



Issue Brief

Statewide General Property Tax – November 2007 Update

Background: The statewide general property tax on business (commercial/industrial) and seasonal residential recreational (resorts & cabins) property was enacted 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 increased by the rate of increase in the price index for state and local government expenditures published by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

November 2007 Update: The November 2007 Forecast projects statewide property tax revenues for FY2008 at \$702.5 million and for FY2009 at \$734.7 million, making a biennial total of \$1.438 billion. When compared to February 2007 Forecast estimates of \$691.1 million for FY 2008 and \$710.5 million for FY 2009, the new figures reflect a biennial revenue increase of \$35.5 million or about 2.5 percent more than previously anticipated. This increase is attributable to a 3.1 point increase in the 2007 price index published by the BEA, and higher price index adjustments in subsequent years.

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 remitted to the state for deposit into the general fund. 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 2008 will be counted among revenues for fiscal year 2008. Tax receipts submitted in October 2008 will be counted among revenues for fiscal year 2009. See table below for detail.

Year Taxes Payable	Amount of levy	Fiscal Year	Total Revenues	% Change
2003	\$595	2004	\$599.60	-
2004	\$615	2005	\$610.90	1.90%
2005	\$625	2006	\$631.30	3.30%
2006	\$655	2007	\$665.70	5.50%
2007	\$693	2008	\$702.50	5.50%
2008*	\$729	2009	\$734.70	4.90%

* Estimate only; current levy to be certified in January 2008

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 and seasonal recreational property.¹ A single rate existed for payable years 2002 to 2005. Beginning in 2006, the legislature provided for separate tax rates so that 95% of the levy would always be borne by commercial-industrial property and 5% would be borne by seasonal recreational property. The table below gives a seven-year summary of statewide property tax rates and their resulting revenues.

For taxes payable in 2007, the commercial industrial rate was 48.032 percent (\$661 million / \$1.376 billion) and the seasonal recreational rate was 24.225 percent (\$35.3 million / \$145.5 million). Tax rates for taxes payable in 2008 are not yet finalized, but are anticipated to be less than 46.0% for commercial industrial property and less than 21.0% for seasonal recreational property.

Historic Statewide Property Tax Rates							TNT Rates
	PAY 2002	PAY 2003	PAY 2004	PAY 2005	PAY 2006	PAY 2007	PAY 2008*
State General Levy Rate	57.933%	54.447%	53.937%	51.121%			
Commercial Industrial					50.827%	48.032%	46.000%
Seasonal Residential Recreational					28.385%	24.225%	21.000%
Revenues (in millions)	\$594.9	\$615.2	\$625.9	\$654.9	\$693.1	\$729.2	\$759.7

* denotes rate estimate used for PAY 2008 Truth-in-Taxation notices

Applying the tax rate to a specific property: Generally speaking, the amount of taxes to be paid for the statewide general property tax is the product of three factors:

taxable market value times *class rate* times *statewide property tax rate*.

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 2007 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 48.032%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	\$19,250 X 48.032% = \$9,247

¹ 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.

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	$\$500,000 \times 1.00\% = \$5,000$ $\$100,000 \times 1.25\% = \underline{\$1,250}$ Total NTC = <u>\$6,250</u>
4. Determine the <i>statewide property tax rate</i>	Seasonal/Recreational: 24.225%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	$\$6,250 \times 24.225\% = \$1,514$

Calculation 3: Statewide Property Tax for a Hypothetical Seasonal Recreational – Residential Property	
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	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	$\$76,000 \times 0.4\% = \$ 304$ $\$74,000 \times 1.0\% = \underline{\$ 740}$ Total NTC = \$1,044
4. Determine the <i>statewide property tax rate</i>	Seasonal/Recreational: 24.225%
5. Multiply net tax capacity by statewide property tax rate to determine the <i>gross tax</i>	$\$1,044 \times 24.225\% = \253

Potential changes to the statewide general tax levy: If a change in the statewide general levy were to be considered, it would affect all taxable business and seasonal recreational property. In the last two legislative sessions, there have been proposals to increase the statewide property tax in a manner that the increase is borne only by business property.

For more information, contact **Katherine Schill** at 651/296-5384 or at katherine.schill@house.mn.