

**PROPERTY TAX**  
**Property tax relief for destroyed or damaged properties**

June 17, 2020

**Property Taxes and Local Aids Only --  
 See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of 1SS-H0132DE1, as proposed to be amended by 1SS-H0132A5, Article 7, Section 4

	<b>Fund Impact</b>			
	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
	(000's)			
Property Tax Abatement	\$0	(\$6,400)	\$0	\$0
Valuation Freeze - PTR Interactions	\$0	\$0	(\$150)	(\$100)
Disaster Property Tax Credits	\$0	\$0	\$1,500	\$0
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$6,400)</b>	<b>\$1,350</b>	<b>(\$100)</b>

Effective the day following final enactment.

**EXPLANATION OF THE BILL**

Under current law, properties that are damaged or destroyed by arson or vandalism may qualify for a property tax abatement in the year in which the damage occurred if the damage is at least 50% of the property's building value. The abatement is equal to the difference in the calculated net tax based on (1) the market value of the property before damage occurred and (2) the reassessed market value after the damage. In the year following the damage, properties may qualify for a disaster property tax credit equal to the difference in net tax based on the market values before and after damages. The abatements and credits are reimbursed by the state for properties in a declared disaster or emergency area.

The proposal would modify the property tax abatement for properties in the cities of Minneapolis, St. Paul, and other surrounding communities that were damaged or destroyed between May 25, 2020 and June 16, 2020 due to unrest. For properties that were destroyed or where damage was at least 50% of the property's building value, the abatement would be increased to equal 100% of the net property tax due in payable year 2020. The bill would also provide a property tax abatement equal to half of the net property tax due in payable 2020 for properties where damage was between 25% and 50% of the property's building value.

The proposal would also create a valuation freeze on qualifying properties until assessment year 2025. During this time, the market value of the properties would not exceed the reassessed value of the property after damages.

Properties receiving the proposed abatement and valuation freeze would not be eligible for the current law state disaster property tax abatement or credit.

**REVENUE ANALYSIS DETAIL**

- Based on available property damage data, more than 1,500 properties were damaged or destroyed in the cities of Minneapolis, St. Paul and other surrounding communities due to unrest. The level of property damage varies. It is estimated that more than 500 properties would qualify for property tax relief under the proposal.
- Under current law, payable year 2020 property tax abatements for properties damaged or destroyed would total an estimated \$1.5 million. The proposal would increase the amount of property tax abatements by an additional \$6.4 million, increasing the cost of state-paid reimbursements in fiscal year 2021.
- For taxes payable years 2021 through 2025, the market value of damaged properties would be based on the reassessed value in the year of the damage and would not increase under the proposal. Limiting market value growth would reduce the taxable value of qualifying damaged properties, shifting property taxes away from qualified properties and onto all other properties, including homesteads.
- The additional property tax burden on homesteads caused by the valuation freeze would increase state-paid property tax refunds beginning in fiscal year 2022.
- Properties receiving the five year valuation freeze would not receive the current law disaster property tax credit in payable year 2021, resulting in a state general fund savings of approximately \$1.5 million in fiscal year 2022.

**PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)**

<i>Transparency, Understandability, Simplicity &amp; Accountability</i>	Decrease	Two different abatement programs may be confusing to property owners when deciding which one to apply.
<i>Efficiency &amp; Compliance</i>	Neutral	
<i>Equity (Vertical &amp; Horizontal)</i>	Neutral	
<i>Stability &amp; Predictability</i>	Neutral	
<i>Competitiveness for Businesses</i>	Neutral	
<i>Responsiveness to Economic Conditions</i>	Increase	Additional tax relief for property owners impacted by the unrest.

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue  
 Property Tax Division - Research Unit  
[www.revenue.state.mn.us/research\\_stats/pages/revenue-analyses.aspx](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

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