



Phase Out the Statewide Business Property Tax

Position: Hospitality MN supports legislation to phase out the current statewide levy on business property.

Background: The statewide general property tax on business and seasonal residential recreational property was enacted as part of the 2001 property tax reform. The amount of the initial statewide general levy was \$592 million, beginning with taxes payable in calendar year 2002. Each subsequent year the amount of the levy was increased by the rate of increase in the price index for state and local government expenditures, reaching \$863 million in 2017. In the 2017 session, the automatic increases were removed, the tax was reduced to \$828 million (or \$35 million in tax relief), and the first \$100,000 of market value was exempted for commercial property. In 2019, the levy was reduced by another \$50 million and in 2021, the exemption on commercial property was expanded to include the first \$150,000 of market value (beginning for taxes payable in 2023).

Businesses pay both local property taxes levied by their county, city, schools and special taxing districts and the statewide levy.

- Hospitality businesses include the cost of taxes in their menu prices and facility and room rentals. According to the Minnesota Department of Revenue Tax Incidence Study, the business taxes that are passed through to consumers are regressive, that is they fall more heavily as a portion of income on low-income taxpayers.
- Restaurants that rent their facilities also pay the statewide levy, either as part of their rent, or separately under various net lease provisions. Tenants also pay the property taxes on the shared space or common areas of shopping centers and other commercial buildings.
- There are a number of precedents for making changes in Minnesota tax policy over a period of time by phasing out provisions in several steps. The move to a single allocation for corporate income taxes based on sales in Minnesota was phased in over a number of years.
- Minnesota has a general fund surplus of over \$3 billion and beginning to phase out the uncompetitive and regressive statewide levy is a common sense measure the State can take to support businesses that will help promote job growth and economic development.

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