

**PROPERTY TAX
Public Charity Exemption
Modified**

March 25, 2025

| | | |
|---|------------|-----------|
| | Yes | No |
| DOR Administrative Costs/Savings | | X |

Department of Revenue
Analysis of H.F. 2257 (Gomez) / S.F. 2915 (Rest) as introduced

Fund Impact

| | F.Y. 2026 | F.Y. 2027 | F.Y. 2028 | F.Y. 2029 |
|--------------|------------------|------------------|------------------|------------------|
| | (000's) | | | |
| General Fund | \$0 | (\$10) | (\$10) | (\$10) |

Effective beginning with property taxes payable in 2025.

EXPLANATION OF THE BILL

Under current law, property owned by a qualifying institution of purely public charity is exempt from property taxes if the property is used for the charitable purpose of the qualifying organization.

In its opinion filed March 27, 2024, the Minnesota Supreme Court upheld the Minnesota Tax Court decision that affordable housing properties owned by Alliance Housing Incorporated or North Penn Supportive Housing LLC (collectively referred to as Alliance) are eligible for a property tax exemption because:

- 1) they are owned by an eligible charitable organization, and
- 2) the use of the property corresponds with Alliance’s tax-exempt charitable purpose.

The court’s decision impacts all future exemption applications for similar properties beginning with assessment year 2025. However, under a separate provision of current law (Minnesota Statutes 273.19 subd. 1), tax-exempt property held under a lease for a term of at least one year is considered, for all purposes of taxation, as the property of the person holding the lease.

Therefore, the tenants of eligible Alliance properties (and other similar properties that apply for exemption) will now be liable for personal property taxes beginning with taxes payable in 2026.

Under the proposal, rental housing property owned by an eligible charitable organization would not be exempt from property taxes unless the property is used in furtherance of the tax-exempt charitable purpose of the organization. However, property used solely to provide rental housing on the basis of income characteristics would not be eligible for the exemption.

REVENUE ANALYSIS DETAIL

- It is assumed that all Alliance properties included in the court case have applied for exemption but that other affordable housing properties will not apply for exemption during the forecast period.

Under current law:

- The property taxes on court-exempted Alliance properties will be paid by the tenants rather than by the property owners.
- However, occupied units on these properties will no longer receive the class 4d low-income rental housing classification because the tenants, as the new taxpayers, do not *provide* low-income rental housing.
- As a result, the net tax capacity (NTC) class rate for taxes payable in 2026 will be the apartment class rate of 1.25%, rather than the class 4d rate of 0.25%, which will increase the NTC taxes for tenants by a factor of five (relative to what Alliance would have paid).

Under the proposal:

- Alliance, and not its tenants, would be liable for property taxes on the court-exempted properties beginning with taxes payable in 2025.
- For taxes payable in 2025, no tax is due on the court-exempted Alliance properties.
- Beginning with taxes payable in 2026, these properties would be taxable as class 4d property and not apartment property, which would lower the NTC taxes by a factor of five. This would shift property taxes away from the Alliance properties and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$10,000 in FY 2027.

Under both current law and the proposal:

- The tenants will not be eligible for the renter's credit on their 2025 income tax returns (filed in FY 2026 and based on rent paid in 2025) because no property tax is due in 2025.
- The tenants will be eligible for the renter's credit beginning with 2026 income tax returns (filed in FY 2027 and based on rent paid in 2026).

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

| | |
|---|---------|
| <i>Transparency, Understandability, Simplicity & Accountability</i> | Neutral |
| <i>Efficiency & Compliance</i> | Neutral |
| <i>Equity (Vertical & Horizontal)</i> | Neutral |
| <i>Stability & Predictability</i> | Neutral |
| <i>Competitiveness for Businesses</i> | Neutral |
| <i>Responsiveness to Economic Conditions</i> | Neutral |

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
<https://www.revenue.state.mn.us/revenue-analyses>

hf2257(sf2915) Public Charity Exemption Modified _pt_1/jtb