

CITIZENS LEAGUE
530 Syndicate Building
Minneapolis, MN 55402
338-0791

March 12, 1980

CITIZENS LEAGUE STATEMENT

TO: Senator Bill McCutcheon, Chairman, Senate Tax Committee
Representative Harry Sieben, Chairman, House Tax Committee

FROM: Citizens League Tax and Finance Task Force, Charles H. Clay, Chairman

SUBJECT: Property Tax Relief

The 1980 Legislature is considering proposals to make further reductions in homestead property tax classifications for taxes payable in 1981 to avoid a shift in property tax burden in some locations next year from non-residential to residential property.

We have reviewed background data which has been distributed to the Legislature by the Minnesota Department of Revenue. We also have reviewed this issue, in light of several reports we have published on the property tax. We have advocated major property tax relief and reform programs going back before 1967, the year in which the Legislature took its first steps towards a better mix of property and non-property tax sources in Minnesota.

We sense considerable agreement that the problem of tax shifts next year is mainly how to deal with selected hardship cases, involving some homeowners in some locations. It is not a general problem, affecting all homeowners in the state.

Because it applies to all taxpayers, everywhere in the state, a change in homestead classifications does not do a very good job of earmarking assistance to hardship cases. To the extent that the Legislature believes additional relief needs to be granted in 1980, it is important that it look first for an approach that does not have the drawbacks which are associated with changes in classification. Specifically, the Legislature should evaluate whether the circuit-breaker might be a better approach, since the circuit-breaker itself was set up originally to deal with particular problems of hardship. The circuit-breaker offers several advantages over the classification system as a mechanism to provide relief.

1. Because the circuit-breaker adjusts real tax burdens after bills have been sent to homeowners, it is possible to "fine-tune" relief to each household exactly as the Legislature desires. Currently, the amount each household receives depends upon its income and property tax burden. The possibility that some households would receive either less or more relief than intended by the Legislature is slim.

By contrast, changing the classification system is a crude approach. It deals with valuation, not taxes. It doesn't necessarily help all the people who need it; moreover, some households may receive more help than they need. A change in the classification system affects homeowners differently among counties, cities, and even within the same city, depending upon the overall mix of homestead and non-homestead property and on trends in market value. For example, in a predominantly-homesteaded community there might be only a very slight shift, because of the absence of non-homestead property to which the burden can be shifted.

Some persons have been urging a change in the classification system now, because legislators could grant relief to homeowners -- through a shift to other taxpayers -- without having to use state tax sources for the remainder of the 1979-81 biennium. If it were deemed necessary to provide relief in 1980 -- a step which we do not advocate -- the Legislature need not be limited to using the classification system. Circuit-breaker benefits could be increased now, but most of those benefits would not be payable until October 1981, which is into the 1981-83 biennium.

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We do not believe the evidence on tax burden offers a compelling reason to provide further property tax relief, now, to all homeowners in the state, beyond that which already is built into state law.

A survey of 33 counties, including the state's largest counties, indicates that two-thirds of all homeowners in those counties are paying less than \$550 in property taxes in 1980. For central cities and outstate counties, the proportion of homeowners below \$550 is even higher. Among outstate counties, in fact, almost two-thirds of all homeowners (62.9%) are paying less than \$325. These figures are net, after deducting the homestead credit. But they do not include additional refunds which most homeowners will receive from the circuit-breaker. A table which is attached illustrates the figures for some counties.

A Citizens League survey of the 92 cities over 2,500 population in the seven-county metropolitan area revealed that property taxes on a \$60,000 home decreased this year from last year between 14-39 per cent.

Property taxes now take a smaller percentage of personal income in the state than in the past. In 1969, property taxes represented about 5 per cent of personal income in Minnesota. In 1978, property taxes were about 4 per cent of personal income.

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 530 Syndicate Building
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March 7, 1980

MEMORANDUM

TO: Members, Tax and Finance Task Force

SUBJECT: Comparison among selected counties of distribution of net homestead property taxes, 1980

DISTRIBUTION OF NET HOMESTEAD PROPERTY TAXES, 1980

(after deducting homestead credit; before deducting circuit-breaker)

Source: County Abstracts of Tax Lists submitted to Minnesota Department of Revenue

County	% of Homeowners (ag and non-ag) paying a net tax of				
	under \$175	\$175-\$325	\$325-\$425	\$425-\$550	over \$550
Big Stone	31.2%	23.9%	8.1%	9.0%	27.8%
Brown	34.5	24.8	13.1	8.7	18.9
Dakota	4.9	16.6	23.0	25.1	30.5
Goodhue	27.8	31.6	15.7	9.0	15.8
Hennepin	2.6	10.9	15.8	27.4	43.3
suburban Hennepin	2.2	5.9	12.1	29.2	50.7
Minneapolis	3.3	19.8	22.5	24.3	30.1
Kittson	48.6	22.3	7.0	7.3	14.8
LacQuiParle	37.3	20.6	7.5	8.2	26.4
Lake of the Woods	51.4	26.1	8.1	7.6	6.7
Lincoln	40.1	23.2	11.3	10.9	14.6
Lyon	37.8	26.7	14.0	9.3	12.0
Mahnomen	46.0	24.8	7.4	6.2	15.6
Meeker	30.6	29.9	12.3	8.0	19.2
Murray	31.9	22.2	8.7	7.6	29.5
Pipestone	45.5	24.4	8.4	7.1	14.6
Ramsey	2.7	15.9	19.7	27.5	34.2
suburban Ramsey	1.6	7.0	14.8	30.7	45.8
Saint Paul	3.4	22.2	23.2	25.3	26.0
Red Lake	50.3	25.8	10.7	6.8	6.3
Redwood	38.6	21.1	9.1	6.8	24.4
Scott	4.0	14.2	14.2	22.9	44.6
Stevens	29.0	22.8	10.9	9.7	27.5
Total, Dakota, Hennepin, Ramsey, Scott Counties	2.9	13.0	17.6	27.1	39.4
Total, 29 Outstate Counties*	38.8	24.1	11.6	8.4	17.1
Total, 33 Counties	12.4	15.9	16.0	22.1	33.5

including 4 metro

*includes some counties not listed individually here