

# Property Tax 101: Property Tax Variation by Property Type

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## Causes of property tax variation between property types

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, known as 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. School district operating referendum levies are levied on a separate tax base known as referendum market value, which is not classified and excludes certain agricultural and seasonal recreational property. The state general tax only applies to commercial/industrial/public utility property and seasonal recreational property.

### Class Rates Schedule for Taxes Payable in 2023

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to School Operating Referendum Levies?
<b>1</b>	<b>Homestead</b>			
1a	Residential homestead			
	Up to \$500,000	1.00%	No	Yes
	Over \$500,000	1.25	No	Yes
<b>2</b>	<b>Agricultural</b>			
2a	Agricultural homestead			
	House, garage, & 1 acre: up to \$500,000	1.00	No	Yes
	House, garage, & 1 acre: over \$500,000	1.25	No	Yes
	Agricultural land & buildings			
	Up to \$1,890,000	0.50	No	No
	Over \$1,890,000	1.00	No	No
2b	Agricultural nonhomestead	1.00	No	No
2c	Nonhomestead rural vacant land	1.00	No	No

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to School Operating Referendum Levies?
<b>3</b>	<b>Commercial/Industrial/Public Utility</b>			
3a	Commercial/Industrial/Public Utility			
	Up to \$150,000	1.50	Yes*	Yes
	Over \$150,000	2.00	Yes*	Yes
	Electric generation attached machinery	2.00	No	Yes
<b>4</b>	<b>Other residential</b>			
4a	Apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit:			
	Up to \$500,000	1.00	No	Yes
	Over \$500,000	1.25	No	Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial):			
	Up to \$500,000	1.00	Yes**	No
	Over \$500,000	1.25	Yes**	No
4d	Low-income apartments:			
	Up to \$100,000 per unit	0.75	No	Yes
	Over \$100,000 per unit	0.25	No	Yes
* Subject to state general tax at commercial-industrial rate.				
** Subject to state general tax at seasonal recreational rate.				

### Other factors that cause variation

Variations also occur because of various property tax exclusions and credits. Homesteads benefit from the homestead market value exclusion, which provides for up to \$30,400 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, the taconite homestead credit, the disparity reduction credit, and the school building bond agricultural 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.

**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 2023)**

Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	\$1,040	\$1,168	\$717	0.36%
Agricultural nonhomestead	1.0	2,000	2,100	2,100	1.05
Residential homestead	1.0	1,808	2,278	2,278	1.14
Seasonal recreational residential (i.e., cabin)	1.0	2,000	2,400	2,400	1.20
Residential nonhomestead (1 unit)	1.0	2,000	2,480	2,480	1.24
Residential nonhomestead (2-3 units)	1.25	2,500	3,005	3,005	1.50
Apartment	1.25	2,500	3,005	3,005	1.50
Low-income apartment	0.75/0.25	1,050	1,430	1,430	0.72
Commercial/Industrial	1.5/2.0	3,250	4,193	4,193	2.10
Commercial/Industrial @ \$2,000,000***	1.5/2.0	39,250	59,813	59,813	2.99

\* These examples assume a total local net tax capacity tax rate of 105 percent, a total market value tax rate of 0.19 percent, a state commercial-industrial tax rate of 40 percent, and a state seasonal recreational tax rate of 15 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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