



# Roadmap to MINNESOTA PROPERTY TAXES

## ***General Assessment Overview***

Real property is assessed and classified by its use as of January 2 each year. In the Twin Cities metropolitan area, it is common for multifamily apartment, industrial, and commercial properties to be revalued every year.

State law requires properties to be estimated at market value, which is the sell price that could be obtained from an open-market arm's length transaction. Assessors are required to give due weight to every element and factor affecting market value. To achieve this, assessors typically utilize all three appraisal methodologies: capitalized income, depreciated replacement cost, and market sale comparison.

Assessors are not required to accept any one valuation approach as the sole basis for determining market value. However, a recent transaction may be one of the most important factors to consider when assigning value. In addition, the assessor must also recognize a property's earning potential using current market rental rates.

All real property is assessed at 100% of market value. In fact, the Minnesota Department of Revenue (DOR) has become more aggressive in requiring that assessors establish assessments that reflect current market values.

If a jurisdiction is assessing real properties at 10% or more below market value, the DOR can apply across-the-board increases on an entire real property classification. Consequently, most assessors have increased efforts to keep assessments in line with current values. Assessors will regularly increase their estimated market value up to an assessment/sales ratio level that is somewhere between 90 to 100% in the year following a sale, especially on newer or commonly traded property types.

A review of the most recent available city/county sales ratio studies completed by the DOR shows many assessing jurisdictions are already achieving assessment/sales ratios on qualified sales at an approximate average of 95%, or higher.

However, a closer review on a particular property can sometimes reveal assessment deviations and may require further analysis to determine if the difference is attributable to a temporary condition, or whether other factors are contributing to a more permanent variance.

## Property Tax Appeals

Notices of Valuation and Classification are mailed in the spring each year. Once received, a property owner has multiple avenues to challenge a property's valuation or property classification.

Firstly, a property owner can pursue informal discussions with the assessor. If the property hasn't been recently inspected, a request can be made for the assessor to review both the interior and exterior of the property. If an agreement cannot be reached, the property owner can make a formal appeal.

A formal appeal can either be filed through the local and county Boards of Review (BOR) shortly after the assessments are issued, or by a petition to the Minnesota Tax Court in the year following the assessment when the current year taxes are payable. Some municipalities in the Twin Cities area have adopted a Local Open Book assessment review period with the assessor instead of a more formal BOR prior to the county BOR appeal level.

Local BORs are held annually between April 1 and May 31. It is assumed the assessor's valuation is accurate, so the burden of proof lies with the property owner. Boards are often reluctant to rule against the assessor, especially in smaller jurisdictions. The Board has the ability to decrease, maintain, or increase the assessor's estimated market value. The property owner will be notified by mail of the Board's final decision.

A taxpayer may bypass the local Boards and file an appeal directly in the Minnesota Tax Court by April 30th of the following year (i.e., when the tax amount becomes due). If the property is an income-producing property, the petitioner is required to provide income and expense information within 90 days of filing the petition, or by August 1. Failure to provide this information will result in a dismissal of the petition with no available recourse.

Once the tax court petition is docketed, an exchange of valuation and/or classification information can begin with the assessor. However, in most situations, assessment resolution is only reached after the Minnesota Tax Court issues a Scheduling Order that provides a trial ready date for each case. Because of timing and length of the petition process, it is common to negotiate assessed values for two or three tax years for subsequent appeals that have been docketed but not resolved.

It is usually recommended to file a tax court petition for commercial/industrial or multifamily properties.

## Classification System

Minnesota employs a classification system in taxing property, each with its own effective tax rate (ETR).

A property's ETR is determined by dividing the property tax (excluding any special assessment charges levied) by the assessor's taxable market value.

The primary real property classifications are as follows:

- **Class 1:** Residential homestead real property
- **Class 2:** Agricultural homestead real property
- **Class 3:** Commercial and industrial real property
- **Class 4:** Residential apartment/rental real property
- **Class 5:** Miscellaneous property category/property not otherwise classified

Within the basic classes of real property, there are multiple subclasses and subcategories depending upon the property's use and ownership characteristics.

Each of these classes has its own statutory "class rate," meaning each classification is taxed at a different percentage of market value. These percentages are set by the state legislature. The class rates are multiplied by the assessor's estimated market value to determine a property's "gross tax capacity." The gross tax capacity is virtually an "unadjusted tax amount" based on the type and use of a property.

However, local taxing bodies can adjust a tax capacity through their budgeting process. Therefore, it is easier and quicker to use a property's actual ETR to measure and forecast the future taxes on a property, or other similar properties within the same classification.

## Truth in Taxation Statements

State statutes provide for a "truth in taxation" provision, which requires that each taxpayer receives a parcel specific estimated tax notice, called a truth-in-taxation statement, in November or by early December. The estimated tax amount is based on the proposed budgetary tax levies by each of the taxing districts in that area (e.g., school, city, county, etc.).

These annual notices do not include voter-approved tax referendum increases, if any, nor do they show non-ad valorem special assessment charges that remain outstanding. However, the notices do provide the date, time, and locations for any scheduled hearings where one may go and speak on budgets and future taxes.

## Tax Bills

Taxes in Minnesota are on a current calendar year basis but based on a prior year assessment date.

Real property taxes are paid in two equal installments. Both installments are based on prior year estimated market value assessments (EMV).

The first installment is due May 15, and the second installment is due October 15 of each year.

## Statutory Dismissal Provision

Minnesota law contains a statutory dismissal provision stating that failure to timely pay taxes can result in an automatic dismissal of an appeal.

This can be an issue if there is a basis for appealing your prior year EMV assessment to the Minnesota Tax Court. However, the appeal may be reinstated if all taxes due are paid in full, including any penalties or interest within 12 months of the dismissal.

## Personal Property

Personal property, such as inventories, FF&E, computer equipment, M&E, etc., is exempt from property taxes.

The small amount of property in Minnesota that remains subject to personal property taxes is mainly categorized under the following four major types:

- 1) Manufactured homes/flight property
- 2) Property owned by non-municipal utility companies and located on leased land or easement rights-of-way
- 3) Corporate leasehold interests in government-owned property
- 4) Elevators or warehouses located on leased railroad right-of-way land and railroad docks and wharves, which are part of the operating property of a railroad company

## Minnesota Tax Calendar

### Real Estate

Assessment Date	Jan 2
Appeal Deadline	Mar - May (15-30 days after notice)
Appeal Deadline	Apr 30 (Minnesota Tax Court)
Appeal Deadline	Mar - Apr (City BOE) May - Jun (County BOE)
Tax Bills Due	May 15 (first-half installment)
Tax Bills Due	Oct 15 (second-half installment)

### Personal Property

Exempt
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