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## Your property-tax calculation is here

Article by: JIM MULDER Updated: January 14, 2012 - 5:04 PM

There are at least 14 reasons why the property taxes on my home change each year. They contribute to the fact that Minnesota is considered to have the most complex property tax system in the United States.



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A number of years ago, the value of my home went up and my property taxes went down. A few years later, the value went up again and the taxes also rose. This year, my home value is down thousands of dollars, but my taxes went up \$200.

A cynic might say that property taxes are "perfect." They are formulated by politicians, enacted by government bodies, implemented by bureaucrats -- and minimally understood by accountants and lawyers.

A citizen has a better chance of hitting a trifecta at the track than of understanding property taxes. Energy and effort have been put into property tax *hows*, *whys* and *who pays* by economists and public-policy analysts.

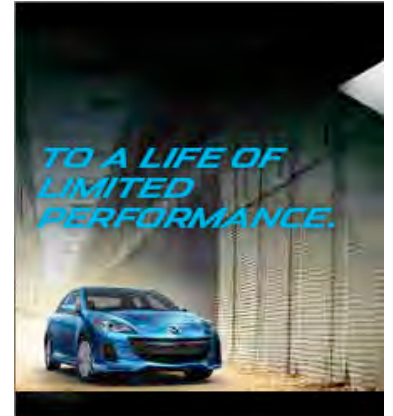
State legislatures employ staff whose primary responsibility is to understand tax systems and their relationships to one another, and to devise improvements. State tax research departments and independent groups create in-depth reports ranking cities, counties and states regarding taxes paid.

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With all the energy and information available, shouldn't it be easier to understand the who, what and why of property taxes?

In 2008, the [Association of Minnesota Counties](#) and [League of Minnesota Cities](#) produced a video and a four-page handout to help explain why property taxes go up or down in any particular year -- and "who" should be held accountable for those changes.

It is titled "[Fourteen Reasons Why Property Taxes Vary From Year to Year.](#)"

Yes, that's right: There are at least 14 reasons why the property taxes on my home change each year.

Some of these reasons I understand -- for example, the value of my house changes. The county assessor comes to my house at least once every five years to view my property and determine its value by comparing it to sales of similar properties.

The goal of the assessor is to come within 95 and 105 percent of its market value. It's a tough job right now, when the value of homes has fallen so quickly during the housing bust.

The changing values of other properties also affects how large or small my property tax bill will be. That's because the tax rate changes as the tax base grows or shrinks.

Of course, the revenues needed to operate my county, schools, city or town and special taxing districts also change from year to year. I may think that the city is paying too much for recreation services, or that the county is spending too much on libraries.

My preference may be to have them spend more on the growing pothole down the street.

I'd better be careful, though. The city might put a special assessment on my house to pay for street improvements, or voters may have approved a school, city/township, county or special district referendum -- two more reasons for a tax bill change.

Local elected officials are responsible for these changes in local spending. But looking at the 14 reasons, you will find that the Legislature plays a huge role in the size of my property tax bill.

The state sends local government aid to cities and county program aid to counties. Some cities and counties get a lot of this aid, some not so much and some none at all.

This year the state approved a tax bill that eliminated something called the "market value homestead credit" and replaced it with something called the "market value homestead exclusion."

While that doesn't seem to be too significant, the change allowed the state to reduce property tax relief payments by more than \$200 million.

Besides sending or not sending money to local governments for property tax relief, the Legislature is responsible for determining class rates for different kinds of property, for mandating services local units of government must provide, and for passing other laws that have a direct impact on the property tax bill that I pay each year.

This is why we end up with 14 reasons for property taxes to go up or down.

The 14 reasons contribute to the fact that Minnesota is considered to have the most complex property tax system in the United States. While most states have fewer than 10 property classifications, Minnesota has nearly 40.

Certainly we can do better.

Of the three most important taxes -- income, sales and property (the

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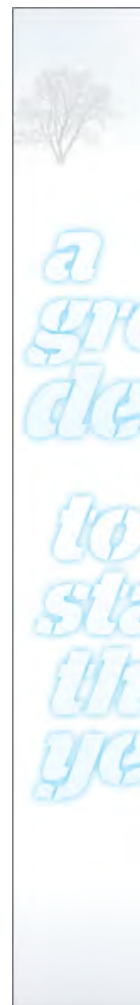


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proverbial three-legged stool of taxation) -- the property tax is the oldest, going back to the formation of the Minnesota Territory and statehood.

All property, both personal and real, whether furniture, cows, horses, homes, farms, businesses, etc, was originally subject to the property tax. It was the primary revenue source for both the state and local governments until passage of a gas tax in the 1920s and enactment of a state income tax in 1933.

By the middle of the 20th century, the property tax had become the primary funding source for cities, counties, towns and public schools as state government shifted to a reliance on income taxes. Since that time, state legislatures, on almost a yearly basis, have tinkered with pieces of the property tax system.

A major tax reform in the 1970s (the "Minnesota Miracle") added sales taxes to the tax mix. In the early 2000s, the state adopted broad tax reforms to reduce the reliance of local governments on the property tax.

Included in those reforms was a renewed state property tax on commercial and seasonal/recreational properties.

Since 2001, total property taxes collected in the state have increased by nearly 75 percent. School property taxes have increased by 120 percent, city property taxes by about 90 percent and county property taxes by 67 percent.

Those school tax increases have been driven by passage of operating levy referendums. Of Minnesota's 337 school districts, 295 have persuaded voters to approve levies that increase property taxes by a total of more than \$750 million. In 2002, the state share of education funding was over 85 percent.

Today, that percentage is slightly more than 75 percent.

Meanwhile, during that same 2001-2011 period, income tax collections have increased by less than 50 percent, and the total increase in sales tax collections was about 16 percent.

The same conditions that drove tax reform in the past exist today. Fundamentally, the state has become too reliant on the property tax to fund government services.

While Minnesota's entire tax system needs to be redesigned, property tax reform begins with a focus on what property taxes should pay for:

- **First, the state should maintain its commitment to fund K-12 education to at least 80 percent.** That would reduce the need for school districts to pass levies by referendum, and property taxes could be reduced by nearly \$400 million.
- **Second, the requirement that cities and counties pay sales taxes should be repealed.** It is estimated that cities and counties pay about \$150 million in sales taxes. This is money raised from the property tax, which in turn is used by the state to send property tax relief to cities and counties. Let's cut out the middle man.
- **Third, county social services that are paid for with property tax dollars should be funded by the state.** There is no nexus between property and out-of-home placements, mental health services and other similar social-service programs. It is appropriate for state revenues to pay for those health and social services that are required to be uniform across the state. Access to those services should not be limited to communities that have higher property wealth. In fact, there is some evidence that there is a higher demand for many social services in poorer communities.
- **Fourth, repeal the state imposed property tax on commercial and seasonal/recreational properties.** The property tax should be reserved for local governments and not used by the state. It also creates a noncompetitive environment for businesses.

• **Finally, rethink the use of local government aid to cities and county program aid to counties.** A commonly held belief by those who have studied government aid programs is that they are as effective as throwing money out of an airplane at 50,000 feet. Instead, use those resources for income-sensitive programs that give relief to people who actually pay high property taxes relative to their incomes. The side benefit of this approach is a more progressive property tax.

• • •

Minnesota's leaders can redesign and build a better property tax system. One that doesn't have 14 reasons for the property taxes on my home to go up and down.

\* \* \*

*Jim Mulder is the retired executive director of the Association of Minnesota Counties, and was the Independence Party's candidate for lieutenant governor in 2010.*

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