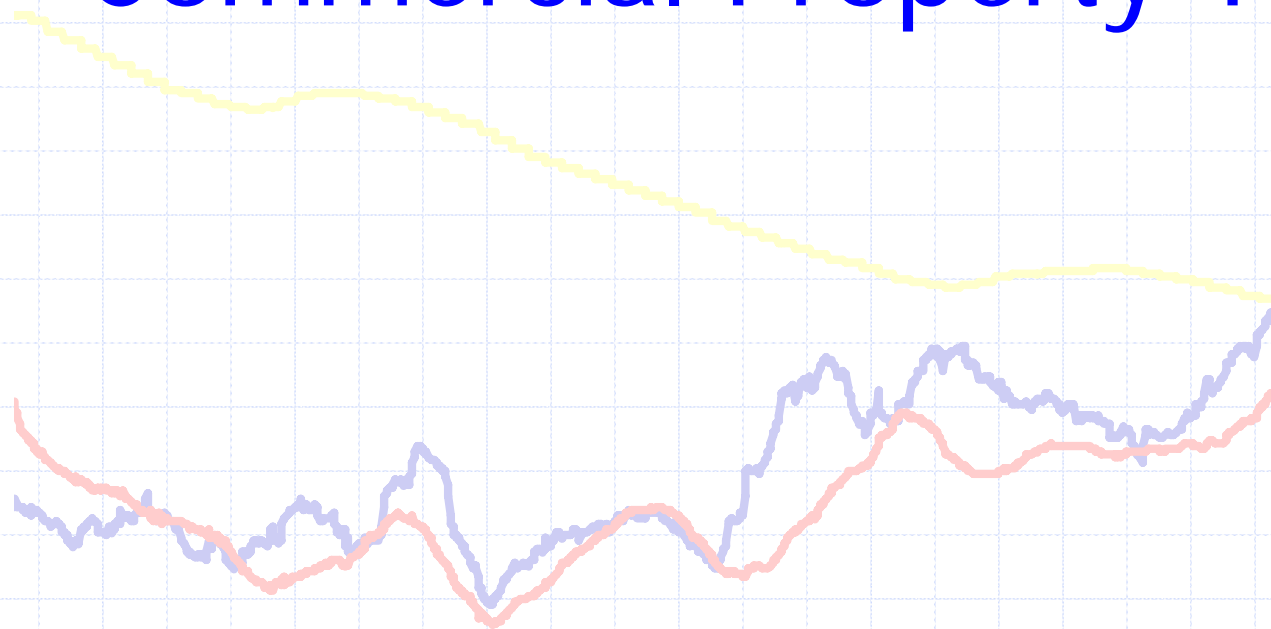


Commercial Property Tax



Jeff Robinson - Fiscal Services Division
Legislative Services Agency
House Commercial Property Tax Study Group
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Iowa Property Tax Collections

FY 2007 Iowa property tax collections = \$3.795B

- ◆ Includes \$223M of TIF revenue and \$145M of utility tax replacement revenue.

By Classification:

- ◆ Commercial = \$1.077B (28.4%)
- ◆ Residential = \$1.720B (45.3%)
- ◆ Agricultural = \$564M (14.9%)
- ◆ Industrial/utilities/other = \$434M (11.4%)

Iowa Property Tax Collections

Statewide Average Effective Tax Rates:

- ◆ Commercial = 3.7%
- ◆ Residential = 1.6%
- ◆ Agland = 0.6% (market, not productivity)
- ◆ Industrial/utility/other = 2.8%
- ◆ Overall = 1.5%

Commercial Property Tax

FY 2007 Commercial Effective Property Tax Rates:

- ◆ Statewide average = \$37.40 per thousand
- ◆ Highest county average = \$44.70
- ◆ Lowest county average = \$24.50
- ◆ Highest rate in the State = \$51.80
- ◆ Lowest rate in the State = \$16.70

Reliance on Property Tax Revenue

Reliance on Property Tax

	<u>Prop Tax as a % of State and Local Tax Revenue</u>	<u>Region Rank</u>
Iowa	34.5%	4
Minnesota	28.3%	6
Wisconsin	34.7%	3
Illinois	38.2%	1
Missouri	25.7%	7
Nebraska	32.9%	5
South Dakota	36.3%	2
National Average	30.8%	

Source: State Rankings 2006 (2002 Taxes)
Morgan Quitno Press

Property Tax Comparison Studies

- ◆ Tax Foundation (2007)
- ◆ National Taxpayers Conference/ Iowa Taxpayers Association (2006)
- ◆ Wisconsin Department of Revenue (2006)
- ◆ Nebraska Study (KPMG / Nebraska DED)
- ◆ Iowa Study (Williams & Co. / Iowa DED) (2006)

Tax Foundation

◆ 50-State Business Climate Index (a rank of 1 is best)

	<u>Overall Index</u>	<u>Property Tax</u>	<u>Corporate Tax Index</u>	<u>Individual Income Tax</u>	<u>Sales Tax Index</u>	<u>Unemployment Insurance</u>
Iowa	43	33	46	45	19	27
Minnesota	41	14	45	37	40	39
Wisconsin	38	30	32	42	27	28
Illinois	25	40	30	13	32	36
Missouri	15	10	10	24	12	7
Nebraska	44	45	34	32	44	26
South Dakota	2	7	1	1	30	31

Source: www.Taxfoundation.org

Tax Foundation

- ◆ Per Capita Taxes (a rank of 50 is best)

2007 Tax Foundation - Per Capita State and Local Tax Collections

	<u>Rank - Tax Collections Per Capita</u>	<u>Rank - Property Tax Per Capita</u>	<u>Dollars - Tax Collections Per Capita</u>	<u>Dollars - Property Tax Per Capita</u>
Iowa	25	18	\$3,709	\$1,080
Minnesota	6	27	4,930	965
Wisconsin	15	11	4,289	1,350
Illinois	11	9	4,335	1,407
Missouri	29	37	3,509	747
Nebraska	14	16	4,294	1,148
South Dakota	40	32	3,177	915
National Average			\$4,072	\$1,086

Source: www.Taxfoundation.org

National Taxpayers Conference

- ◆ Ranks cities in every State according to the effective tax rate for residential, commercial, apartment, and industrial properties.
- ◆ The Iowa cities of Des Moines and Hampton are included in the 2006 study release.

National Taxpayers Conference

- ◆ The study ranked Iowa residential property taxes in the top 14 for both urban and rural taxes for hypothetical \$150,000 and \$300,000 homes, and 27th for median priced homes.
- ◆ The study ranked Iowa commercial property taxes in the top seven for both urban and rural taxes for hypothetical \$100,000, \$1.0 million, and \$25.0 million commercial properties.
- ◆ The study ranked Iowa property taxes on a hypothetical \$600,000 apartment building 4th for urban properties and 3rd for rural.

National Taxpayers Conference

- ◆ Example Rankings (a rank of 53 urban or 50 rural is best)

National Taxpayers Conference - Selected Rankings

	Residential Urban \$150,000	Residential Rural \$70,000	Commercial Urban \$1.0 Million	Commercial Rural \$100,000	Apartment Urban \$600,000
Iowa	14	12	5	6	4
Minnesota	29	35	14	14	28
Wisconsin	3	3	18	8	10
Illinois	5	9	22	12	12
Missouri	20	27	12	17	32
Nebraska	8	10	23	16	18
South Dakota	25	14	37	21	26

Source: 2006 50-State Property tax Comparison Study - National Taxpayers Conference

National Taxpayers Conference

- ◆ Are the rankings accurate?
- ◆ $\text{Tax} = \text{TMV} \times \text{SR} \times \text{CR} \times \text{TR} - \text{C}$
- ◆ $\text{TMV} = \text{True Market Value}$
- ◆ $\text{SR} = \text{Sales Ratio}$
- ◆ $\text{CR} = \text{Classification Rates}$
- ◆ $\text{TR} = \text{Tax Rate}$
- ◆ $\text{C} = \text{Credits}$

National Taxpayers Conference

- ◆ Are the rankings accurate?
- ◆ Des Moines \$1.0 Million commercial property taxes for FY 2007:
 - $\$1.0\text{M} \times 100\% \times 99.2\% \times \$45.93/\text{k} - \$0 = \$45,563$
(the study concluded \$41,236)
 - FY 2006: \$45,165
 - FY 2005: \$45,310
 - Sales ratio issue?
 - Math from the study could not be duplicated

National Taxpayers Conference

- ◆ Are the rankings accurate?
- ◆ Hampton \$100,000 commercial property taxes for FY 2007:
 - $\$100,000 \times 100\% \times 99.2\% \times \$44.02/k - \$0 = \$4,367$ (the study concluded \$3,103)
 - FY 2006: \$4,452
 - FY 2005: \$4,240
 - Sales ratio issue?
 - Math from the study could not be duplicated

Wisconsin Department of Revenue

- ◆ Modeled the tax liability of a hypothetical wood products company located in each of 15 states, including Wisconsin, Iowa, Illinois, and Minnesota.
- ◆ Tax incentives were not included.
- ◆ The company had \$3.5 million in real property and \$8.8 million in personal property.
- ◆ Ninety percent of the property was assumed to be in-state.
- ◆ The Iowa tax rate used was \$35.12 per thousand, applied to real property only.

Wisconsin Department of Revenue

A rank of 15 is best

Wisconsin Department of Revenue - Wood Products Industry Fifteen States Were Included in the Study

	<u>Overall Tax Liability Rank</u>	<u>Property Tax Rank</u>	<u>Total Taxes</u>	<u>Property Taxes</u>
Iowa	8	4	\$151,872	\$122,972
Minnesota	7	7	152,037	94,458
Wisconsin *	11	10	142,283	87,982
Illinois	13	11	139,647	86,953
Michigan	2	1	232,059	197,088
Indiana	1	2	259,068	190,634

* Wisconsin is ranked using a corporate tax system effective 2008.

Source: Wisconsin Department of Revenue (2006)

Nebraska DED Study - KPMG

- ◆ Title – A Comparative Analysis of Nebraska's Tax Incentive Climate
- ◆ Methodology – Calculated the first-year tax liability of seven separate hypothetical businesses seeking to locate in Nebraska, Iowa, Missouri, Minnesota, South Dakota, and five other states.
- ◆ Taxes included corporate income, franchise, sales/use, property, and unemployment insurance.
- ◆ Tax liability was adjusted for credits, refunds, and abatements offered by each state.

Nebraska DED Study - KPMG

Distribution Company Example - a rank of 10 is best

Nebraska DED / KPMG Study

Ten states were Included in the study

Hypothetical Distribution Company

First year of operation, after incentives

	<u>Overall Tax Liability Rank</u>	<u>Property Tax Rank</u>	<u>Total Taxes</u>	<u>Property Taxes</u>
Iowa	6	10	\$123,928	\$0
Minnesota	10	10	30,200	0
Nebraska	7	2	103,744	40,827
South Dakota	4	6	156,478	3,148
Missouri	2	3	209,297	35,379
Kansas	9	10	53,016	0

Source: KPMG Study for Nebraska DED

Nebraska DED Study - KPMG

Value-Added Ag Processor Example - a rank of 10 is best

Nebraska DED / KPMG Study

Ten states were Included in the study
Hypothetical Value-Added Ag Processor
First year of operation, after incentives

	<u>Overall Tax Liability Rank</u>	<u>Property Tax Rank</u>	<u>Total Taxes</u>	<u>Property Taxes</u>
Iowa	8	10	\$209,076	\$0
Minnesota	10	10	60,400	0
Nebraska	7	4	241,914	82,459
South Dakota	2	6	990,410	7,753
Missouri	5	2	553,215	286,763
Kansas	9	10	80,283	0

Source: KPMG Study for Nebraska DED

Nebraska DED Study - KPMG

Information Services Company Example - a rank of 10 is best

Nebraska DED / KPMG Study

Ten states were Included in the study
Hypothetical Information Service Company
First year of operation, after incentives

	<u>Overall Tax Liability Rank</u>	<u>Property Tax Rank</u>	<u>Total Taxes</u>	<u>Property Taxes</u>
Iowa	6	4	\$410,765	\$67,627
Minnesota	9	10	90,600	0
Nebraska	8	1	251,687	170,357
South Dakota	4	7	551,727	7,503
Missouri	2	3	794,449	152,647
Kansas	10	10	74,646	0

Source: KPMG Study for Nebraska DED

Nebraska DED Study - KPMG

Income and Property Tax Estimates - a rank of 10 is best

Nebraska DED / KPMG Study

Ten states were Included in the study
Ranked on estimated income and property tax paid
by persons in four employment classes

	Entry Level Employee	Manager	Executive	CEO
Iowa	1	1	1	2
Minnesota	2	2	2	1
Nebraska	6	3	3	3
South Dakota	9	9	9	9
Missouri	7	7	7	5
Kansas	5	5	4	7

A rating of 1 signifies the highest projected taxes paid.

Source: KPMG Study for Nebraska DED

Iowa DED Study – Williams & Co.

- ◆ Title – Tax Structure and Economic Development Incentives/Financing Comparison
- ◆ Methodology – Calculated projected five-year net tax liability of a hypothetical manufacturing C-corporation seeking to locate in Nebraska, Iowa, Minnesota, and South Dakota.
- ◆ Taxes included sales/use, excise, unemployment, corporate income, property, and owner's individual income taxes.
- ◆ Tax liability was adjusted for credits, refunds, and abatements offered by each state.
- ◆ Two scenarios were developed, one within the state's Enterprise Zone (E.Z.), and one outside of the E.Z.

Iowa DED Study – Williams & Co.

Income and Property Tax Estimates - a rank of 1 is best

Iowa DED / Williams & Co. Study

Four States Were Included in the Study

Hypothetical Manufacturing Company

First five years of operation

No Enterprise Zone or Minnesota JOBZ Zone Benefits

	<u>Net Tax Burden - First Five Years</u>	<u>Property Tax Rank</u>	<u>Total Taxes</u>	<u>Property Taxes</u>
Iowa	2	2	\$793,555	\$470,570
Minnesota	4	3	1,362,720	676,005
Nebraska	1	4	655,994	737,569
South Dakota	3	1	1,001,472	349,804

Source: Iowa DED / Williams & Co. Study 2006

Iowa DED Study – Williams & Co.

Income and Property Tax Estimates - a rank of 1 is best

Iowa DED / Williams & Co. Study

Four States Were Included in the Study

Hypothetical Manufacturing Company

First five years of operation

Enterprise Zone or Minnesota JOBZ Zone Benefits Included

	<u>Net Tax Burden - First Five Years</u>	<u>Property Tax Rank</u>	<u>Total Taxes</u>	<u>Property Taxes</u>
Iowa	2	2	\$420,010	\$97,025
Minnesota	1	3	346,080	107,805
Nebraska	3	4	655,994	737,569
South Dakota	4	1	719,008	67,340

Source: Iowa DED / Williams & Co. Study 2006

Observations

- ◆ Iowa relies on property tax revenue more heavily than the U.S. average.
- ◆ The effective rate of taxation for commercial property is very high compared to other classes of property in Iowa.
 - The effective rate for residential is also above average.
- ◆ There are places in Iowa with low business property tax rates.
- ◆ Iowa apartment and commercial taxes are high compared to the U.S. and to the region.
 - So are residential taxes.
- ◆ New businesses can take advantage of tax credit, exemption, and other tax incentive programs not available to existing businesses.
 - Existing businesses pay a very high rate, some new businesses very low.
- ◆ Any effort to remedy the property tax situation for commercial property should fully consider the consequences on other taxpayer categories.