



From the Ground Up

Minnesota Property Tax



Overview

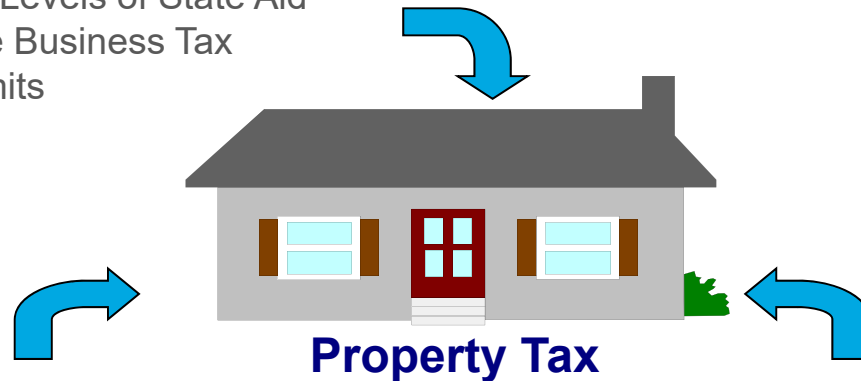
- Minnesota: one of the most complex property tax systems in U.S.
- Most local officials understand some aspects, but not complete picture
- No need to be an expert, just increase understanding



Who Determines Your Property Tax?

State Legislature

- Establishes Property Classes & Class Rates
- Determines Levels of State Aid
- Levies State Business Tax
- Sets levy limits



Taxing Jurisdictions

- Determines Levy Amount
(Overall budget and that portion to be raised through property taxes.)

County Assessor

- Determines Market Value
- Assigns Property Class



Assessment

County & Local Assessor's Role

- Determines Estimated Market Value (EMV) for each property
- Determines taxable status of each property
- Assigns classification



Assessment

Real vs. Personal Property

Types of Exempt Property



Assessment

Real vs. Personal Property

- Difference has to do with how delinquent taxes are collected
- Real Property
 - ✓ A lien against the property
 - ✓ And if not paid, the property is forfeited to the State.
- Personal Property
 - ✓ Judgement is taken against the entity
 - ✓ If taxes are not paid, a personal judgement is pursued



Assessment

Examples of personal property

- Property leased from a governmental entity
- Manufactured homes
- Railroad docks
- Improvements on federal and other exempt land
- Flight property
- Cell towers on exempt property



Assessment

Examples of exempt property

- Cemeteries
- Public hospitals
- Education institutions
- Church property
- Institutions of pure public charity
- Public property used exclusively for a public purpose

Exempt property is not subject to tax. A tax exemption is total exemption or freedom from tax granted to qualifying entities, education, charitable, religious, and other non-profit organizations.



Elements of Market Value

- Most probable price
- May be actual price
- Cash basis
- Reasonable time for marketplace exposure
- Considers use of property – present & potential
- Buyer and seller are:
 - ✓ Motivated by self-interest
 - ✓ Well-informed
 - ✓ Acting prudently
- Assumes open market, arm's length transaction



Estimated Market Value (EMV) vs. Taxable Market Value (TMV)

Difference between EMV set by assessor & taxable value (TMV)

Differences include:

- Deferments
 - ✓ Green Acres
 - ✓ Rural Preserve
 - ✓ Open Space
 - ✓ Aggregate Resource Preservation
- Platted Vacant Land
- Disabled Vet Exclusion
- Mold Damage and Lead Hazard
- Homestead Market Value Exclusion



Disabled Veterans' Homestead Exclusion

Up to \$300,000 in market value exclusion

- Veterans with permanent and total (100%) disability
- Surviving spouses and qualifying caregivers

Up to \$150,000 in market value exclusion

- Veterans with 70% or greater disability
- Qualifying caregivers



Homestead Market Value Exclusion

Applies to homestead property and house, garage and 1st acre of land for agricultural properties

First \$76,000 in EMV: 40% Excluded (Up to max. of \$30,400)

Over \$76,000 in EMV: Reduce maximum exclusion by 9%

Note: Exclusion eliminated for properties valued higher than \$413,800



Homestead Market Value Exclusion

Example: Homestead Property with EMV of \$200,000

\$76,000 x 40% = \$ 30,400 Maximum Exclusion

\$124,000 x 9% = (11,160) Reduction

Exclusion Amount = \$ 19,240

Estimated Market Value: \$200,000

Less: Exclusion (19,240)

Taxable Market Value: \$ 180,760



Assessment

Referendum Market Value (RMV)

- Used for determining market value based taxes
- Excludes:
 - ✓ Non-commercial cabins
 - ✓ Student housing
 - ✓ Agricultural property (except the house, garage and one acre value for ag homesteads)
- Market value for properties with class rates $<1\%$ adjusted down



Tax Court Petitions

Statutory Requirements (M.S. 278):

- Petition must be filed by April 30th of the year the taxes are due
- Income and expense information must be filed within 60 days of the filing deadline
- Taxes must be paid
 - ✓ Taxes that are due and payable for the year of the tax petition must be paid or the petition will be automatically dismissed.
 - ✓ If the petitioner pays the full first half of the taxes due, they may pay 80% of the second half and would be considered in compliance.



Tax Court Petitions

Minnesota Tax Court

	Regular Division	Small Claims
Conditions For Filing:	None	If: <ul style="list-style-type: none">• TMV < \$300,000• Entire parcel classified Residential Homestead with no more than one dwelling unit or• Appealing denial of Homestead classification
Filing Fee:	\$285 + county filing fees	\$150 + county filing fees



Tax Court Petitions

- **Sales Ratio Discrimination** has the greatest potential impact on any petition settlement. The Minnesota Department of Revenue (DOR) issues a report to the Tax Court on the nine-month ratio study for sales that occurred during the timeframe for which the property is under appeal. If the sales from the study indicate a ratio that ranges from 90% - 105% of the EMV, no relief is granted for sales ratio discrimination. There must be a minimum of six sales in the study to make it valid. If the sales ratio falls outside this range, a petitioner may be entitled to an additional reduction in EMV. The petitioner must have complied with the application process to have this considered.
- The ratio adjustment is to 95% of the EMV.



Tax Court Petitions

- The timing of petitions and the process applied in each county will effect the cash flow of the taxing jurisdictions
- The following is the process which is used by Ramsey County. Check with your County if tax court petitions are an issue in your jurisdiction



Tax Court Petition Process

Petition Filing Deadline is on or before April 30th

- ✓ Get and complete the required form and documentation
- ✓ Serve the papers to the Assessor's Office, County Attorney's Office, and District Court
- ✓ Trial scheduled in District Court (up to 1 year)
- ✓ Property Appraisal
 - Ramsey County Appraiser views property and reappraises property
 - Income producing property requires petitioner to provide income and expense documentation 60 days prior to filing deadline
 - Petitioner must provide trial appraisal information to County Attorney 5 days prior to trial
- ✓ Trial in Tax Court on scheduled date if no settlement is reached



Tax Court Petition Process

Post Petition Settlement

- ✓ If the petition is settled prior to Tax Court, the following is required to close the case:
 - Petitioner needs to notify the Tax Court regarding the settlement
 - Petitioner needs to send a letter confirming the settlement agreement
 - Determination if additional years' petitions need filing if petition was multi-year
 - Stipulation mailed to petitioner
 - Petitioner must return stipulation prior to any refund



Tax Court Petition Process

Tax Settlement Adjustment – Ramsey County Only

- ✓ Pending petitions withheld from December tax settlement to allow for future refunds
- ✓ Adjustment is reversed in the following May tax settlement
- ✓ If property is located within a Tax Increment Financing (TIF) District:
 - Refund will reduce TIF for year of petition
 - Doesn't matter if the TIF District has already been decertified
 - If the TIF District has a Pay-As-You-Go obligation, the reduction in TIF should be part of the calculation of the payment to the developer



State Role in Property Taxes

The State affects property taxes by:

- ✓ Determining who pays
- ✓ Setting “class rates,” definitions of tax capacity & referendum market value
- ✓ Setting levy limits
- ✓ Setting formulas for school aids & levies
- ✓ Paying state aids & credits
- ✓ Levying a state property tax
- ✓ Oversight & administration



Class Rates

- Class rates are varying percentages multiplied by the TMV to determine tax capacity
- Class rates set in state law (see Class Rate Chart PDF for current rates)
- Most taxes spread on tax capacity, differences in class rates leads to differences in taxes paid
- Properties may have more than one classification



Class Rates

Property Type		Taxes Payable in 2019	Taxes Payable in 2020
Residential	1 st \$500,000	1.00%	1.00%
	Over \$500,000	1.25%	1.25%
Commercial	1 st \$150,000	1.50%	1.50%
	Over \$150,000	2.00%	2.00%
Apartments (4 or more units)	All Taxable Value	1.25%	1.25%
Agricultural Homestead (Remainder)	1 st \$1,900,000 (less homestead value)	0.50%	
	Over \$1,900,000	1.00%	
	1 st \$1,880,000 (less homestead value)		0.50%
	Over \$1,880,000		1.00%



Class Rates: Calculate Net Tax Capacity

Residential Homestead Property with Taxable Market Value of \$200,000

STEP 1: CALCULATE THE TAXABLE MARKET VALUE AFTER EXCLUSION

		STEP 1			
Taxable Market Value Prior to Exclusion	40.00%	multiplied by	\$76,000	=	\$30,400
Less:	9.00%	multiplied by	124,000	=	(11,160)
Total Market Value Exclusion =					\$19,240
Total Taxable Market Value after Exclusion =					\$180,760

STEP 2: CALCULATE THE NET TAX CAPACITY

1.00% x first \$500,000 of Taxable Market Value after Exclusion	\$1,808
1.25% x Taxable Market Value after Exclusion in excess of \$500,000	0
Total Net Tax Capacity	\$1,808



Class Rates: Calculate Net Tax Capacity

Commercial Property with Taxable Market Value of \$1,000,000

STEP 1: CALCULATE THE NET TAX CAPACITY

1.5% x first \$150,000 of Estimated Market Value	\$2,250
2.0% x Estimated Market Value in excess of \$150,000	17,000
Total Net Tax Capacity	\$19,250

Homestead Agricultural Property with Taxable Market Value of \$200,000

STEP 1: CALCULATE THE NET TAX CAPACITY

0.5% x first \$2,050,000 of Taxable Market Value	\$1,000
Total Net Tax Capacity	\$1,000



State Imposed Levy Limits

- Levy limits on school districts every year since 1971
- Also imposed limits on cities, townships & counties
 - ✓ Based on prior year's levies, adjusted for inflation & population change
 - ✓ no levy limits in place for 2020
 - ✓ Could be reinstated in the future for counties, cities & towns



State Aids & Credits

State pays variety of aids and credits that affect property taxes

- State funds go to both individual taxing jurisdictions and directly to taxpayers
- Aid and credits are calculated / paid at four different stages in the property tax process
- All have some effect on who pays and how much they pay



State Aids & Credits

Before Levy Certification (funds directly to jurisdictions from State)

- Education Aids
- Local Government Aid
- County Program Aid
- Others

During Tax Rate Calculation

- Disparity Reduction Aid

- ✓ Cities and special taxing districts not eligible
- ✓ Funds sent directly to eligible counties and school districts from State



State Aids & Credits

After Tax Rate Calculation (funds sent directly to jurisdiction from State)

- Market value based homestead credits
- Disaster Credits

After taxes paid - Form M1-PR (funds sent to taxpayer from State)

- Minnesota Property Tax Refund
- Targeted Refund



State General Property Tax

Beginning in 2002, State General Property Tax on:

- ✓ Commercial/Industrial, public utility, and railroad operating property
- ✓ Seasonal resorts
- ✓ Seasonal recreational residential property (cabins)
- ✓ Qualifying non-profit community service oriented organizations
- ✓ Unmined iron ore property

A significant tax (\$828,780,000 state-wide; 5% applied to seasonal and 95% to C/I)



State General Property Tax

- State-wide C/I tax rate for Pay 2020 = 38.846%
- State-wide seasonal tax rate for Pay 2020 = 17.997%
- Reduced class rate on Cabins for first \$76,000
- Reduced class rate for commercial for first \$100,000
- Tax capacities are not reduced for tax increment or fiscal disparities
- Taxes are levied and collected by counties and paid to State



State General Property Tax

State General Property Tax Taxes Payable in 2020

Type of Property	Taxable Market Value	Estimated Annual Tax	Type of Property	Taxable Market Value	Estimated Annual Tax	Type of Property	Taxable Market Value	Estimated Annual Tax
Commercial / Industrial	\$ 100,000	\$ -	Seasonal Resorts	100,000	\$ 180	Seasonal Residential Recreational (Cabins)	40,000	\$ 29
	250,000	1,068		250,000	450		60,000	43
	500,000	3,011		500,000	900		80,000	62
	1,000,000	6,895		750,000	1,462		100,000	98
	5,000,000	37,972		1,000,000	2,025		150,000	188
	10,000,000	76,818					250,000	368
						500,000	818	



Taxing Jurisdictions:

Who Levies Property Taxes?

Property Taxes are levied by and paid to:

- Counties
- Cities and townships
- School districts
- State of Minnesota
- Various special taxing jurisdictions



Taxing Jurisdictions:

What is a Property Tax Levy?

- The amount of money requested by a governmental agency to be raised from property taxes
- Either tax capacity or referendum market value based

Note: See sample Tax Levy and Debt Levy Certifications in handouts



Taxing Jurisdictions:

High Level Tax Levy Timeline

Required Action	When
Bond Register & debt levies	Ongoing
Certify preliminary tax levies to county auditor	September 30 th
County sends proposed tax notices	Nov. 10 – Nov. 24
Truth in Taxation hearings	Nov. 29 – Dec. 20
Certify final tax levies to county auditor	Within 5 days of Dec. 20
Revenue certifies state general tax rate	By January 1 st



Determining Property Taxes

The County Auditor's Role:

- Determining tax bases
- Fiscal disparities
- Tax increment financing
- Calculating tax rates
- Calculating property taxes



Determining Property Taxes

Determining Tax Bases

Tax Bases:

- Local Tax Capacity based
- Market Value based – (Referendum market values)
- Fiscal Disparities
- Tax Increment Financing
- State General Tax
- Contamination Tax
- Power Transmission & Distribution Lines
- Agriculture Market Value Homestead Credit



Determining Property Taxes

Fiscal Disparities Tax Process

Contribution to the Pool:

- 40% of prior year's adjusted growth from 1971 base
- Area Wide rate determined by Total Seven County or Iron Range Distribution \$ / Contribution Value
- Determination of County aggregate contribution or gain
- Area Wide rate applied to individual parcels

Distribution from the Pool:

- Fiscal capacity basis of distribution
- Distribution value x prior year's tax rate = \$
- Levy reduced by Distribution \$



Determining Property Taxes

Fiscal Disparities Tax Process

Contribution to the Pool

County Auditor starts with the commercial/industrial value from the prior year.

Subtracts abatements and tax court adjustments

Calculates 40% of the growth from the 1971 base for each city

Certifies resulting contribution value to Administrative Auditor who combines the values for the seven county metro area to come up with the total pool value



Fiscal
Disparity
Pool

Distribution from the Pool

Commissioner of Revenue certified population and fiscal capacity for each city to the Administrative Auditor

Administrative Auditor determines Fiscal Disparity Distribution Value for each city and certifies the values to the County Auditor

The County Auditor allocates the distribution values to overlapping taxing districts such as school districts and watersheds.



Determining Property Taxes

What is Tax Increment Financing?

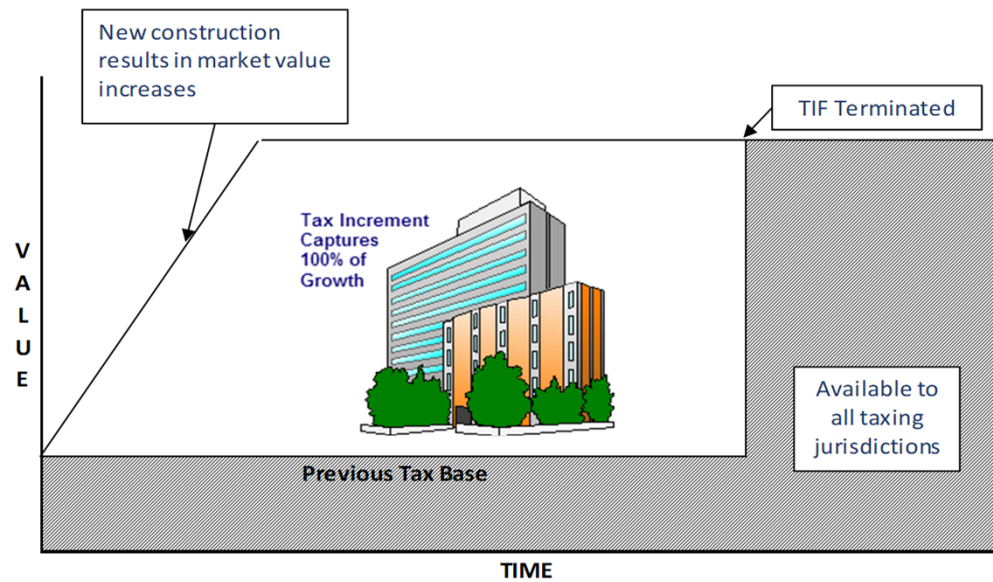
- Allows for property taxes generated by growth in market value of a project to be used to finance public costs
- Different types of tax increment financing (TIF) districts
 - ✓ Redevelopment, housing, soils conditions, economic & hazardous substance subdistricts
 - ✓ Each with their own set of criteria for creation, duration limits & legitimate tax increment expenditures
- The “But For” test requires city to determine a project could not have taken place “but for” public assistance
 - ✓ Determine if there is a gap in the financing
 - ✓ Determine appropriate level of assistance



Determining Property Taxes

How Does Tax Increment Work?

Illustration of TIF





Determining Property Taxes

Excess Tax Increment

Three types:

- Base Rate Excess
 - ✓ When the current local tax rate is greater than the original local tax rate
 - ✓ Difference is distributed between County, City, & School District
- Tax Increment returned to County for redistribution
 - ✓ Can happen for a variety of reasons
 - ✓ Distributed to County, City, & School District
- When tax increment generated exceeds costs authorized by TIF plan
 - ✓ Calculated on annual TIF reporting forms
 - ✓ May result in returning tax increment to County for redistribution



Determining Property Taxes

“Excess” Tax Increment

So what to you **DO** with it when you see it on your tax settlement?

“Excess” Tax Increment is **NOT** Tax Increment

If you see this on your tax settlement, you can put it in ANY fund
EXCEPT your Tax Increment Fund(s)



Determining Property Taxes

Tax Rate Theory

$$\text{Tax Rate} = \frac{\text{Funds to be raised by tax base (Tax Levy)}}{\text{Tax Base}}$$

- **Tax levy** = amount certified to the County Auditor by the taxing authority
- **Tax base** = the sum of the values determined for each parcel and is the total tax base of the governing body
- **Tax rate** = percentage applied to each individual parcel and generates the local funds
- **Total tax** = determined by tax rates for all governing bodies times the tax base(s) for that property. The total tax is the sum of those calculations



Determining Property Taxes

Tax Rate Calc – How It Really Works

The **Local Tax Rate** is a percentage determined by dividing the net tax levy by the net tax capacity available for the local rate. This percentage is multiplied by the net tax capacity for each individual property to determine its tax capacity based property tax.

$$\begin{array}{l} \text{Local} \\ \text{Tax} \\ \text{Rate} \end{array} = \frac{\text{Gross Tax Levy - Fiscal Disparity Distribution \$'s}}{\begin{array}{l} \text{(Tax Capacity of Real and Personal Property} \\ \text{- Captured Value of Tax Increment Districts} \\ \text{- Fiscal Disparity Contribution Value} \\ \text{- Powerline Value)} \end{array}}$$



Determining Property Taxes

Tax Rate Calc - How It Really Works

The **Market Tax Rate** is a percentage determined by dividing the market based tax levy by the total referendum market value. This percentage is multiplied by the referendum market value for each individual property to determine its market value based property tax.

- Existing debt referendums for cities
- New and existing referendums for school districts



Collecting Property Taxes

Tax Forfeited Lands

Timeline

- The tax forfeiture process occurs as the result of uncollected property taxes
 - ✓ Taxes go unpaid, become delinquent as of January 1 of following year
 - Taxes not paid in 2019 become delinquent in January 2020
 - ✓ After notification to the taxpayer, the District Court enters a judgement against the property. The unpaid taxes are a lien against the property, not a personal debt of the owner.
 - ✓ District court enters judgement in May of delinquent year



Collecting Property Taxes

Tax Forfeited Lands

Timeline (continued)

- The Judgement Date begins the period of redemption
 - ✓ Depending on ownership, use, and location of the property, the period of redemption is 1 or 3 years from the judgement date. Anytime during the period of redemption, if the taxes are paid, the forfeiture process ceases.
 - ✓ A property owner may enter into a Confession of Judgement which allows for payment of the delinquent taxes over a period of time, with interest



Collecting Property Taxes

Tax Forfeited Lands

Timeline (continued)

- After the Expiration of Redemption period, the land forfeits to the State
 - ✓ Delinquent property taxes and special assessments are cancelled
 - ✓ Determination is made whether the property should remain tax exempt for conservation
- Disposition of tax forfeited properties
 - ✓ Reconvey parcel to prior owner through repurchase agreement
 - ✓ Convey to political subdivision, free of charge, for public use
 - ✓ Sell to political subdivision to State agency for public purpose
 - ✓ Sell to adjacent property owner through private sale
 - ✓ Sell to third party at public auction
 - Property not sold at auction may be sold the day following an auction at the appraised price



Collecting Property Taxes

Tax Forfeited Lands

Settlement of land sale proceeds

- Net proceeds (after county forfeit costs) are distributed as follows:
 - ✓ 40% County
 - ✓ 40% School District
 - ✓ 20% City
- Cancelled special assessments can be reassessed which can include fees related to cancelling the assessment



Putting It All Together

Homestead Tax Calculation

Step 1: Calculate the Market Value Exclusion

40% of the 1st \$76,000 of EMV minus 9% of the EMV greater than \$76,000 (but not less than \$0)

EMV minus Market Value Exclusion equals TMV

Step 2: Calculate the net tax capacity

1% of the 1st \$500,000 of TMV plus 1.25% of TMV in excess of \$500,000

Step 3: Calculate the local tax

multiply the net tax capacity by the aggregate local tax rate.



Putting It All Together

Homestead Tax Calculation

Step 4: Calculate market tax

Multiply the referendum market value by the aggregate market value rate

Step 5: Determine special assessments and special service charges that apply to property

Step 6: Add net local and market taxes and special assessments and service charges



Putting It all Together

Commercial Tax Calculation (For Metro Counties)

- Step 1:** Calculate net tax capacity
1.5% of the 1st \$150,000 of TMV plus 2.0% of TMV in excess of \$150,000
- Step 2:** Calculate the fiscal disparity net tax capacity
fiscal disparity sharing factor for city times net tax capacity
- Step 3:** Calculate local net tax capacity
net tax capacity minus fiscal disparity net tax capacity
- Step 4:** Calculate the local tax
multiply the local net tax capacity by the aggregate local tax rate



Putting It all Together

Commercial Tax Calculation (For Metro Counties)

Step 5: Calculate the fiscal disparity tax

Multiply the fiscal disparity net tax capacity by the area-wide fiscal disparity tax rate

Step 6: Calculate the market tax

Multiply the referendum market value by the aggregate market value rate

Step 7: Calculate the state general tax

Multiply the total net tax capacity times the state business rate



Putting It all Together

Commercial Tax Calculation (For Metro Counties)

- Step 8:** Determine special assessments and special service charges that apply to parcel
- Step 9:** Add local, fiscal disparity, market, and state business taxes and special assessments and service charges



Your Presenters

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