

PROPERTY TAX

ISSUE

Now that significant property tax reform has been achieved, are other changes to the property tax system needed?

POLICY

Minnesota's property tax system should be based solely on the estimated market value of property and artificial mechanisms like the classification system and limited market value, among others, should be eliminated. Moving to a market value-based property tax system is PIM's long-term goal. In the short term, the Legislature should avoid system changes that increase business property tax burdens.

Protect the 2001 Reforms. PIM supports the 2001 property tax reform legislation and believes the Legislature should not modify the following aspects of it.

- **The classification system.** PIM opposes any change to the classification system that increases commercial/industrial (CI) properties' share of the tax burden. If the Legislature considers reducing the class rates for agricultural, cabin or homestead property – or changing the breakpoint between the tiers of homestead property – the class rates for CI property must be reduced proportionately.
- **The statewide property tax.** Under ideal circumstances, the property tax would be a purely local tax; however, since the statewide property tax exists, its impact should be minimized. PIM accordingly opposes increasing the base level of the statewide property tax, changing the structure of the tax from a fixed dollar amount that is annually adjusted for inflation to a fixed tax rate, and/or fixing the share of the statewide property tax that is paid by CI and utility properties.
- **Limited market value.** PIM supports the phase-out of limited market value and believes it should be implemented as scheduled.

BUSINESS IMPACT

The Legislature could erode all or a portion of the 2001 business property tax relief by increasing the statewide property tax, changing the classification system, or stopping the phase-out of limited market value. Every year since 2004, the Legislature has debated fixing the rate of the statewide property tax which would have resulted in a significant increase in CI and utility property taxes. The Legislature also considered stopping the phase-out of limited market value. This would have left in place a significant shift of property tax burden from homes, cabins and farms on to CI and apartment properties.

Despite the 2001 property tax reforms, business property tax burdens remain disproportionately high. According to the Minnesota Taxpayers Association's "Property Tax Effective Rates Payable 2007" business property's share of property taxes is 2.51 times greater than their market value statewide. Thus, while business property encompasses approximately 12 percent of all market value in the state, business property is responsible for more than 30 percent of all property taxes. Conversely, residential homestead property comprises approximately 57 percent of market value statewide, yet only accounts for approximately 49 percent of net property taxes.