



Property Tax Statement 101 Updated July 2009

This guide is intended to help explain the basics of the property tax system to residential taxpayers by “walking through” each section of the property tax statement. Minnesota homeowners receive the tax statement for their property in March. Property taxes are derived from the property assessment, the local government levies and any voter approved referenda. Credits, refunds and other forms of relief complicate the system. See the “Property Taxation 101” document for a more detailed description of the property tax system and a glossary of terms.

The Layout

The property tax statement is brief but contains a lot of information. The property tax statement not only communicates the amount due in the current year but provides comparison with the previous year’s valuation, property classification, reductions from state aid and credits and total tax amounts.

Layout of the statement may vary slightly from county to county but the content will generally be the same. The front page lists identifying information about the county auditor, the subject property and the taxpayers. The rest of the front page, which shows the taxes due, will be discussed in more detail in the following sections.

The back page of the statement contains information about refund programs available to eligible homeowners. See the “Property Tax Relief 101” document for a summary of state-paid refund programs. A summary table of late payment penalties also appears on the back page. The back page may also contain other tax related notices.

Tax Values & Classification

This section contains information on the market value and classification of the property.

The *estimated market value* is determined by an assessor and represents an estimate of how much the property would be worth on the open market if sold. The *taxable market value* is the estimated market value minus any excluded property improvements or other exclusions. The taxable market value accounts for the *limited market value* provision, a limitation on the amount a property’s value can increase in any year. The increase is capped at 15% of the previous limited market value or 25% of the difference between the current year estimated market value and the previous year limited market value. Enacted in 1993, this provision is currently being phased out and will end by 2010.

Every parcel is classified based on use and assigned a *classification rate*. Income-producing properties generally have higher class rates. These rates are set by the legislature and are not tax

rates but a weighting system. In other words, if two properties had equal market values but different class rates, the property with the higher class rate would have a higher tax capacity. The property tax statement may show the abbreviated classification name, such as *Res. Hmstd.* (residential homestead).

The Mechanics of Taxes

The market value and classification is used to determine the property tax bill. Most property taxes are levied against the parcel's tax capacity and some are levied against the taxable market value.

- The *tax capacity* of a parcel is determined by multiplying the parcel's market value by its classification rate. For example, a home with an assessed market value of \$250,000 has a class rate of 1.0% which equals a tax capacity of \$2,500.

Property taxes that are levied against tax capacity are calculated using tax capacity rates. These rates are determined by dividing the tax capacity levy by the total tax capacity of a jurisdiction. The sum of all tax capacity rates, the total local tax rate, is multiplied by a parcel's tax capacity to determine the tax capacity portion of the tax bill.

Voter-approved referenda levies are applied to a parcel's taxable market value instead of the tax capacity. The market value rate is found by dividing the market value levy by the total market value. Multiplying the market value rate by the parcel's taxable market value results in the market value portion of property taxes. The tax capacity portion plus the market value portion less any

credits comprise the total tax bill for a property.

Taxes payable for the current year and previous year are listed at the top of the tax detail section on the statement. These amounts do not include any special assessments and are used to determine eligibility for refund programs.

State Aid Reductions

The statement must contain a section that details how an individual's taxes have been reduced by state aid and credit programs. The tax amount without any aid or credits applied is shown first, with deductions for aid and credits itemized separately.

All state aid amounts that cities may receive are certified by July. For cities that receive it, aid helps close the gap between a city's expenditure needs and its ability to raise revenues through property taxes, fees, charges and other sources of revenue. See the "Local Government Aid 101" document for more information on LGA, the largest state aid program.

An individual property tax bill may be reduced by applicable credits, such as the homestead market value credit (MVHC). This credit provides a reduction in property taxes of 0.4 percent of the homestead's market value up to a maximum of \$304 dollars. Homesteads valued at \$413,778 and over do not receive credit. The program is structured so that the state reimburses local jurisdictions for the total amount of credits given to homeowners. Unfortunately, cities have not been reimbursed fully or at all in recent years. For taxes payable in 2010 and thereafter,

the property tax statement must not state or imply that property tax credits are paid by the state. See the “Market Value Homestead 101” document for further details on these credits.

The taconite tax relief program is available to taconite relief areas on the Iron Range. The value of the credit is dependent on characteristics such as the value of iron ore in the jurisdiction and the proximity to mines.

Property Tax by Jurisdiction

The tax statement itemizes tax amounts for each taxing jurisdiction and any voter-approved referenda levies. All of the different levies are summed, showing the total property tax amount before special assessments.

An individual parcel is typically in several taxing jurisdictions: city, county, school district and any special property taxing districts, such as a watershed district. Each jurisdiction levies a tax and there is a different tax rate for each jurisdiction. Jurisdictions do not set the tax rate; rather it is a function of the jurisdiction’s levy and total tax base.
$$[\text{levy}] / [\text{tax base}] = [\text{tax rate}]$$

Each taxing jurisdiction must establish the preliminary *property tax levy* by mid September. The final levy can be less but not more than the preliminary amount. In very simple terms, the levy is determined by the following calculation:

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

Special Assessment

Any special assessments on the property are listed by type of assessment. The

sum of any assessments owed is then added to the property tax subtotal.

Pay Stubs

The bottom of the statement contains pay stubs showing the amount and date due that are to be submitted with each payment. The pay stubs are not used by taxpayers who pay property taxes along with their mortgage payments.

Half of the total tax payment is due May 15th with the remaining half due October 15th. A penalty fee is assessed for late payments. The back of the statement explains how to calculate penalties. The payment amounts must be paid in full even if the taxpayer is eligible for a refund.

City, county and school district web sites often have additional information on budgets, spending priorities, etc. The League of Minnesota Cities website offers a calculator tool to compare taxes on properties in different cities and in different years.

Timeline and Additional Information

The entire process for assessing, calculating, imposing and collecting property taxes actually takes two full years and is administered by counties. Taxpayers receive two documents prior to the tax statement.

Assessors determine market values by January 2 of the year before taxes are payable. In other words, market values for taxes payable in 2009 were set in January of 2008. Property owners receive notice of the market value from the assessor in March of each year. An appeals process is established for property owners who disagree with the assessed valuation.

Truth-in-taxation (T-n-T) notices are mailed to property owners in November and show the tax burden under the proposed levy. The notice lists both actual taxes paid in the previous year and proposed taxes. Taxpayers can see what factors contributed to change in the property taxes due (i.e., changes in spending by one or more jurisdictions, classification changes, assessed value change, etc.). During their budget-setting process, usually in the fall, cities over 500 are required to publish which

of their regularly scheduled council meetings will include a discussion of the budget and levy. Residents can use that opportunity to ask questions and share their thoughts on the city's budget plans. The levy may change as a result of this meeting, future referendums, legal judgments, natural disasters or special assessments. A jurisdiction's final levy must be certified by December 28.th

Resources

League of Minnesota Cities

<http://www.lmc.org/page/1/property-tax-state-funding-fiscal-issues.jsp>

- Local Government Aid 101: 2009 Distribution & Beyond
- Market Value Homestead Credit 101
- Property Tax 101
- Property Tax Relief 101

Minnesota Department of Revenue

- Sample Property Tax Statement
http://www.taxes.state.mn.us/property_tax_administrators/other_supporting_content/proptaxstatement_2009.shtml

House Research

<http://www.house.leg.state.mn.us/hrd/topics.asp?topic=21>

- Classification rates
- Limited Market Value Brief