

PART VI
FINANCE, BUDGETING, AND DEBT

CHAPTER 22: PROPERTY TAX LEVY

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1. Property tax levy

Once the board has identified anticipated county revenues and expenses, it can develop a budget. The fundamental premise in implementing a budget is to have total anticipated expenditures balance with total anticipated revenues.

Counties in Minnesota generally have only one source for tax revenue—the property tax. In 2006, other tax sources accounted for less than 2 percent of total tax revenue. Therefore, money not available from non-tax revenue sources will need to be raised through the property tax. After listing all the anticipated non-property tax revenues, including the various state aids, the county subtracts the total from the anticipated expenditures. In most counties, this leaves a substantial amount of money that will need to be raised through a property tax levy.

Tax capacity is the valuation of property based on market value and statutory class rates. For example, a \$75,000 home which is classified as a residential homestead has a class rate of 1.0 percent and therefore has a tax capacity of $\$75,000 \times .01$ or \$750. The property tax for each parcel is based on its tax capacity.

This chapter will discuss the following subjects:

Principles of good tax policy

Setting the property tax levy

Tax hearing and notification procedures

I. Principles of good tax policy

The MN Department of Revenue's Auditor/Treasurer Manual provides a number of suggestions about good tax policy:

- Taxpayers in similar situations should be taxed similarly.
- A person's tax liability should be certain rather than ambiguous.
- A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer.
- The costs to collect a tax should be kept to a minimum.

MN Dept. of Revenue:
Auditor/Treasurer Manual

See Auditor/Treasurer Manual,
ch. 1

- The tax system should be as simple as possible
- The effect of any tax law on business and personal decisions should be kept to a minimum.
- The tax system should be as transparent as possible.
- The tax systems should allow the government to reliably predict how much revenue is likely to be collected.
- Taxes should be broadly based, allowing tax rates to be as low as possible.
- A mix of taxes provides a more stable tax base

II. Setting the property tax levy

The board should take the following four steps when setting the tax levy:

Prepare the budget. Before setting the actual levy, the board must estimate expected county expenditures during the next calendar year. This is done through the preparation of the budget.

Check the legality of the proposed levy. Counties may be subject to certain state-imposed levy limitations, but only if the legislature imposes them in a particular year (discussed in more detail below). In addition, truth-in-taxation requirements generally impose a limitation on the amount of the final levy certification (also discussed below).

[Minn. Stat. § 275.065](#)

Approve the tax levy. The board must approve the county tax levy. .

[Minn. Stat. § 275.07.](#)

Certify the levy to the county auditor. The board chair must certify a copy of the resolution and send it to the county auditor. If the tax exceeds legal limitations, the auditor will levy only the maximum tax the law allows.

Minn. Stat. ch. 473F.
 Minn. Stat. ch. 276A.
Walker v. Zuehlke, 642 N.W.2d
 745 (Minn. 2002).

Counties in the Twin Cities metropolitan area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington) are generally affected by the metropolitan fiscal disparities program. Counties on the Iron Range are affected by the taconite tax area fiscal disparities program. (The taconite tax relief area fiscal disparities program has been upheld as constitutional.)

Under these programs, the property tax for each commercial and industrial property is split into two components: a local portion and an areawide portion, based on a formula which determines the relative amount of the tax base that is contributed to the pool versus the amount that is retained for the county where the property is located.

Minn. Stat. § 275.075.
 For more information on the
 Fiscal Disparities program, see
 the *Auditor/Treasurer Manual*,
 ch. 13

Because a portion of the certified levy for each local government unit is raised through an area-wide levy, the levy used to compute the local tax rate is lower than the levy actually certified to the county auditor. The county will receive the total amount of its certified levy--partially through the fiscal disparities program and partially from local property taxpayers.

The board should set a tax levy high enough to provide money for the following purposes during the upcoming budget year:

- Payment of all estimated expenditures, including an allowance for an unappropriated reserve and the amount necessary to make all contributions to the Public Employees' Retirement Association (PERA).
- For current expenditure liabilities the county cannot pay in the present year for lack of current funds or that the county will pay through short-term borrowing.
- For the repayment of all tax anticipation certificates the county issued during present and past years.
- For an amount in anticipation of the reduction or loss of state aids, federal revenues, or other non-dependable sources of revenue.

Minn. Stat. § 475.61.

The county must put levies in place to ensure the repayment of bonds before the bonds are delivered. These levies must be irrevocably appropriated to the debt-service fund. The levies are automatically spread upon the tax rolls for each year of the obligation, so the county does not need to make them at the time of the annual tax levy in following years.

A. Levy limits

Minn. Stat. §§ 275.70 to 275.74.

Levy limits can be imposed by the legislature. There is no fixed limit for levies; limits can be imposed only when legislation is passed to do so. The last limit set on levies was in 2008.

If limits are in place, the commissioner of revenue calculates the levy limit for each county and notifies county of their levy limits by Aug. 1. Each session, the Legislature may modify the calculation of levy limits and determines what “special” levies are exempt from levy limits.

III. Tax hearing and notification procedures

Minn. Stat. § 275.065.

The truth-in-taxation law requires local governments to provide notice of their proposed budgets and levies, and to hold public hearings to inform citizens and give them the opportunity to provide input on determining the spending and taxing levels of local governments. Like the levy limit law, the truth-in-taxation law is frequently modified.

Minn. Stat. § 275.065 subd. 3

The county auditor is responsible for compiling information about the proposed levies in each taxing authority within the county and preparing truth-in-taxation notices to each county taxpayer. The notice must detail the proposed tax levies for each taxing authority with jurisdiction over the taxpayer’s property.

Minn. Stat. § 275.065 subd. 3

The notice must also clearly state that each taxing authority will hold a public meeting to receive public testimony on the proposed budget and proposed or final property tax levy (unless the county is exempt from holding a public hearing—see below). It must clearly state the time and place of each taxing authority's meeting, a telephone number for the taxing authority that taxpayers may call if they have questions related to the notice, and an address where comments will be received by mail.

Minn. Stat. § 275.065 subd. 5a

Each county must advertise in a newspaper, no less than two business days and no more than six business days before the hearing, its intent to adopt a budget and property tax levy at a public hearing.

Minn. Stat. § 275.065, subd. 6(b).

A county is exempt from the Truth-in-Taxation public hearing requirement if its total proposed property tax levy does not exceed its previous year’s final property tax levy by more than the percentage increase in the *implicit price deflator* prepared by the Bureau of Economic Analysis.

IV. Tax administration

The county auditor and treasurer bear the brunt of the responsibility for administering property taxes throughout the county. They administer not only the county's property taxes, but also the property taxes of each taxing authority within the county.

B. Tax calculation

[Minn. Stat. § 276A.06](#)

The county auditor shall determine the net tax capacity of each governmental unit within the county.

[Minn. Stat. § 275.08.](#)

After calculating the net tax capacity, the auditor calculates the tax rate by dividing the county's levy amount by its total tax capacity. The auditor then applies this rate to the taxable value of each parcel of property and determines the total tax liability of each taxpayer. The auditor must calculate the tax rates of each taxing authority in the county.

[Minn. Stat. § 275.07](#), subd. 2.

In school districts lying in more than one county, the clerk shall certify the tax levied to the auditor of the county in which the administrative offices of the school district are located.

C. Tax collection

[Minn. Stat. § 275.28.](#)

The auditor's tax lists are delivered to the county treasurer; the treasurer handles the billing and collection of all property taxes, including county, city, school district, and state property taxes.

[Minn. Stat. ch. 276](#)

[Minn. Stat. § 279.01](#)

All taxes, except for agricultural homesteads, become due and payable in the year after they are assessed. In Minnesota, taxes are due in two installments: half are due on or before May 15, and half are due on or before Oct. 15 each year. When property owners do not pay taxes on time, they are charged penalties and interest.

D. Tax settlements

[Minn. Stat. §§ 276.09 to 276.111](#)

The county treasurer collects taxes and holds them until tax settlements with the county auditor are complete, on May 20 of each year or 26 calendar days after the postmark date on the envelopes containing property tax statements, whichever is later. At the settlement, the treasurer shall make complete returns of the receipts collected on account of each taxing authority, including the county.

After the settlement, the treasurer and auditor distribute all of the receipts into the county treasury. The county auditor shall then issue a warrant for payment to the towns, cities, school districts, and special districts within the county's jurisdiction. Local taxing authorities must issue triplicate receipts for the payments; the treasurer shall file one of the receipts with the county auditor and return one by mail to the clerk of the taxing authority.

[Minn. Stat. §§ 276.09 to 276.10](#)

Within 30 days of the settlement, the auditor must send an abstract of it to the state auditor. Within 20 days of distributing funds to local taxing authorities, the county auditor must send an abstract of it to the state auditor. Not later than March 31, in each year, the county auditor shall make and transmit to the commissioner of revenue complete abstracts of the tax lists of the county.

[Minn. Stat. § 275.29](#)

E. Delinquent taxes

[Minn. Stat. § 279.02.](#)

On the first business day in January, the county treasurer shall return the tax lists to the county auditor, who shall compare them with the receipts the treasurer has collected. Each tract or lot of real property against which the taxes remain unpaid shall be deemed delinquent.

[Minn. Stat. §§ 279.05 - 279.10](#)

The list of delinquent real property must be printed in a designated newspaper, and mailed to each delinquent property.

[Minn. Stat. § 279.14.](#)

Once all publications and notices have been made, the district court will have the authority to enforce the taxes and any applicable fees or other costs upon the delinquent properties.

F. Sale of tax-forfeited lands

[Minn. Stat. § 282.13](#)

Counties have the authority to oversee, rent, or sell tax-forfeited lands. The county board may appoint a land commissioner with the authority to gather data and information on tax-forfeited lands; make land classifications and appraisals of land, timber and other products and uses; enforce trespass laws and regulations; and assist the county auditor in the sale and rental of forfeited lands.

[Minn. Stat. § 282.08](#)

The county has the authority to sell tax-forfeited lands, When the county rents or sells tax-forfeited lands in tax forfeiture proceedings, it must divide the proceeds according to law.

Municipalities must be reimbursed for any special assessments due on the property, and state agencies for any response actions required by the property. The county board may annually by resolution set aside portions of the remaining receipts for forest development on tax-forfeited land and dedicated memorial forests (no more than 30 percent) and acquisition and maintenance of county parks or recreational areas (no more than 20 percent). Any balance remaining must be apportioned as follows: county, 40 percent; town or city, 20 percent; and school district, 40 percent. In unorganized territory, that portion which would have accrued to the township must go to the county.

V. Tax differential treatment

G. Agricultural property tax differential

[Minn. Stat. § 273.111.](#)

State law entitles real estate to certain tax advantages if it is actively and exclusively devoted to agricultural use (or real estate consisting of ten acres or more or a nursery or greenhouse) and is either:

- The homestead, or thereafter becomes the homestead of a surviving spouse, child or sibling of the owner, or is real property that is farmed with the real estate containing the homestead property.
- Has belonged to the applicant, his or her spouse, parent or sibling, or any combination of them, for at least seven years prior to application for tax benefits.

[Minn. Stat. § 273.111, subd. 6.](#)

To qualify as agricultural land, at least 33 1/3 percent of the total family income of the owner must come from agricultural use or total production income, including rental, must be \$300 plus \$10 per tillable acre.

The property owner makes application to the local assessor annually for the tax deferment. Once the owner makes proper application, the assessor must value the property with reference to its value for agricultural purposes and with reference to its value for non-agricultural purposes. If the land qualifies, it is taxed on its agricultural value, and all special assessments for local improvements are deferred. When the owner sells the land or it ceases to qualify, the difference in taxes for the last three years and all deferred special assessments are due. Boards should require the county assessor to bring applications for tax deferment to their attention immediately.

[Minn. Stat. § 273.112.](#)

A similar provision exists for privately-owned recreational open space (golf and skiing establishments) of five acres or more. However, there is no deferment of special assessments. When the owner sells the land or it ceases to qualify, the taxes for the last seven years are due.

H. Urban and rural districts

[Minn. Stat. § 272.67](#)

Cities may divide themselves into urban and rural service districts, which constitute separate taxing districts for the purpose of municipal property taxes. Property taxes levied for the payment of bonds and judgments, however, are not subject to different rates in urban and rural districts.

[Minn. Stat. § 272.67 subd. 6](#)

A certified copy of every ordinance, amendment, and order regarding these districts must be filed with the county auditor before it becomes effective. If the ordinance, amendment, or order is certified on or before August 1 of a levy year, it may be implemented that same levy year. If it is certified after August 1, it may not be implemented until the following levy year.

Cities remain responsible for certifying to the county auditor the amount of taxes levied. Taxes levied for payment of bonds and judgments shall be spread upon all taxable property in proportion to the net tax capacity. The remaining amount of the taxes levied shall be allocated by the county auditor to the urban and rural service districts proportionally to the current benefit ratio times the current ratio between the market values of all taxable property within the districts.

[Minn. Stat. § 272.67 subd. 5](#)

The rural service district may only include lands which the city council deems to be rural in character. Whenever any unplatted parcel of land is platted and an application is made for a permit for the construction of a commercial, industrial, or urban residential development, the governing body shall enter an order transferring the parcel from the rural service district to the urban service district. Whenever any lot or portion of a platted parcel is developed for the above purposes, or basic urban services are extended to any lot or portion, the council shall transfer the entire platted parcel to the urban service district.

[Minn. Stat. § 272.67 subd. 8](#)

I. Subordinate service districts

[Minn. Stat. ch. 375B](#)

For information on subordinate service districts, see Handbook, ch. 25

Counties may establish particular areas or districts within their community that will receive special improvements or services not available to the community as a whole, and pay for these special items through special service charges.

CHAPTER 22

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