

SCOTUS Finds that Minnesota Tax Lien Statute Violates the Fifth Amendment's Takings Clause

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In [Tyler v. Hennepin County](#), a unanimous U.S. Supreme Court concluded that the State of Minnesota violated a property owner's constitutional rights by keeping the excess proceeds from a tax lien sale. Geraldine Tyler owned a condominium in Hennepin County, Minnesota, but when she and her family decided she should move into a senior community in 2010, property taxes went unpaid. By 2015, Tyler owed the county \$2,300 in unpaid taxes and \$13,000 in accumulated interest and penalties. The county then seized and sold the condo for \$40,000, extinguished the debt Tyler owed but retained all excess proceeds totaling \$25,000 for its own use. Under [Minnesota law](#), any excess tax sale proceeds could be split between the county, the town, and the school district.

Tyler filed a putative class action suit against Hennepin asserting that the county retained the excess value of her property above the tax debt in violation of the Constitution's Fifth Amendment takings clause and the Eighth Amendment's excessive fines clause. The Minnesota federal district court dismissed Tyler's complaint on the grounds that state law recognized no property right in surplus proceeds from tax-foreclosure sales conducted with adequate notice to the homeowner and that a forfeiture was not a fine because the purpose was to remedy state tax losses. The U.S. Supreme Court granted certiorari and reversed.

The court confirmed that federal, state, and local governments have the right to collect taxes, including imposing interest, penalties, and costs and seizing and selling the property to recover the amount owed. The government, however, does not have the right to take more property than is necessary to recover the amount owed.

First, the court determined that the equity proceeds of sale in Tyler's property were a property right. The court reviewed not only applicable state law in Minnesota, but also "traditional property law principles," historical practice, and precedent to conclude that "the principle that a government may not take more from a taxpayer than she owes can trace its origins at least as far back as Runnymede in 1215, where King John swore in the Magna Carta..." The court went on to cite numerous examples from early American statutes and common law decisions that uphold this principle, and its own precedents. The court also noted that Minnesota's laws adhered

to this principle in other instances, such as where a creditor was collecting a debt or the state itself was collecting delinquent income taxes. Finding that Tyler’s equity was a property right, the court concluded that she had plausibly stated a claim that her property was taken without just compensation and that her case should not have been dismissed.

A concurring opinion addressed whether the county’s retention of excess proceeds amounted to an excessive fine in violation of the Eighth Amendment. Justice Gorsuch, joined by Justice Jackson, issued the concurring opinion to correct the analysis of whether a statutory scheme imposes a punishment subject to the Eighth Amendment. The Eighth Amendment does not require punishment to be the “primary purpose.” It does not matter that some property owners may not be punished excessively or at all (such as when there is no equity or the property is upside down), and it does not matter whether the penalty imposed depends upon the culpability of the owner (which tax collection procedures typically do not).

There are variations of the Minnesota statute on excess proceeds in 14 other states: Alabama, Arizona, Colorado, Illinois, Maine, Massachusetts, Minnesota, Montana, Nebraska, New Jersey, New York, Ohio, Oregon, and Wisconsin. Whether another state’s tax-lien sale procedure violates the Takings Clause may depend on similar nuances in the particular procedure or the facts of the case. We continue to monitor pending litigation in other jurisdictions arising from challenges to the government’s retention of excess tax sale proceeds and litigation we expect will be filed in the wake of this decision.

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