

March 24, 2025

To Taxes Committee Members  
From Justin Cope, Legislative Analyst  
Subject *Alliance Housing Incorporated v. County of Hennepin*

This memorandum is in response to Patrick McQuillan's request that I provide background information on the Minnesota Supreme Court's holding in *Alliance Housing Incorporated v. County of Hennepin*, 4 N.W.3d 355 (Minn. 2024). This memorandum provides information on the property tax exemption for institutions of purely public charity (IPPCs), the *Alliance Housing Incorporated* decision, and two areas of law potentially implicated by that decision: the personal property tax on tenants in exempt properties and the renter's credit.

## Background

### The exemption

The Minnesota Constitution exempts IPPCs from property taxation but allows the legislature to limit the exemption.<sup>1</sup> The statutory property tax exemption for IPPCs aligns with a six-factor IPPC test developed by the Minnesota Supreme Court.<sup>2</sup>

In 1979, the Minnesota Supreme Court ruled that rental housing property could be tax-exempt if owned and used by an IPPC in furtherance of the IPPC's charitable purpose.<sup>3</sup> The following year, the legislature excluded most rental housing property from the exemption. The IPPC exemption statute was amended in 2005 to replace its provisions regarding rental housing with a rule that government subsidies for low-income housing do not count as gifts or donations for the purposes of the six-factor test for determining qualification as an IPPC. The exemption has not been substantively amended since 2005.

### The case

Minneapolis treated some rental housing properties owned by Alliance Housing Incorporated (Alliance) as exempt for several years leading up to 2018. In 2018, Alliance applied for an exemption for all of its properties. Minneapolis declined the applications and began treating all of Alliance's properties as taxable. Alliance sued in Tax Court, and both the Tax Court and the Minnesota Supreme Court on appeal found for Alliance, ruling that its properties were tax-exempt.

In arguments on appeal, it was undisputed that Alliance was an IPPC, and the only legal question was whether Alliance was using its properties for its charitable purpose by renting

---

<sup>1</sup> Minn. Const. art. X, § 1.

<sup>2</sup> See Minn. Stat. § 272.02, subd. 7; *North Star Research Institute v. Hennepin County*, 236 N.W.2d 754 (Minn. 1975).

<sup>3</sup> *Rio Vista Non-Profit Housing Corp. v. Ramsey County*, 277 N.W.2d 187 (Minn. 1979).

them. The Minnesota Supreme Court determined that rental of housing to low-income persons could further an IPPC's charitable purpose and deferred to the Tax Court in its determination that Alliance had in fact rented its properties in furtherance of its charitable purpose.

## **The effects of property tax exemptions for residential tenants in tax-exempt property**

Property tax exemption in a tenant's residential property has one of two potential effects for the tenant: the tenant may become liable for personal property taxes, or the tenant may become ineligible for the renter's credit. As the renter's credit statute is drafted, these two effects appear to be alternatives where only one may apply. If personal property taxes on these units are payable by the tenants, then the renter's credit is available to those tenants. If personal property taxes are not payable by the tenants, then the renter's credit is not available to them.

Regarding personal property taxation, the law provides that, with some exceptions, "tax-exempt property held under a lease for a term of at least one year... shall be considered, for all purposes of taxation, as the property of the person holding it."<sup>4</sup> In arguments on appeal, Hennepin County argued Alliance's tenants would be subject to taxation under this requirement if Alliance's rental housing properties were tax-exempt. Alliance's tenants were not taxed during the period leading to 2018 when several of Alliance's properties were treated as exempt, and there is no public data regarding residential tenants' being charged property taxes pursuant to that section in the past. Alliance argued that some judicially created exceptions to this requirement were likely to apply to its tenants, but the Minnesota Supreme Court did not rule on these arguments.

The renter's credit is designed as a partial offset for renters of "the amount of rent constituting property taxes."<sup>5</sup> One criterion for eligibility is that "the taxpayer must have resided in a rented or leased unit on which ad valorem taxes or payments made in lieu of ad valorem taxes, including payments of special assessments imposed in lieu of ad valorem taxes, are payable at some time during the taxable year for which the taxpayer claimed the credit."<sup>6</sup> Taxes on personal property and on real property are ad valorem taxes.<sup>7</sup> If a property and its tenants were both exempt from property taxes, no ad valorem taxes or payments made in lieu of ad valorem taxes would have been payable on the property in the year of their exemption, disqualifying those tenants from qualifying under this criterion. If, on the other hand, tenants in a tax-exempt property were subject to personal property taxation, ad valorem taxes would have been payable on the property in the year that the personal property taxes were payable, satisfying this criterion for eligibility for the renter's credit.

JC/mc

---

<sup>4</sup> Minn. Stat. § 273.19, subd. 1.

<sup>5</sup> Minn. Stat. § 290.0693, subd. 3(a).

<sup>6</sup> Minn. Stat. § 290.0693, subd. 5(d).

<sup>7</sup> See Minn. Stat. § 272.01, subd. 2(a).