

Property Tax 101: Basic Terms and Concepts

February 2020

Estimated market value

The assessor determines each property's **estimated market value** based on sales of comparable properties, cost of construction minus depreciation, income generated by the property (if applicable), and other relevant available information.

Market value exclusions, taxable market value

For some properties, a portion of the market value is excluded from taxation. All homesteads with an estimated market value below \$413,800 have a portion of the market value excluded under the homestead market value exclusion. Other market value exclusions are provided through the "Green Acres" program and the disabled veteran's exclusion. A property's **taxable market value** is its **estimated market value** less any applicable **market value exclusions**.

Net tax capacity, class rate

A property's **net tax capacity** is determined by multiplying the property's **taxable market value** by the relevant **class rate** or rates. Class rates are set by statute, vary by property type, and are uniform statewide.

Local taxing jurisdiction

A **local taxing jurisdiction** is any local unit of government that has the authority to levy property taxes. Examples are counties, school districts, cities, towns, and "special taxing districts" such as watershed districts, housing and redevelopment authorities, and regional development commissions.

Taxable net tax capacity

A taxing jurisdiction's **taxable net tax capacity** is the total **net tax capacity** of all properties within the jurisdiction, excluding a portion of the value of property located in a tax increment financing district.

Levy, levy limit

Each local taxing jurisdiction certifies a **levy** equal to the amount it intends to raise from property taxes in the upcoming year. For some local taxing jurisdictions, the levy may be constrained by state-imposed **levy limits**.

Local tax rate, total local tax rate

The **local tax rate** of a taxing jurisdiction is determined by dividing the jurisdiction's **levy** by the jurisdiction's **taxable net tax capacity**. The **total local tax rate** for an individual property is the sum of the local tax rates of all taxing jurisdictions in which the property is located.

Market value levy and tax rate

Most voter-approved levies apply to a property's market value rather than its net tax capacity. The **market value tax rate** is determined by dividing the jurisdiction's **market value levy** by the total market value of all properties within the jurisdiction (excluding properties classified as agricultural or seasonal-recreational, since those property types are exempt from market value levies).

Gross tax, property tax credits, net tax

Property tax credits reduce the **gross tax** that would otherwise be due upon a property. The most common property tax credits are the agricultural market value credit, the taconite homestead credit, the disparity reduction credit, and the school building bond agricultural credit. The remaining amount after subtraction of property tax credits is the **net tax**.

Computation of Property Tax for a Hypothetical Property (Residential Homestead)											
1. Determine the property's estimated market value	\$200,000										
2. Determine the property's homestead market value exclusion	\$19,200										
3. Determine the property's taxable market value	$\$200,000 - \$19,200 = \$180,800$										
4. Determine the class rate based on property type	Residential homestead: 1.0%										
5. Multiply taxable market value by class rate to obtain the net tax capacity	$\$180,800 \times 1.0\% = \$1,808$										
6. Determine the total local tax rate by summing the tax rates of all jurisdictions authorized to levy property taxes upon the property (i.e., jurisdictions whose boundaries include the property)	<table> <tr> <td>County</td> <td>45%</td> </tr> <tr> <td>City/town</td> <td>35</td> </tr> <tr> <td>School district</td> <td>25</td> </tr> <tr> <td>Special districts</td> <td><u>5</u></td> </tr> <tr> <td>Total</td> <td>110%</td> </tr> </table>	County	45%	City/town	35	School district	25	Special districts	<u>5</u>	Total	110%
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City/town	35										
School district	25										
Special districts	<u>5</u>										
Total	110%										
7. Multiply net tax capacity by total tax rate to determine the net tax capacity-based tax	$\$1,808 \times 110\% = \$1,989$										
8. Determine the total market value tax rate by summing the market value tax rate for all taxing jurisdictions authorized to levy property taxes upon the property	<table> <tr> <td>County</td> <td>0.00%</td> </tr> <tr> <td>City/town</td> <td>0.00</td> </tr> <tr> <td>School district</td> <td>0.15</td> </tr> <tr> <td>Special districts</td> <td><u>0.00</u></td> </tr> <tr> <td>Total</td> <td>0.15%</td> </tr> </table>	County	0.00%	City/town	0.00	School district	0.15	Special districts	<u>0.00</u>	Total	0.15%
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9. Multiply estimated market value by total market value tax rate to determine the market value-based tax	$\$200,000 \times 0.15\% = \300										
10. Add the net tax capacity-based tax to the market value-based tax to obtain the total net tax	$\$1,989 + \$300 = \$2,289$										



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