

## 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 are levied on referendum market value, except school district levies for bonded debt and other units’ debt levies approved by voters after 6/30/08; those levies are levied on the net tax capacity of all types of property.)

### Class Rate Schedule for Taxes Payable in 2017

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
<b>1</b>	<b>Homestead</b>			
1a	Residential homestead: Up to \$500,000 Over \$500,000	1.00% 1.25	No No	Yes Yes
<b>2</b>	<b>Agricultural</b>			
2a	Agricultural homestead: House, garage & 1 acre – same as residential homestead Agricultural land & buildings: Up to \$2,050,000 Over \$2,050,000	0.50 1.00	No No	No No
2a	Agricultural nonhomestead	1.00	No	No
2b	Nonhomestead rural vacant land	1.00	No	No
<b>3</b>	<b>Commercial/Industrial/Public Utility</b>			
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
<b>4</b>	<b>Other residential</b>			
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: Up to \$115,000 per unit Over \$115,000 per unit	0.75 0.25	No No	Yes 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 of various property tax exclusions and credits. Homesteads benefit from the homestead market value exclusion, which provides for up to \$30,000 of a homestead’s market value to be deducted before determining the taxes payable. Other exclusions are the disabled veterans’ exclusion and the agricultural “Green Acres” program. Certain types of property also qualify for property tax credits that reduce the net tax on the property. The biggest property tax credit programs are the agricultural market value credit and the taconite homestead credit.

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 an Estimated Market Value of \$200,000  
(Property taxes payable in 2017)**

Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	\$1,040	\$1,112	\$722	0.36%
Agricultural nonhomestead	1.0	2,000	2,000	2,000	1.00
Residential homestead	1.0	1,808	2,168	2,168	1.08
Seasonal recreational residential (i.e., cabin)	1.0	2,000	2,309	2,309	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	5,235	5,235	2.62
Commercial/Industrial @ \$2,000,000***	1.5/2.0	39,250	62,475	62,475	3.12

\* 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 50 percent, and a state seasonal recreational tax rate of 20 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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