

## Who does what

Counties are responsible for property tax administration; the Department of Revenue provides assistance and oversight. The list below shows each county office's responsibilities for property tax administration. In some counties these offices are merged and one or two offices may perform the functions.

- **Assessor:** Values property; determines proper classification; and sends valuation notices to taxpayers
- **Auditor:** Determines each taxing jurisdiction's total tax capacity (i.e., its tax base); calculates proposed and final tax rates; and prepares truth-in-taxation notices (based on proposed levies)
- **Treasurer:** Prepares and mails out property tax statements; collects property tax payments; and distributes property tax receipts to each taxing jurisdiction

## Property tax timeline

The process of calculating, imposing, and collecting Minnesota property taxes for a year actually spans two calendar years. As shown on the reverse side, the two-year cycle begins with the January 2 statutory assessment date and extends all the way through the next calendar year until the property taxes have been paid. For example, for taxes payable in 2020, the cycle begins on January 2, 2019, and doesn't end until the final payments are made in October/November 2020.

## Appeal process

If a property owner disagrees with the assessor's valuation (shown on the valuation notice), the taxpayer can seek relief directly from the assessor. This may resolve the matter, so that no further action is necessary. If it does not, there are two separate avenues of appeal:

- 1) A three-step appeal process, consisting of an appeal to:
  - the local board of review; if not satisfied, appeal to,
  - the county board of equalization; if not satisfied, appeal to,
  - the Minnesota tax court.
- 2) A single-step appeal to the Minnesota tax court. There are two divisions:
  - The regular division, which can be used for any property. Proceedings are formal (an attorney is recommended), and the decision may be appealed to the Minnesota Supreme Court; or
  - The small claims division, which can be used only for homesteads (regardless of value) and other property where the market value is under \$300,000. Proceedings are less formal, and decisions are final.

Property Tax System Timeline			
		Assessment Year 2019 Taxes Payable 2020	Assessment Year 2020 Taxes Payable 2021
2019	January	Assessment date (2nd)	
	March	Valuation notices mailed	
	April	Local boards of appeal and equalization	
	June	County board of appeal and equalization; state board of equalization	
	July	Certification of state aid amounts	
	September	Truth-in-taxation levy certifications (15th, 30th)	
	November	Truth-in-taxation notices mailed	
	December	Final budget hearings; final levy certifications (27th)	
2020	January	County auditors compute tax rates	Assessment date (2nd)
	March	Property tax statements mailed	Valuation notices mailed
	April		Local boards of appeal and equalization
	May	1st half tax payments due (15th)	
	June		County board of appeal and equalization; state board of equalization
	July	1st half state aid payments made (20th)	Certification of state aid amounts
	September		Truth-in-taxation levy certifications (15th, 30th)
	October	2nd half tax payments due – except on agricultural property (15th)	
	November	2nd half tax payments due – on agricultural property (15th)	Truth-in-taxation notices mailed
	December	2nd half state aid payments made (26th)	Final budget hearings; final levy certifications (27th)
2021	January		County auditors compute tax rates
	March		Property tax statements mailed
	May		1st half tax payments due (15th)
	July		1st half state aid payments made (20th)
	October		2nd half tax payments due – except on agricultural property (15th)
	November		2nd half tax payments due – on agricultural property (15th)
	December		2nd half state aid payments made (26th)



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## Property Taxation 101

Updated May 2020

This guide is intended to describe the basics of Minnesota’s property tax system. This system collected just over \$6.7 billion in 2016 to help fund the services of schools, counties, cities, townships, and special districts and the state general fund. One of the challenges of trying to understand this system is the complex array of terms involved. As new terms are introduced in this guide, they are shown in *italics*. A glossary at the end of the guide has short definitions of these terms.

### Assessment and classification

The property tax system is a continuous cycle, but it effectively begins with the estimation of property *market values* by local assessors. Assessors attempt to determine the approximate selling price of each parcel of property based on the current market conditions.

Along with the market value determination, a *property class* is ascribed to each parcel of property based on the use of the property. For example, property that is owner-occupied as a personal residence is classified as a residential homestead. The “use class” is important because the Minnesota system, in effect, assigns a weight to each class of property. Generally, properties that are associated with income production (e.g. commercial and industrial properties) have a higher classification weight than other properties.

The property classification system defines the *tax capacity* of each parcel as a percentage of each parcel’s market value. For example, a \$75,000 home which is classified as a residential homestead has a class rate of 1.0 percent and therefore has a tax capacity of \$75,000 x .01 or \$750. (A sample of the class rates are included in table A.)

$$[\text{parcel market value}] * [\text{class rate}] = [\text{parcel tax capacity}]$$

The next step in calculating the tax burden for a parcel involves the determination of each local unit of government’s *property tax levy*. The city, county, school district and any special property taxing authorities must establish their levy by December 28 of the year preceding the year in which the levy will be paid by taxpayers. The property tax levy is set after the consideration of all other revenues including state aids such as *LGA*.

$$[\text{city budget}] - [\text{all non-property tax revenues}] = [\text{city levy}]$$

For cities within the seven-county Twin Cities metropolitan and on the iron range, the levies are reduced by an amount of property tax revenue derived from the metropolitan and range area *fiscal disparities programs* (see “Fiscal Disparities 101” for more information).

### Local tax rates

Local governments do not directly set a tax rate. Instead, the tax rate is a function of the

levy and the total tax base. To compute the *local tax rate*, a county must determine the total tax capacity to be used for spreading the levies. The *total tax capacity* is computed by first aggregating the tax capacities of all parcels within the city. Several adjustments to this total must be made because not all tax capacity is available for general tax purposes. The result of this calculation produces taxable tax capacity. Taxable tax capacity is used to determine the local tax rates.

$$[\text{city levy}] / [\text{taxable tax capacity}] = [\text{city tax rate}]$$

The city tax rate is computed by dividing the city levy (minus the fiscal disparities distribution levy, if applicable) by the taxable tax capacity. Under the current property tax system, the tax rate is expressed as a percentage. For example, the average 2016 city tax capacity rate is approximately 46.52 percent. Dramatic changes to the tax system in 2001 increased the average city rate significantly in 2002. This same calculation is completed for the county based on the county's levy and tax base, the school district and all special taxing authorities. The sum of the tax rates for all taxing authorities that levy against a single property produces the total local tax rate. This total local tax rate is then used to determine the overall tax burden for each parcel of property.

### **Parcel tax calculations**

The property tax bill for each parcel of property is determined by multiplying the parcel's tax capacity by the total local tax rate. The tax statement for each individual parcel itemizes the taxes for the county, municipality, school district, and any special taxing authorities.

$$[\text{parcel tax capacity}] * [\text{total local tax rate}] = [\text{tax capacity tax bill}]$$

To complicate the tax calculations, voter-approved referenda levies are applied to the market value of each parcel, not tax capacity. As a result, each identically valued parcel, regardless of the property's use, pays the same amount of referenda taxes (with the exception of certain agricultural and seasonal recreational properties, which are exempted from referenda taxes). For taxes payable in 2016, three counties, 39 cities and 328 school districts levied market value-based levies. These communities must have a separate calculation for a market value referenda levy by the total taxable market value of each community.

$$[\text{parcel market value}] * [\text{market value tax rate}] = [\text{market value tax bill}]$$

$$[\text{tax capacity tax bill}] + [\text{market value tax bill}] = [\text{total tax bill}]$$

### **State property tax**

New to the tax system in 2002 was a state property tax on all commercial, industrial, seasonal recreational, and utility real property. The proceeds are deposited in the state general fund. Prior to 2002, the state last collected a property tax in 1968.

### **Property tax credits**

Several tax credits for various types of properties are available in certain instances. These amounts are subtracted from the overall taxes for each parcel to determine the net tax bill for the individual owner. Minnesota also provides additional property tax relief directly to individual homeowners, cabin owners, and renters through the *circuit breaker* and the *targeting refund* programs (see "State Homeowner Property Tax Relief Programs 101" for more details).

### **Property tax intricacies**

The technical details of computing property taxes mask many other intricacies of the

property tax system. Many communities over the past several years have experienced situations where individual property taxes rise much faster than the increase in the levies that are certified by local units of government.

The most common factor that results in an increase in an individual parcel's tax is the change in the parcel's estimated market value. Without any change in local levies, a property owner can experience a tax increase due almost exclusively to any valuation increase.

The Legislature frequently changes the classification system. Changes to the classification system can shift property tax burdens from one type of property to another. Table A demonstrates some of the changes the Legislature has made to class rates since 1997. Commercial, industrial, and apartment properties received significant reductions in their class rates. This shifts tax burden to other classes of property that did not receive class rate reductions. In an effort to minimize the effect of these shifts, the legislature reduced school levies across the state and created the *Market Value Homestead Credit (MVHC)*. This credit reduced property taxes for homesteads by 0.4 percent of the homestead's market value up to a maximum \$304 dollars. As part of the credit program, the state was supposed to reimburse cities for the amount by which the credits reduce cities' tax receipts. Between 2003 and 2011, the Legislature and the governor made significant reductions to the reimbursement amounts for cities. The reimbursement program was eliminated beginning in 2012. Going forward, qualifying homeowners will receive a partial market value exclusion instead of the credit offset (see "Homestead Market Value Exclusion 101").

Economic factors that may affect broad classes of property can also influence the overall tax changes for individual parcels of property. For example, in the early 1990s the

metropolitan area experienced major declines in the valuation for commercial and industrial properties. These valuation declines shifted taxes from property classified as commercial and industrial to all other types of property. Valuation declines also may have accentuated the levy changes by local units of government.

A 2002 law change exempted agricultural and cabin property from voter-approved referenda levies. In some jurisdictions where these types of property are a significant part of the tax base, this change shifted taxes onto other classes of property.

Legislative changes in state aid programs can also affect the revenue needed to be raised from the property tax. The Legislature has often made changes to the distribution formula for LGA and adjusted the total amount of funding available. The most recent significant formula changes were in 2013. The 2019 Legislature increased LGA funding to \$560.4 million for 2020.

Levy limits also impact local levy decisions. The last time cities were impacted by levy limits was in 2009, 2010 and 2011. Those limits were in place for cities over 2500 population. The 2013 legislature implemented one-year levy limits for taxes payable in 2014 for cities over 2500 in population. There were no levy limits in place for taxes payable in 2016.

This discussion is only a general overview of the current Minnesota property tax system. Over time, the system has become more complex and difficult for taxpayers to understand. Unfortunately, local officials must frequently explain how the system works and take the blame for the complicated features of the system. Local officials, however, can only control local levy decisions. They have no direct ability to modify the overall structure of the tax system and are at the mercy of the Minnesota Legislature.

## Glossary of Terms

**Circuit breaker** - A state-paid property tax refund program for homeowners who have property taxes out of proportion with their income. A similar program is also available to renters.

**Class rates** - The percent of market value set by state law that establishes the property's tax capacity subject to the property tax. See Table A for a sample list of class rates.

**Fiscal disparities programs** - Local units of government in the Twin Cities metropolitan area and on the iron range participate in property tax base sharing programs. Under these two programs, a portion of the growth in commercial and industrial property value of each city and township is contributed to a tax base sharing pool. Each city and township then receives a distribution of property value from the pool based on market value and population in each city.

**Homestead and agricultural credit aid (HACA)** - A \$200 million property tax relief program that was eliminated in 2001.

**Homestead Market Value Exclusion (HMVE)** – Starting with taxes payable in 2012, eligible homesteads will pay property taxes on only a portion of the value of their homes. The maximum exclusion, 40% of value, occurs at home value of \$76,000 and phases out as home value grows.

**Local government aid (LGA)** - A state government revenue sharing program for cities and townships that is intended to provide an alternative to the property tax. LGA is distributed using different formulae for cities over 2,500 and cities under 2,500. Those formulae include factors such as population, population change, and the share of households built before 1940. The

formula was again changed in 2013 for aid distributions in 2014 and beyond (see “Local Government Aid 101: 2014 Distribution and Beyond” for more details).

**Local tax rate** - The rate used to compute taxes for each parcel of property. Local tax rate is computed by dividing the certified levy (after reduction for fiscal disparities distribution levy and disparity reduction) by the taxable tax capacity.

**Market value** - An assessor's estimate of what property would be worth on the open market if sold. The market value is set on January 2 of the year before taxes are payable.

**Market value homestead credit** - This credit used to offset a portion of each homestead's property tax burden equal to .4 percent of the homestead's market value up to a maximum credit of \$304. For taxes payable in 2012 and beyond homestead properties will not receive a credit but rather see a portion of the value excluded from taxation (for eligible properties).

**Property class** - The classification assigned to each parcel of property based on the use of the property. For example, owner-occupied residential property is classified as homestead.

**Property tax levy** - The tax imposed by a local unit of government. The tax is established on or around December 28 of the year preceding the year the levy will be paid by taxpayers.

**Targeting refund** - a state paid property tax refund for homeowners whose property taxes have increased by more than 12 percent. A similar program is available to cabin owners.

**Tax capacity** - The valuation of property based on market value and statutory class rates. The property tax for each parcel is based on its tax capacity.

**Total tax capacity** - The amount computed by first totaling the tax capacities of all parcels of property within a city. Adjustments for fiscal disparities, tax increment and a portion of the powerline

value are made to this total since not all tax capacity is available for general tax purposes.

**Truth-in-Taxation** - The “taxation and notification law” which requires local governments to set estimated levies, inform taxpayers about the impacts, and announce which of their regularly scheduled council meetings will include a discussion of the budget and levy. Taxpayer input is taken at that meeting.

Table A: class rates

Property Class	Taxes Payable 2019	State Tax Payable 2019
Residential Homestead: 1 <sup>st</sup> \$500,000 <sup>1</sup> >\$500,000	1.0% 1.25	No state tax
Non-homestead Residential: Single unit: 1 <sup>st</sup> \$500,000 <sup>1</sup> >\$500,000 2-3 unit buildings	1.0 1.25 1.25	No state tax
Market-rate Apartments:	1.25	No state tax
Commercial/Industrial: 1 <sup>st</sup> \$150,000 <sup>2</sup> >\$150,000	1.5 2.0	Subject to state levy (commercial-industrial rate)
Seasonal Recreational Residential: 1 <sup>st</sup> \$500,000 >\$500,000	1.0 1.25	Subject to state levy (seasonal-recreational rate)

<sup>1</sup>First tier limit was \$72,000 for 1997, \$76,000 for 2000, and \$500,000 for 2002 and thereafter

<sup>2</sup>First tier limit was \$100,000 for 1997, \$150,000 thereafter

## Resources

League of Minnesota Cities

<https://www.lmc.org/resources/paying-for-city-services/>

- Local Government Aid 101: 2014 Distribution and Beyond
- Fiscal Disparities 101
- State Homeowner Property Tax Relief Programs 101
- Homestead Market Value Exclusion 101

Year 2020 Anoka County Cities-Property Tax  
 2020 data from League of MN Cities

City	Value (using \$350K as example)	City Tax	Total Tax	difference	Total Net Tax Capacity	Ag Share	Residential Share	Other Res Share (e.g., apt)	Commercial Industrial	Other Share (e.g., golf courses)
Andover	\$ 350,000.00	\$ 1,249.00	\$ 3,896.00	\$ 2,647.00	\$ 36,847,727.00	0.68%	89.03%	2.40%	7.28%	0.61%
Anoka	\$ 350,000.00	\$ 1,226.00	\$ 3,963.00	\$ 2,737.00	\$ 21,114,045.00	0.00%	49.02%	17.97%	32.53%	47.00%
Bethel	\$ 350,000.00	\$ 1,621.00	\$ 3,956.00	\$ 2,335.00	\$ 438,347.00	1.07%	68.45%	3.53%	18.02%	8.93%
Blaine	\$ 350,000.00	\$ 1,234.00	\$ 4,213.00	\$ 2,979.00	\$ 92,567,947.00	0.17%	65.21%	4.70%	28.93%	0.98%
Centerville	\$ 350,000.00	\$ 1,823.00	\$ 5,260.00	\$ 3,437.00	\$ 4,887,182.00	0.10%	84.29%	2.10%	13.51%	0.00%
Circle Pines	\$ 350,000.00	\$ 1,816.00	\$ 5,201.00	\$ 3,385.00	\$ 4,777,945.00	0.00%	87.49%	5.95%	6.54%	0.02%
Columbia Heights	\$ 350,000.00	\$ 2,214.00	\$ 4,809.00	\$ 2,595.00	\$ 16,981,609.00	0.00%	69.99%	16.75%	12.54%	0.72%
Columbus	\$ 350,000.00	\$ 1,621.00	\$ 4,482.00	\$ 2,861.00	\$ 7,293,479.00	4.85%	69.26%	1.46%	24.08%	0.35%
Coon Rapids	\$ 350,000.00	\$ 1,384.00	\$ 4,148.00	\$ 2,764.00	\$ 71,208,543.00	0.01%	62.61%	8.43%	27.77%	1.19%
East Bethel	\$ 350,000.00	\$ 1,467.00	\$ 3,850.00	\$ 2,383.00	\$ 13,248,194.00	2.43%	84.72%	1.72%	9.60%	1.53%



Fridley	\$ 350,000.00	\$ 1,605.00	\$ 4,895.00	\$ 3,290.00	\$ 42,050,719.00	0.00%	40.34%	11.02%	46.57%	2.07%
Ham Lake	\$ 350,000.00	\$ 772.00	\$ 3,507.00	\$ 2,735.00	\$ 22,174,114.00	1.42%	82.70%	1.54%	13.39%	0.95%
Hilltop	\$ 350,000.00	\$ 3,308.00	\$ 5,923.00	\$ 2,615.00	\$ 601,528.00	0.00%	4.90%	15.45%	64.95%	14.70%
Lexington	\$ 350,000.00	\$ 1,954.00	\$ 5,391.00	\$ 3,437.00	\$ 2,187,700.00	0.00%	47.85%	29.91%	20.64%	1.60%
Lino Lakes	\$ 350,000.00	\$ 1,373.00	\$ 4,605.00	\$ 3,232.00	\$ 26,252,562.00	1.17%	81.28%	3.22%	14.02%	0.31%
Oak Grove	\$ 350,000.00	\$ 739.00	\$ 3,079.00	\$ 2,340.00	\$ 10,311,569.00	3.36%	91.60%	91.60%	3.38%	0.87%
Ramsey	\$ 350,000.00	\$ 1,363.00	\$ 4,183.00	\$ 2,820.00	\$ 32,394,169.00	0.45%	73.17%	6.00%	19.96%	0.42%
St. Francis	\$ 350,000.00	\$ 1,741.00	\$ 4,078.00	\$ 2,337.00	\$ 6,724,450.00	4.67%	79.17%	3.46%	10.56%	2.14%