



HousingMinnesota

Homes For All By 2012

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Reduced Property taxes for Affordable Rental Housing Included in Legislative Deal

St. Paul, Minn. (July 13, 2005) – In the closing hours of the 2005 special session, the legislature agreed to resurrect the property tax classification for affordable rental housing. This action will reduce the taxes of qualifying housing by 40 percent starting with taxes payable in 2006.

The affordable rental housing tax class, called “4d” for its statutory number, was eliminated in the property tax reform passed by the legislature in 2001. 4d provided a tax rate that was less than one-half of the tax rate for market rental housing. With the 2001 reform, tax rates for market rate rental housing declined significantly, but with the loss of 4d, the tax rate for affordable housing increased by 25 percent.

The change in tax rate was not the only driver of mounting property taxes for affordable rental housing. For rental housing in Twin Cities suburban communities, areas near downtown Minneapolis and St. Paul, and in some Greater Minnesota regional centers dramatic growth in property values produced tax increases that were more significant than the tax rate change. Many properties faced a four year tax increase of 300 to 400 percent.

Owners of affordable housing units were caught in a jam. Their agreements with public agencies and the low incomes of their tenants limited their ability to pass through the property tax increases. “We also believed that the state should not allow assessors to tax these affordable units, with their long term use commitments, as though they were high cost condominiums,” said Minnesota Housing Partnership Executive Director Chip Halbach. “It wasn’t fair; and the high property taxes are jeopardizing the viability of these projects,” said Halbach.

In restoring the 4d rate the legislature did recognize the unique nature of affordable rental housing and the unintended financial harm resulting from the 2001 tax reform.

“In reducing the affordable rental tax rate the legislature offsets some of the financial damage, and it buys us time to develop a lasting solution to the tax problem,” added Halbach. “The state should require tax assessors to value rental housing units on the basis of their actual, not hypothetical, income. In the meantime, we greatly appreciate the support we received from both Republican and Democrat tax conferees and the executive branch.”

HousingMinnesota is a multi-year public education and public policy advocacy campaign bringing together diverse constituencies to promote and achieve Homes for All. HousingMinnesota is an initiative of the Minnesota Housing Partnership. For more information go to www.housingminnesota.org.

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