

Property Tax 101: Property Tax Variation by Property Type

What causes property taxes to vary by type of property?

The primary cause of variation in property tax burdens is Minnesota's classified property tax system. In a classified system, each class of property is assigned one or more *class rates*. The property's taxable market value is multiplied by the class rate(s) to determine the property's tax base, technically called its *net tax capacity*.

Besides the class rates, variations in tax by type of property also occur because the state general tax and school district operating referendum levies apply to some types of property but not to others. (All voter-approved levies, except school district levies for bonded debt, are levied on referendum market value. School district levies for bonded debt are levied on the net tax capacity of all types of property.) The table below shows class rates and the applicability of taxes by type of property.

Class Rate Schedule for Taxes Payable in 2011

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
1	Homestead			
1a	Residential homestead: Up to \$500,000 Over \$500,000	1.00% 1.25	No No	Yes Yes
2	Agricultural			
2a	Agricultural homestead: House, garage & 1 acre – same as residential homestead Agricultural land & buildings: Up to \$1,140,000 Over \$1,140,000	0.50 1.00	No No	No No
2a	Agricultural nonhomestead	1.00	No	No
2b	Nonhomestead rural vacant land	1.00	No	No
3	Commercial/Industrial/Public Utility			
3a	Commercial/Industrial/Public Utility: Up to \$150,000 Over \$150,000 Electric generation attached machinery	1.50 2.00 2.00	Yes* Yes* No	Yes Yes Yes
4	Other residential			
4a	Market-rate apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit: Up to \$500,000 Over \$500,000	1.00 1.25	No No	Yes Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial): Up to \$500,000 Over \$500,000	1.00 1.25	Yes** Yes**	No No
4d	Low-income apartments	0.75	No	Yes
* Subject to state general tax at commercial-industrial rate.				
** Subject to state general tax at seasonal recreational rate.				

What other factors cause property taxes to vary by type of property?

Variations also occur because certain types of property qualify for property tax credits that reduce the amount of tax that would otherwise be due. The two largest credit programs are the homestead market value credit and the agricultural market value credit, which apply to all residential homesteads and all agricultural homesteads. Other credits apply to property in some areas of the state but not to others.

Local variation also occurs because tax rates are determined separately for each taxing jurisdiction in the state, based on each jurisdiction's levy and tax base.

What is effective tax rate?

Effective tax rate is a measure of tax burden useful in making property tax comparisons. It is defined as net tax divided by market value (i.e., tax as a percent of market value). It allows comparison of tax burdens between properties of different values, different types, and different locations.

**Comparison of Property Taxes on Various Types of Property,
Within the Same Taxing Jurisdiction, Each with a Market Value of \$200,000
(Property taxes payable in 2011)**

Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	\$1,200	\$1,272	\$790	0.39%
Agricultural nonhomestead	1.0	2,000	2,000	2,000	1.00
Residential homestead	1.0	2,000	2,360	2,168	1.08
Seasonal recreational residential (i.e., cabin)	1.0	2,000	2,293	2,293	1.15
Residential nonhomestead (1 unit)	1.0	2,000	2,360	2,360	1.18
Residential nonhomestead (2-3 units)	1.25	2,500	2,860	2,860	1.43
Apartment	1.25	2,500	2,860	2,860	1.43
Low-income apartment	0.75	1,500	1,770	1,770	0.89
Commercial/Industrial	1.5/2.0	3,250	5,170	5,170	2.59
Commercial/Industrial @ \$2,000,000***	1.5/2.0	39,250	61,690	61,690	3.08

* These examples assume a total local net tax capacity tax rate of 100 percent, a total market value tax rate of 0.18 percent, a state commercial-industrial tax rate of 46 percent, and a state seasonal recreational tax rate of 19 percent.
 ** The agricultural homestead is assumed to consist of a house valued at \$40,000 and agricultural land and buildings valued at \$160,000.
 *** This property has a market value of \$2,000,000 to show a typical effective tax rate on a larger commercial/industrial property.

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**Comparison of Property Taxes on Various Types of Property,
 Within the Same Taxing Jurisdiction, Each with a Market Value of \$200,000
 (Property taxes payable in 2009)**

Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	\$1,250	\$1,325	\$798	0.40%
Agricultural nonhomestead	1.0	2,000	2,000	2,000	1.00
Residential homestead	1.0	2,000	2,300	2,108	1.05
Seasonal recreational residential (i.e., cabin)	1.0	2,000	2,293	2,293	1.15
Residential nonhomestead (1 unit)	1.0	2,000	2,300	2,300	1.15
Residential nonhomestead (2-3 units)	1.25	2,500	2,800	2,800	1.40
Apartment	1.25	2,500	2,800	2,800	1.40
Low-income apartment	0.75	1,500	1,725	1,725	0.86
Commercial/Industrial	1.5/2.0	3,250	5,045	5,045	2.52
Commercial/Industrial @ \$2,000,000***	1.5/2.0	39,250	60,305	60,305	3.02

* These examples assume a total local net tax capacity tax rate of 100 percent, a state commercial-industrial tax rate of 46 percent, a state seasonal recreational tax rate of 19 percent, and a total market value tax rate of 0.15 percent.

** The agricultural homestead is assumed to consist of a house valued at \$50,000 and agricultural land and buildings valued at \$150,000.

*** This property has a market value of \$2,000,000 to show a typical effective tax rate on a larger commercial/industrial property.