

Fiscal Analysis Department
Minnesota House of Representatives



Statewide General Property Tax – January 2017 Update

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. Each subsequent year the amount of the levy is adjusted 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. For taxes payable in 2017, the statewide general levy is \$ 863.8 million.

January 2017 Update: The November 2016 forecast projects statewide property tax revenues for FY 2018 at \$861.4 million, and FY 2019 at \$883.1 million making a FY 2018-19 biennial total of \$1.745 billion. When compared to June 2016 end-of-session estimates of \$857.1 million for FY 2018 and \$876.9 million for FY 2019, the new biennial figures are \$10.5 million higher or about 0.6 percent more than previously anticipated, reflecting a slight increase in property tax collections. Revenue projections for the FY 2020-21 biennium total \$1.833 billion, showing a 5.0 percent growth over these updated FY 2018-19 estimates.

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 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 adjacent table for detail.

State General Property Tax Levy, FYs 2010 to 2018					
(\$ 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	1.64%	2016	\$853.8	2.18%
2016	\$864	2.75%	2017	\$840.1	0.54%
2017	\$864	2.29%	2018*	\$861.4	2.78%

* Nov 2016 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 (C/I) and seasonal recreational (SR) property.ⁱ A single rate existed for payable years 2002 to 2005.

Beginning with taxes payable 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 2017, the commercial industrial rate is 45.802 percent (\$863.8 million x 95%) / (\$1.79 billion in C/I net tax capacity) and the seasonal recreational rate is 20.845 percent (\$863.7 million x 5%) / (\$209.6 million in SR net tax capacity). These tax rates were finalized by the Department of Revenue on December 30, 2016.

Historic Statewide Property Tax Rates										
	PAY 2008	PAY 2009	PAY 2010	PAY 2011	PAY 2012	PAY 2013	PAY 2014	PAY 2015	PAY 2016	PAY 2017
State General Levy Rate										
Commercial Industrial	45.949%	45.535%	45.881%	49.043%	51.100%	52.523%	52.160%	50.840%	48.641%	45.802%
Seasonal Residential										
Recreational	20.385%	18.214%	17.755%	19.145%	20.750%	22.327%	22.836%	21.703%	21.167%	20.845%
Estimated Revenues (millions)	\$734.5	\$776.6	\$781.9	\$800.3	\$821.1	\$844.3	\$848.8	\$856.5	\$863.7	\$863.8

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

$$\text{taxable market value} \times \text{class rate} \times \text{statewide property tax rate}.$$

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 three hypothetical properties – a commercial property, a seasonal recreational commercial resort (4c), and a seasonal recreational residential property – are provided using payable year 2017 rates, as follows:

Calculation 1: Statewide Property Tax for a Hypothetical Commercial Property	
1. Determine the property’s <i>taxable market value</i>	\$1,000,000
2. Determine the <i>class rate</i> 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 <i>net tax capacity (NTC)</i> 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 <i>statewide property tax rate</i>	Commercial/Industrial 45.802%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	\$19,250 X 45.802% = \$8,817

Calculation 2: 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>	Seasonal/Recreational: 20.845%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	\$6,250 X 20.845% = \$1,303

Calculation 3: 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>	Seasonal/Recreational: 20.845%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	\$1,044 X 20.845% = \$218

Potential changes to the statewide general tax levy: If a change in the statewide general levy were to be considered, it would affect 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.

Addendum: Statewide General Levy Parcel Analysis

State General Property Tax Levy 2015 Assessment by Parcel Type*			
Parcel Type	Number of Parcels by Sub-category	Number of Parcels by Category	% Total
Agricultural			
Seasonal Recreational		183,865	56.8%
Seasonal Recreational w/development	123,357		
Seasonal Recreational bare land	60,508		
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Non-Agricultural			
Commercial		110,462	34.1%
Commercial w/development	79,033		
Commercial bare land	31,429		
Industrial		19,655	6.1%
Industrial w/development	11,195		
Industrial bare land	8,460		
Public Utility		4,361	1.3%
Railroad		1,872	0.6%
Mineral		180	0.1%
Commercial Seasonal Recreational		<u>3,561</u>	<u>1.1%</u>
Total Parcels - State General Levy		323,956	100.0%

Note* Parcels vary greatly in size, thus these numbers reflect land-use only.

Source: MN Department of Revenue, Assessment 2015 Market Value by Parcel, May 3, 2016.

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