Fourteen Reasons

WHY PROPERTY TAXES VARY FROM YEAR TO YEAR

1. THE MARKET VALUE OF A PROPERTY MAY CHANGE.

- Each parcel of property is assessed at least once every five years and a sales ratio study is done to determine if the property is assessed similarly to like properties. If not, the Commissioner of Revenue may issue an 'order' that would affect the taxable value of a parcel.
- Additions and improvement made to a property generally increases its market value.

2. THE MARKET VALUE OF OTHER PROPERTIES IN YOUR TAXING DISTRICT MAY CHANGE, SHIFTING TAXES FROM ONE PROPERTY TO ANOTHER.

- If the market value of a property increases more or less than the average increase or decrease in a taxing district, the taxes on that property will also change.
- New construction in a taxing district increases the tax base and will affect the district's tax rate.

3. THE STATE GENERAL PROPERTY TAX MAY CHANGE.

- The state legislature directly applies a State General Property Tax to commercial/industrial and season/recreational property classes.

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4. THE CITY BUDGET AND LEVY MAY CHANGE.

- Each year, cities review the needs and wants of their citizens and how to meet those needs and wants. This is called 'discretionary spending' in the city budget. Also included in the budget is non-discretionary spending which is required by state and federal mandates and court decisions and orders.

5. THE TOWNSHIP BUDGET AND LEVY MAY CHANGE.

- Each March, townships set the levy and budget for the next year.

6. THE COUNTY BUDGET AND LEVY MAY CHANGE.

- Each year, counties review the needs and wants of their citizens and how to meet those discretionary needs and wants. In addition, also included in the county budget is non-discretionary spending which is required by state and federal mandates and court decisions and orders. As much as sixty to eighty-five percent of the county expenditures are used to deliver mandated services.

7. THE SCHOOL DISTRICT'S BUDGET AND LEVY MAY CHANGE.

- The Legislature determines basic funding levels for K-12 education and mandates services that schools must perform. On average, approximately seventy percent of school costs are paid by the state.
- Local school districts set levies for purposes including safe school and community education, etc.

8. A SPECIAL DISTRICT'S BUDGET AND LEVY MAY CHANGE.

- Special districts such as the Metropolitan Council, hospital districts, watershed districts, drainage districts, etc. set levies to balance their budgets.

9. SPECIAL ASSESSMENTS MAY BE ADDED TO YOUR PROPERTY TAX BILL.

- Water lines, curb and gutter, and street improvements that directly benefit your property may be funded, in whole or in part, through a special assessment that is added to your tax bill.

10. VOTERS MAY HAVE APPROVED A SCHOOL, CITY/ TOWNSHIP, COUNTY, OR SPECIAL DISTRICT REFERENDUM.

- Local referendums may be held for local government construction projects, excess operating levies for schools or many other purposes.
- Referendum levies may be spread on the market value or the tax capacity of a property depending on process and type of referendum levy.

11. FEDERAL AND STATE MANDATES MAY HAVE CHANGED.

- Both the state and federal governments require local governments to provide certain services and follow certain rules. These mandates often require an increase in the cost and level of service delivery.

12. AID AND REVENUE FROM THE STATE AND FEDERAL GOVERNMENTS MAY HAVE CHANGED.

- Each year the state legislature reviews and adjusts the level of funding for a variety of aids provided to local governments including Local Government Aid and County Program Aid. The formulas for how aid is determined and distributed among local governments may have changed.
- While direct aid and revenue from the federal government to local governments has declined greatly in recent years, federal revenue continues to be a key portion of the local government revenue stream and that revenue stream may have changed.

13. THE STATE LEGISLATURE MAY HAVE CHANGED THE PORTION OF THE TAX BASE PAID BY DIFFERENT TYPES OF PROPERTIES.

- A change in class rates will require a change in the tax rate to raise the same amount of money.

14. OTHER STATE LAW CHANGES MAY ADJUST THE TAX BASE.

- Fiscal disparities, personal property taxes on utility properties, limited market value, and tax increment financing are example of laws that affect property taxes.

Glossary of Terms

CATEGORICAL AID: Aid given to a local unit of government to be used only for a specific purpose.

CIRCUIT BREAKER: See "Property Tax Refund."

CLASS RATES: The percent of market value set by state law that establishes the property's tax capacity subject to the property tax.

COUNTY PROGRAM AID: State property tax relief aid to counties, distributed with a formula based on needs (households on foodstamps, age of the population, number of serious crimes) and tax base equalization for counties with smaller tax bases.

EDUCATION AID: The total amount of state dollars paid for K-12 education. This aid is paid to the school districts.

FISCAL DISPARITIES: A program in the Twin Cities metropolitan area and on the iron range in which a portion of the commercial and industrial property value of each city and township is contributed to a tax base sharing pool. Each city and township then receives a distribution of property value from the pool based on market value and population in each city.

GENERAL PURPOSE AID: Aid given to units of government to be used at their own discretion. Examples are Local Government Aid and County Program Aid.

HIGHWAY AID: Motor fuels tax and license tab money the state distributes to counties, cities and townships for highways and bridges.

HOMESTEAD: A residence occupied by the owner.

INDIVIDUAL INCOME TAX: A state tax on the income of residents and non-residents with Minnesota sources of income that is deposited into the state general fund.

LEVY: The imposition of a tax, associated with the property tax.

LEVY LIMIT: The amount a local unit of government is permitted to levy for specific services under state law.

LIMITED MARKET VALUE: A state imposed limit on property value increases for the purpose of calculating property taxes.

LOCAL GOVERNMENT AID (LGA): A state government revenue sharing program for cities with low property wealth or high service burdens that is intended to provide an alternative to the property tax.

LOCAL SALES TAX: A local tax, authorized by the state, levied on the sale of goods and services to be used for specific purposes by the local government.

LOCAL TAX RATE: The tax rate usually expressed as a percentage of tax capacity, used to determine the property tax due on a property.

MARKET VALUE: An assessor's estimate of what property would be worth if it were sold.

MARKET VALUE AGRICULTURE CREDIT: A state credit to reduce the property tax paid by agricultural homesteads to the local taxing jurisdiction.

MARKET VALUE HOMESTEAD CREDIT: The Market Value Homestead Credit (MVHC) program was eliminated during the 2011 Special Session for taxes payable in 2012 and beyond. The credit was replaced with a market value exclusion. This guide describes the (MVHC) reimbursement program. The program was designed to provide state-paid property tax relief to owners of certain qualifying homestead property. This program has been replaced by the Market Value Homestead Exclusion (defined below).

MARKET VALUE HOMESTEAD EXCLUSION: The exclusion reduces the taxable value of qualifying homesteads. Despite the decreased taxable value, taxes will increase on most properties including apartments and businesses and is independent of any action taken by local governments. The exclusion provides for a portion of each home's market value to be excluded from its value for property tax calculations. The amount of value excluded is directly proportional to the MVHC the home received under the old law. In this way, each home contributes a smaller amount to each taxing jurisdiction's tax base. The tax rate tends to be a little higher because of the reduced tax base, which is why taxes increase for the other types of property. The tax burden on any given homestead could be lesser or greater depending upon the mix of properties in the jurisdiction and the level of the tax rate.

PROPERTY TAX: A tax levied on any kind of property.

PROPERTY TAX REFUND: A partial property tax refund program for those who have property taxes out of proportion with their income. This program is available to homeowners and renters.

SALES RATIO STUDY: A study conducted by the Department of Revenue of open market property sales, which is then compared to local assessments to ensure that local assessments adequately reflect the market.

STATE GENERAL PROPERTY TAX: A state-imposed property tax on commercial, industrial, and seasonal recreational properties.

STATE SALES TAX: A state tax (6.5%) levied on the sale of goods and services that is deposited into the state general fund.

TAX CAPACITY: The valuation of property based on market value and class rates, on which property taxes are determined.

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