



Estimate of the Percentage of Rent that Constitutes Property Taxes in Minnesota

Based on Rent and Property Taxes Paid in 2016

March 1, 2018

Minnesota Statute 3.197 requires any report to the Legislature to include the cost of preparing the report. This report cost \$5,600.

March 1, 2018

The Honorable Greg Davids
Chair, House Tax Committee
585 State Office Building

The Honorable Roger Chamberlain
Chair, Senate Tax Committee
3225 MN Senate Office Building

The Honorable Paul Marquart
DFL Lead, House Tax Committee
261 State Office Building

The Honorable Ann Rest
Ranking Minority Member,
Senate Tax Committee
2217 MN Senate Office Building

The Honorable Steve Drazkowski
Chair, House Property Tax and
Local Government Finance Division
591 State Office Building

The Honorable Diane Loeffler
DFL Lead, House Property Tax and
Local Government Finance Division
349 State Office Building

To Members of the Legislature of the State of Minnesota:

In 2017, the Legislature directed the Department of Revenue to issue a report on the estimated percentage of rent that constitutes property taxes in Minnesota. The report was to include estimates based on rent and property taxes paid in 2016 for the following geographic regions:

- (1) The city of Minneapolis
- (2) The city of St. Paul
- (3) The counties of Anoka; Dakota; Hennepin, excluding the city of Minneapolis; and Ramsey, excluding the city of St. Paul
- (4) The remainder of the state

(See Minnesota Laws 2017, 1st Special Session, Chapter 1, Article 4, Section 30.)

This report includes background on the percentage of rent constituting property taxes, as well as the results required above.

Sincerely,



Cynthia Bauerly
Commissioner

Calculating the Property Tax Refund

The Renter's Property Tax Refund is based on a taxpayer's household income and the property tax they pay through their rent.

Broadly speaking, the steps to calculate a property tax refund are:

1. Determine household income (by adding together the filer's taxable income, certain nontaxable income, and income from other adults living in their household)
2. Determine "property taxes payable" from a Certificate of Rent Paid (CRP)
3. Determine the refund amount (based on form instructions or tax software)

For details about each of these steps, refer to the Renter's Property Tax Refund form and instructions.¹

Background: Calculating percentage of rent constituting property taxes

Central to the refund calculation is the amount of property taxes paid. For homeowners, this information is provided on their property tax statement. For renters, the information is provided by their landlord.

The statute authorizing the Property Tax Refund Program for renters currently assumes that property taxes on residential rental property represent, on average, 17 percent of annual rent paid.

Until 1997, landlords were required to apportion the actual amount of the rental property's taxes among individual tenants. A 1997 law change replaced this process with a single assumption about what share of the statewide average rent payment constituted property taxes. Over the last two decades, the percentage has ranged from 15 percent to 19 percent.²

In 2004, the department conducted a one-time analysis on the percentage of rent constituting property taxes, based on a survey of rental property owners. Returned surveys provided tax and usable rent information on about 71,500 rental units statewide.³

Currently, the department annually estimates the percentage of rent constituting property taxes to compute statewide, regional, and core city estimates. These estimates are based on aggregate data collected from counties and the U.S. Census Bureau's American Community Survey.⁴

Methodology

The legislation requiring this study defined how estimates for this analysis were to be calculated. The estimates are based on 2016 Certificates of Rent Paid and property taxes payable for approximately 167,000 renters who filed for a Renter's Property Tax Refund as of February 5, 2018.

Note: To date, the department received approximately 327,000 renter's refund claims. But we were unable to include all returns in this estimate, primarily due to non-matching tax parcel ID numbers or records with incomplete information.

¹ View on the department's website. (Go to www.revenue.state.mn.us and type **PTR** into the Search box.)

² See historical table Appendix A, at the end of this document.

³ View on the department's website. (Go to www.revenue.state.mn.us and type **residential rent** into the Search box.)

⁴ See table Appendix B, at the end of this document.

Data Limitations

Certain limitations exist with the data collected from Certificates of Rent (CRPs) paid and the property tax parcel file that we use to estimate the average portion of rent attributable to property taxes.

Certificates of Rent Paid

Information on CRPs is self-reported by landlords and owners of residential rental property. The most common issue with this data is the reporting of a partial or incorrect tax parcel ID number, which we cannot match with property tax information. Without a match, we cannot use this data for our estimate.

Other limitations with this data include:

- Some landlords report a single tax parcel ID number on all their CRPs – even for larger apartment complexes with multiple buildings and parcels – no matter which building or parcel the renter actually lived in. We exclude these records from our estimate unless a corrected parcel ID number is available.
- CRPs record the number of units, but not further detail about individual units, such as the number of bedrooms or square footage. This means each unit is apportioned the same amount of property tax, regardless of differences in size or layout. For example, the same share of property tax is assigned to one- and two-bedroom apartments in the same building, which may under- or overstate the percentage for those renters.
- When renters file on paper for a property tax refund, some of the information from their CRPs—such as the property address and county— is not captured and stored in department databases. For these returns, we use address information on the property tax refund form (instead of the CRP). If the address on the form is different from the CRP (if a renter moved, for example), we cannot match the parcel ID number and tax parcel data. We exclude those records from our estimate.

Tax Parcel Data

We used existing data to prepare this report. The existing parcel data from counties for assessment year 2015 included market values and property classifications, but did not include property taxes payable for 2016.

To determine taxes payable for each rental parcel, we matched average 2016 tax rates by jurisdiction to the property value information. The resulting estimate of property taxes may differ slightly from the actual tax assessments for a given parcel.

Estimated Percentage of Rent Constituting Property Taxes

The estimated percentage of rent constituting property taxes by region:

Region	Estimated property tax percentage of rent (2016)
City of Minneapolis	16.1%
City of St. Paul	15.5%
4-county metro area*	13.4%
Remainder of the state	12.9%

*Includes the counties of Anoka; Dakota; Hennepin, excluding the city of Minneapolis; and Ramsey, excluding the city of St. Paul.

Overall, the average portion of rent attributable to property taxes in 2016 was 13.9 percent statewide.

Appendix A –Statutory History of Rent Constituting Property Taxes

Year	Statutory property tax percentage of rent
2011-2017	17%
2010	19%
2009	15%
1998-2008	19%
1997	18%
1983-1996	Calculated
1979-1982	23%
1977-1978	22%
1975-1976	20%

Appendix B – Annual Estimate of Rent Constituting Property Taxes

Each year, the Minnesota Department of Revenue estimates the percentage of rent constituting property taxes, based on aggregate data collected from counties and the U.S. Census Bureau's American Community Survey. The annual estimates provide information on changes and trends in rental property taxes and rent. Our most recent update is below.

January 2017 update

Renter's Property Tax Refund

Estimating the Percentage of Rent Constituting Property Taxes

Minnesota rent information from the U.S. Census Bureau's American Community Survey (ACS) is compared to property tax amounts paid by apartments and non-homestead residential rental property in the same year to determine the percentage of rent constituting property taxes by major geographic region.

The ACS data includes annual counts of occupied and vacant rental units, cash rent paid, and rent asked for vacant units. Department of Revenue data is compiled for property taxes paid by apartments and non-homestead residential properties.

A portion of non-homestead residential properties are not rental, namely second homes. An adjustment is made to the non-homestead residential property tax total to account for this in the calculation of percentage of rent constituting property taxes.

It is assumed that approximately 20% of non-homestead residential 1-3 unit parcels are non-rental, so the property tax for the rental portion of these properties is estimated to be 80% of the total.

Based on the adjusted property tax amounts and rent paid by apartments and non-homestead residential property, the estimated percentage of rent constituting property taxes by geographic region is summarized below:

	American Community Survey (U.S. Census)					
	2010	2011	2012	2013	2014	2015
Statewide	14.8%	14.7%	14.6%	14.8%	14.9%	14.5%
Metro Areas						
Minneapolis	15.1%	16.4%	16.3%	15.8%	16.1%	16.6%
St. Paul	12.9%	12.2%	13.9%	14.6%	14.4%	13.6%
4-county metro*	15.1%	14.9%	14.8%	15.0%	15.4%	14.9%
Non Metro	14.3%	14.5%	14.2%	14.5%	13.9%	13.8%
* Includes Anoka, Dakota, Hennepin and Ramsey						