

# Minnesota

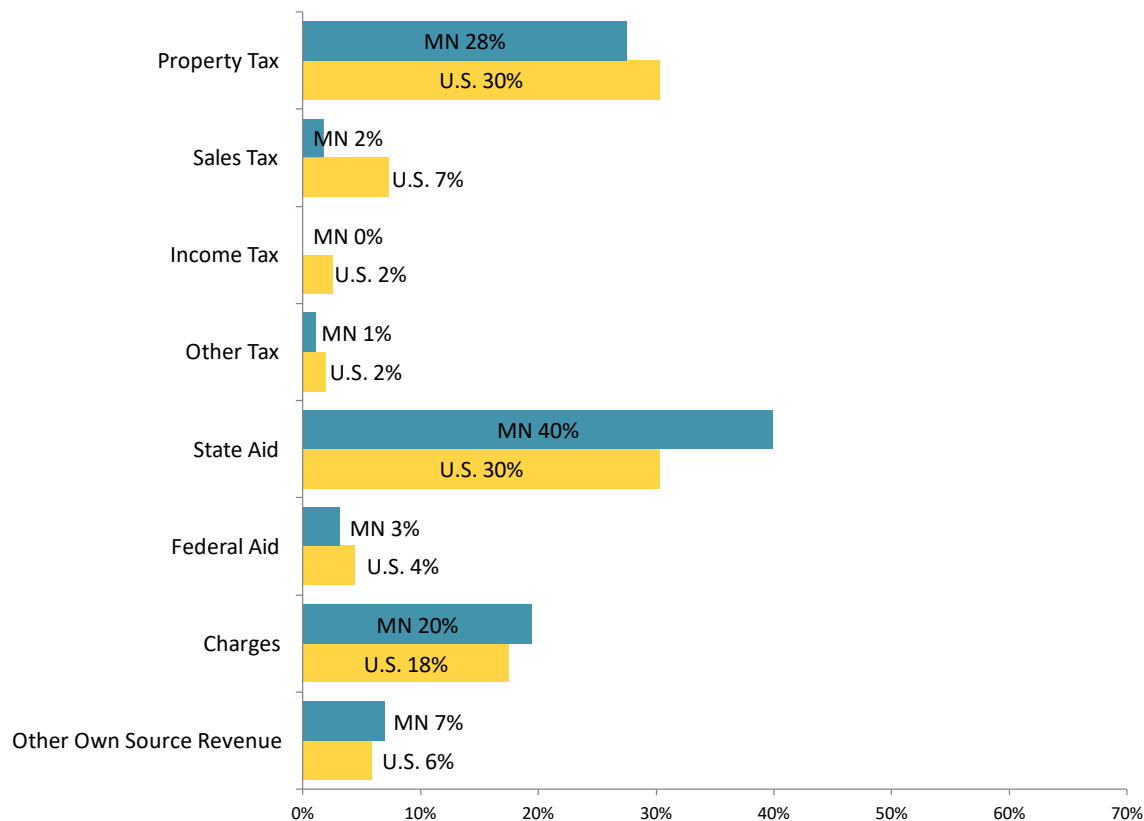
## Highlights

Minnesota has earned a reputation for having one of the most complicated property tax systems in the nation because it uses 40 different property tax classifications based on combinations of property type and value (Minnesota Department of Revenue 2023a, 40–41) (figure MN-1). In addition, the state employs a unique “tax capacity” system in which assessed values are multiplied by class rates established in statute and then summed to determine the total tax base. This system, rather than the more common practice of using assessment rate differentials, serves as a method to deliver preferential treatment to certain property types. Credits, value exclusions, special valuations, and special rate preferences further add to the complexity.

Minnesota features a major state property tax—the “state general tax”—that is levied only on businesses (95 percent of levy) and seasonal recreational properties (5 percent of levy). This state levy does not directly support education finance but remains undedicated general fund revenue (Minnesota Department of Revenue).

**Figure MN-1**

**Sources of Minnesota Local General Revenue, 2020**



Source: U.S. Census via Significant Features of the Property Tax

The state is also home to the nation's longest-running experiment in regional tax base sharing. The Fiscal Disparities Program shares 40 percent of the post-1971 growth in the commercial-industrial property tax base of the seven-county Twin Cities metropolitan area. The state had established a parallel program on the Iron Range of northeastern Minnesota in 1995 (Minnesota House Research 2020).

## Property Tax Reliance

Minnesota's property tax burden measured either as tax per capita or as a percent of personal income is close to the U.S. average (table MN-1).

**Table MN-1**  
**Selected Minnesota Property Tax Statistics, 2020<sup>1</sup>**

	Minnesota	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,776	\$1,810	20
Property tax percentage of personal income	2.9%	3.1%	23
Total property tax as percentage of state-local revenue	15.1%	16.6%	23
Median owner-occupied home value <sup>2</sup>	\$235,700	\$229,800	21
Median real estate taxes paid for owner-occupied home <sup>2</sup>	\$2,606	\$2,551	20
Effective tax rate, median owner-occupied home <sup>3</sup>	1.1%	1.1%	19

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

<sup>1</sup> All revenue numbers in this table include the state government as well as local governments.

<sup>2</sup> The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2016–2020.

<sup>3</sup> Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

## Administration and Assessment

All local property tax collections are based on levies established by the local units of government and are derived by subtracting non-property tax revenues from budgeted spending.

Counties, with isolated exceptions, are responsible for assessing property. Parcels are revalued every year and are required to be reassessed through physical inspection every five years. Minnesota exempts business personal property from taxation with the exception of some utility property.

Minnesota uses classification for both the local levy and the state levy. For the local levy, assessment ratios vary from 0.25 percent for low income rental property to 2 percent for unmined or low-recovery iron ore. The classification system for the state levy uses varying tax rates and varying assessment ratios (Minnesota Department of Revenue 2023a, 40–41).

## Limits on Property Taxation

The state levy, originally established in statute at \$450 million, increased each year at the rate of inflation, until the state legislature eliminated the automatic annual inflator in 2017. Although the state has authority to limit increases in local property tax levies for localities with populations over 2,500 by legislative action, the legislature last imposed a 3 percent general levy limit in 2013 effective for the 2014 tax year (League of Minnesota Cities 2023; Minnesota Center for Fiscal Excellence 2013). Override is by a majority vote of the electorate at a referendum. Minnesota has no assessment limitations (table MN-2). All property owners receive a truth-in-taxation statement each year breaking down the total property tax burden by each levying entity and allowing year-on-year comparisons.

## Property Tax Relief and Incentives

Minnesota's strong historical interest in progressive taxation is reflected in some of the most generous and broadly accessible property tax refund programs in the country. The state features an income-tested circuit breaker for all homeowners, a universal income-tested renter's credit based on estimates of rent constituting property taxes, and a special refund program to mitigate large year-on-year homeowner property tax increases. There are also two homestead exemptions: (1) all owners of homesteads or farmsteads qualify for an exclusion of 40 percent of the first \$76,000 of market value, which is reduced by 9 percent of the value over \$76,000 and phased out at \$413,800 of market value; and (2) disabled veterans are eligible for an exemption of up to \$300,000 of their home's value (Significant Features of the Property Tax).

There is a wide array of incentives for economic development that include property tax abatements or earmarking of incremental property tax revenues as in tax increment finance (TIF). Minnesota has separate TIF programs for housing districts, hazardous substances subdistricts, and soils conditions districts, among others. In 2017, the state added workforce housing districts to TIF (Significant Features of the Property Tax).

**Table MN-2**  
**Minnesota Property Tax Features, 2021**

Feature	Minnesota	Count for 50 states plus DC
<a href="#">Statewide classification of real property</a>	Yes	25
<a href="#">Assessment of property primarily by county</a>	Yes	31
<a href="#">Limits on property tax rates or levies</a>	Yes	45
<a href="#">Limits on the rate of growth of assessed value</a>	No	17
<a href="#">Circuit breaker property tax relief program</a>	Yes	31

Sources: Significant Features of the Property Tax

## Key Property Tax History

In 1971, the state embarked on a landmark buydown of local property taxes and a monumental restructuring of the state/local finance system. Known as the “Minnesota Miracle,” this series of reforms raised both corporate and individual income taxes; boosted the general sales tax rate from 3 percent to 4 percent; and increased beer, liquor, cigarette, and severance taxes. In return, the state increased its school foundation aid formula by 95 percent, eliminated the existing statewide property tax, established a new local government aid program, increased categorical aid for public welfare spending, and expanded an existing homestead credit.

Budget surpluses of the late 1990s and resurfacing property tax resentment led to further property tax reform, which this time fundamentally changed school finance in the state. In 2001, the state government eliminated the entire general education levy, replacing it with state education aid, and exempted agricultural and cabin properties from school district referendum levies. The state also significantly compressed property tax class rates, providing substantial relief to businesses, some of which was offset by a new statewide property tax on business properties. Three compressions between 1997 and 2002 substantially narrowed the gap between class rates for homestead and commercial properties (Shute 2020).

After these reforms were enacted, state support for education was buffeted by two significant recessions and intense program competition within the state general fund. This resulted in rapid growth of, and greater reliance on, school referenda levies to support general school operations. As a result, the 2001 reforms have been reconsidered by some policymakers, leading to interest in reestablishing the state general education levy in some form. In 2010, the state created a property tax working group to develop recommendations on how to make the property tax system more simple, understandable, transparent, accountable, and efficient. The final report, delivered in 2012, offered 19 separate

recommendations covering all dimensions of the property tax system in support of these policy objectives (Property Tax Working Group 2012).

In 2013, the legislature passed a tax plan that aimed to provide property tax relief in the form of an expanded property tax circuit breaker program, increased state aid to local governments, and a 3 percent limit on local property tax levy increases. The 2013 tax bill increased individual and corporate income taxes, consumer and business state sales taxes, local sales taxes, cigarette and tobacco taxes, and estate taxes (Hamilton 2013; Minnesota Center for Fiscal Excellence 2013).

In 2017, Minnesota enacted a package of tax cuts that included two cuts in the statewide property tax which falls mostly on business: elimination of the automatic annual inflator and introduction of an exemption of the first \$100,000 of market value of commercial-industrial property (Minnesota Chamber of Commerce 2017).

## Recent Developments

In 2016, the Minnesota Supreme Court in *First Baptist Church of St. Paul v. City of St. Paul* overturned St. Paul's right-of-way (ROW) fee, which had been used to raise revenue from nonprofits otherwise exempt from property taxes. The court found that the ROW fee was a tax and thus unconstitutional (Collins and Ross 2016). The city raised property taxes 24 percent in tax year 2018, in part to pay for street maintenance previously funded by fees (Van Berkel 2017). Despite the Supreme Court ruling, in 2020 the legislature considered, but failed, to pass a bill authorizing municipalities to impose street maintenance fees on all landowners in municipal improvement districts, including nonprofits. Municipal improvement districts would have a maximum life of 20 years (HF 1095). In June 2021, St. Paul property owners filed two new lawsuits challenging fees and assessments for seal coating and mill and overlay work (Galioto 2021). In 2023, the city reached a \$634,000 settlement with 200 plaintiffs in six related lawsuits challenging street maintenance fees (Melo 2023).

In May 2023, Minnesota Governor Tim Walz signed into law a tax bill (House File 1938), which increases the refund amounts for the 2022 Homestead Credit Refund and Renter's Property Tax Refund by 21 percent. The bill also provides for a special rebate for homeowners if their property tax increased by more than 6 percent (usually 12 percent) from 2022 to 2023 (Minnesota Department of Revenue 2023; Minnesota Office of the Governor 2023).

Low-income rental property will be eligible for a lower assessment rate beginning in 2024. A new law passed in 2023 split class 4d property into two subclasses – low-income rental property (class 4d(1)) and community land trust property (class 4d(2) used as a homestead (HF 1938 of 2023). A 0.25 assessment rate will apply to the full value of low-income rental property; prior to the law, a portion of the value was subject to a 0.75 assessment rate. The law also restricts how rental property owners may use the tax savings from the preferential rate, requires property owners to get local approval before applying to the Housing Finance Agency for class 4d(1) designation, and provides some reimbursement to certain cities in 2025 and 2026 to offset some of the local tax loss (League of Minnesota Cities 2023).

Minnesota courts have affirmed property tax exemptions for nonprofits and public charities in three recent cases involving a public hospital, a childcare center, and a thrift store. In *Perham Hospital District v. County of Otter Tail* (2022), the Minnesota Supreme Court affirmed a tax court decision that three clinics acquired by Perham Health met the definition of a hospital and were used to improve and run Perham hospital and were thereby entitled to exemption (Kump 2022). The Minnesota Supreme Court also ruled that the Rainbow Early Childhood Center qualifies for a property tax exemption as an educational institution, reversing an earlier tax court ruling (Jardine 2022). Finally, the Minnesota Tax Court upheld a tax exemption for a 20,000 square foot Goodwill building used as a thrift store and job training space in a 2023 decision in *GW Restaurant Holdings LLC v. Washington County* (Fick 2023).

In a unanimous verdict for a Minnesota homeowner in *Tyler v. Hennepin County*, the Supreme Court of the United States ruled state and local governments may not keep proceeds from tax forfeiture sales that exceed the amount of the debt. The justices ruled that retaining surplus proceeds from property tax forfeiture sales, a practice sanctioned in some other states, violates the Takings Clause of the Fifth Amendment of the U.S. Constitution. The Supreme Court found that although the county was authorized to seize and sell the property for nonpayment of property taxes, “it could not use the toehold of the tax debt to confiscate more property than was due.” The high court did not rule on the plaintiff’s claim that the county violated the Excessive Fines Clause of the Eighth Amendment of the U.S. Constitution.

## Resources

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