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MINNESOTA PROPERTY TAX RELIEF PROGRAMS

This memorandum reviews operation of two Minnesota property tax relief programs that are known as the "homestead credit" and the "circuit breaker." Both programs have existed since 1967, and the Minnesota circuit breaker is the program most similar to North Dakota's homestead credit under North Dakota Century Code Section 57-02-08.1.

In the early 1960s Minnesota property taxes were ranked as the fourth highest among states in the nation. In 1967 Minnesota enacted a major shift in tax policy with legislation that established a 3 percent state sales tax to fund a homestead credit, which provided a direct payment equal to 25 percent of each resident property owner's property tax bill, up to \$250. Also introduced in 1967 was a new property tax refund circuit breaker program for renters and senior citizens.

During the 1970s the Minnesota Legislature continued to "buy down" local property taxes with state tax dollars through homestead credit reductions of property tax bills of residents. Per capita property taxes, adjusted for inflation, dropped during those years. Not surprisingly, state income taxes and sales taxes increased substantially to cover the property tax relief.

The homestead credit for taxpayers reached its maximum in 1988 at 54 percent of property taxes paid with a maximum payment per taxpayer of \$725. Further pressure to buy down property taxes resulted in frequent changes in the classification of property in Minnesota during the 1980s. Property classifications could be created with reduced tax valuations. There was a proliferation of new classifications. This allowed a reduction of property taxes of some taxpayers in special categories of property ownership without the need for additional state funds to provide homestead credit payments to local governments. This approach shifted tax burdens among taxpayers.

In the 1990s pressure grew to reduce the number of property classifications in Minnesota, to reduce the dependency of local governments on state funding, and to address comprehensive property tax reform.

The 1997 Minnesota Legislature enacted a 20 percent property tax rebate. This rebate was made available to resident homeowners and renters in an amount equal to 20 percent of homeowners property taxes and 3.6 percent of renters rent payments for the year. The rebate was made available only for a principal residence of a taxpayer. There was no maximum dollar amount on the rebate a homeowner or renter could receive. It was estimated that in fiscal years 1998 and 1999, resident Minnesota homeowners would receive approximately \$400 million in rebates and

renters would receive approximately \$100 million in rebates.

The previous homestead credit program has been transformed into the homestead and agricultural credit aid program and the education homestead credit. The homestead and agricultural credit aid program compensates local taxing jurisdictions for various classes of property for which class rates and tax capacities have been reduced. Without this program, lowering taxes on certain properties would shift taxes onto other properties and not result in net property tax relief. The education homestead credit was created in 1997 as part of property tax reform. This credit was calculated at 83 percent of the general education levy for resident taxpayers to a maximum of \$390 per homestead. The education homestead credit cost to the state was estimated at approximately \$400 million per year. In 2001 legislation was enacted to replace the education homestead credit with a new program, with a new estimated maximum benefit of \$1,500 per resident homeowner. This is to be accomplished by the state taking over funding for general property tax levies of school districts. This is to be funded by additional taxes on commercial, industrial, and recreational property.

Certain iron range communities are also eligible for the taconite homestead credit. These communities are provided state funding assistance to reduce local property tax bills to offset impact of the taconite industry.

Minnesota legislation in 2001 was intended to provide double-digit reductions in residential property tax bills. This will occur primarily because of reductions in school districts' levies estimated at nearly 58 percent, to be replaced with approximately \$900 million of state education spending. In addition, property classifications have been reduced and greater uniformity provided in valuation of property.

The 2001 legislative changes also increased the maximum homeowner property tax refund and maximum income eligibility for the refund. Effective for refunds based on taxes payable in 2002, the new maximum refund is projected at approximately \$1,500 and the new maximum income eligibility at approximately \$80,000. For renters, the maximums are estimated to be approximately \$42,000 of income and a maximum refund of \$1,200. Refunds for homeowners and renters are in graduated amounts based on income, which makes it very difficult to provide examples of approximate tax liability minus refund for property in Minnesota.

A person who is at least 65 years of age or a married couple, both of whom are at least 65 years of age, whose total annual household income is \$60,000

or less is entitled to a property tax deferral on the homestead. The property must have been owned and occupied as the homestead of at least one of the qualifying homeowners for at least 15 years, there must be no state or federal tax liens on the property, there must be no mortgages or other liens on the property which secure future advances, and the total unpaid balance of debts secured by mortgages or other liens on the property may not exceed 75 percent of the market value of the property. For qualifying homeowners, the state of Minnesota pays the property taxes on the property and

obtains a lien that is payable when the homeowners no longer reside on the property. An interesting aspect of this program is that property owners who elect this property tax deferral are ineligible to receive the property tax refund or Minnesota state lottery winnings until the amount advanced by the state of Minnesota on property taxes has been repaid. Any such amounts due to the property owners must be applied to the deferred tax payment.