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



10-Year History of Statewide Property Tax Rates											
	PAY 2013	PAY 2014	PAY 2015	PAY 2016	PAY 2017	PAY 2018	PAY 2019	PAY 2020	PAY 2021	PAY 2022	PAY 2023
State General Levy Rate											
Commercial Industrial	52.523%	52.160%	50.840%	48.641%	45.802%	43.865%	42.416%	38.845%	35.978%	36.000%	36.000%
Seasonal Residential Recreational	22.327%	22.836%	21.703%	21.167%	20.845%	20.779%	19.962%	17.997%	17.306%	18.000%	18.000%
Estimated Revenues (millions)	\$840.6	\$844.4	\$854.4	\$856.8	\$862.6	\$831.9	\$828.8	\$778.8	\$778.8	\$778.8	\$778.8

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 2021 rates. The examples for commercial properties also make comparisons 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) and to payable year 2023 (the year in which the exclusion increases, up to \$150,000 in taxable market value).

**Pay 2017, 2021, 2023 Statewide General Property Tax Levy Sample Calculations
including Market Value Exclusion (MVE) Comparisons for C/I Property¹**

Calculation 1: State General Levy for Hypothetical Commercial Property 1		Pay 2017 No MVE	Pay 2021 MVE = \$100K	Pay 2023 (estim.) MVE = \$150K
1	Property's taxable market value	\$200,000	\$200,000	\$200,000
2	Determine the class rate based on property type Commercial/Industrial -Value up to \$150,000 Commercial/Industrial -Value greater than \$150,000	1.5% 2.0%	1.5% 2.0%	1.5% 2.0%
3	Multiply taxable market value with market value exclusion \$150,000 * 1.5% = \$50,000 * 2.0% = (\$150,000 -\$100,000 exclusion) = \$50,000 * 1.5% \$50,000 * 2.0% = (\$150,000 -\$150,000 (exclusion)) = 0 * 1.5% (\$200,000 -\$150,000 exclusion) = \$50,000 * 2.0%	\$2,250 <u>\$1,000</u>	\$750 <u>\$1,000</u>	\$0 <u>\$1,000</u>
3A	Total State NTC	\$3,250	\$1,750	\$1,000
4	Determine the statewide property tax rate Commercial/Industrial, payable 2017 Commercial/Industrial, payable 2021 ² Commercial/Industrial, payable 2023 ^{3,4} (estim)	45.802%	35.987%	36.000%
5	Determine the gross tax : Multiply net tax capacity by statewide Pay 17 \$3,250 * 45.802% = Pay 21 ² \$1,750 * 35.987% = Pay 23 ^{3,4} \$1,000 * 36.000% (estim) =	\$1,489	\$630	\$360

Calculation 2: State General Levy for Hypothetical Commercial Property 2		Pay 2017 No MVE	Pay 2021 MVE = \$100K	Pay 2023 (estim.) MVE = \$150K
1	Property's taxable market value	\$1,000,000	\$1,000,000	\$1,000,000
2	Determine the class rate based on property type Commercial/Industrial -Value up to \$150,000 Commercial/Industrial -Value greater than \$150,000	1.5% 2.0%	1.5% 2.0%	1.5% 2.0%
3	Multiply taxable market value with market value exclusion \$150,000 * 1.5% = (\$150,000 -\$100,000 (exclusion)) = \$50,000 * 1.5% (\$150,000 -\$150,000 (exclusion)) = 0 * 1.5% \$850,000 * 2.0% =	\$2,250 <u>\$17,000</u>	\$750 <u>\$17,000</u>	\$0 <u>\$17,000</u>
3A	Total State NTC	\$19,250	\$17,750	\$17,000
4	Determine the statewide property tax rate Commercial/Industrial, payable 2017 Commercial/Industrial, payable 2021 ² Commercial/Industrial, payable 2023 ^{3,4} (estim)	45.802%	35.987%	36.000%
5	Determine the gross tax : Multiply net tax capacity by statewide Pay 17 \$19,250 * 45.802% = Pay 21 ² \$17,750 * 35.987% = Pay 23 ^{3,4} \$17,000 * 36.000% (estim) =	\$8,817	\$6,388	\$6,120

Notes: ¹ The Market Value Exclusion for commercial/industrial property is used only in the calculation of the Statewide General Property Tax levy; it does not apply to other net tax capacity levies on property, e.g. counties, cities, schools.

² Effective in Pay 2018, the calculation of the Statewide General Property Tax levy was changed: the annual inflation factor and the 95%/5% apportionment were removed, and the exclusion of up to \$100,000 in market value was enacted. All of these changes impacted the statewide property tax rate.

³ Effective in Pay 2020, the Statewide General Property Tax levy was reduced by \$47.5 million for commercial/industrial property and by \$2.5 million for seasonal recreational property. These changes impact the annual statewide property tax rate.

⁴ Effective in Pay 2023 (2021 SS1, CH 14), the exclusion of up to \$100,000 in market value will increase, up to \$150,000 in market value. This change will impact the annual statewide property tax rate.

Calculation 3: Statewide Property Tax for a Hypothetical Seasonal Recreational – Commercial Resort (4c) Property	
1. Determine the property's <i>taxable market value</i>	\$600,000
2. Determine the <i>class rate</i> 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 <i>net tax capacity (NTC)</i> Value up to \$500,000 Value greater than \$500,000	\$500,000 x 1.00% = \$5,000 \$100,000 x 1.25% = <u>\$1,250</u> Total NTC = \$6,250
4. Determine the <i>statewide property tax rate</i> – Payable 2021	Seasonal/Recreational: 17.306%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	\$6,250 x 20% = \$1,082

Calculation 4: Statewide Property Tax for a Hypothetical Seasonal Recreational – Residential Propertyⁱ	
1. Determine the property's <i>taxable market value</i>	\$150,000
2. Determine the <i>class rate</i> 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 <i>net tax capacity (NTC)</i> Value up to \$76,000 Value greater than \$76,000	\$76,000 x 0.4% = \$ 304 \$74,000 x 1.0% = <u>\$ 740</u> Total NTC = \$1,044
4. Determine the <i>statewide property tax rate</i> – Payable 2021	Seasonal/Recreational: 17.306%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	\$1,044 x 17.306% = \$186

ⁱ 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.

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