Understanding Your Property Assessment and Taxes

Assessment Process Timeline

In Minnesota it is the duty of the Assessor to value and classify property. This is done annually as of the assessment date of January 2nd. Each year's assessment is based on arms-length transactions (sales that meet the criteria of an open market transaction, see market value definition below) that occurred the previous October thru September. When the assessment is complete the local taxing jurisdictions begin their budgeting process for the following year by using the total assessment to determine their tax base and develop their tax rates. All aspects of the assessment, including but not limited to the assessment date, sales period for each assessment and property tax classification are dictated by state statute and are under the oversight of the Minnesota Department of Revenue.

Market Value Defined

As in private appraisal, Market Value is defined as:

> *The most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by any undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*
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> - *buyer and seller are typically motivated:*
> - *both parties are well informed or well advised, and acting in what they consider their own best interests;*
> - *a reasonable time is allowed for exposure in the open market;*
> - *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto;*
> - *the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale (a foreclosure sale or a short sale [a sale to avoid foreclosure] is not considered an arms-length transaction).*

Mass Appraisal Defined

Property values for Minnesota real estate tax purposes are determined by mass appraisal. Mass appraisal is the practice of determining individual values based on statistical analysis of a group of sales for a large area. The values are determined as of a specific date and are based on arms-length transactions that occurred during a specified sales period.

Assessment vs. the Current Market

Due to the time frames we are required to work within, it sometimes appears as though the assessor's estimated market value does not represent the market. Your property's value seems lower than it should be during times of inflation and higher than it should be in times of deflation. The property assessment time frame is set by state statute.

Property Value and Property Taxes

It's important to note that the assessment process is complete **before** the budgeting process begins. Assessors do not adjust values in order to increase revenue. There is little correlation between changes in assessments due to market changes and how the resulting real estate tax changes. When we adjust assessments due to market conditions, all properties are adjusted. The only time an adjustment in an assessor's estimated market value will have an impact on the increase or decrease in tax is: if the change in value is due to value added for new construction/improvements, or value removed due to demolition/destruction of an improvement.

How your tax amount changes from year to year is influenced more by statutory changes to the tax structure, and revenues needed by your local taxing authorities (including school districts). If we were to reduce all values by 50%, the resulting tax amounts would not be decreased by 50%; the tax rates would be increased to generate the same amount of tax revenue.

Homestead Market Value Exclusion

As of taxes payable in 2012, all homestead property less than $413,800 in value will receive a Homestead Market Value Exclusion. The homestead property no longer receives a credit that reduces the property taxes paid. Instead, a portion of the homestead's property value is excluded from taxation.

The Homestead Market Value Exclusion excludes from taxation 40% of the value on the first $76,000 of a property's value. The amount excluded is reduced as the value rises above $76,000 (the exclusion reduction is equal to 9% of the value above $76,000). Homesteads that are equal to or exceed $413,800 in value receive no homestead exclusion. The chart below gives examples of the exclusion amount on homes of various values.

Estimated Market Value	Homestead Exclusion	Taxable Market Value (after Homestead Exclusion)
$ 76,000	$ 30,400	$ 45,600
$ 150,000	$ 23,740	$ 126,260
$ 250,000	$ 14,740	$ 235,260
$ 350,000	$ 5,740	$ 344,260
$ 400,000	$ 1,240	$ 398,760
$ 425,000	$ -	$ 425,000

A property tax rate is calculated by dividing the property tax levy by the total tax base in a city, township, county or school district.

The reduction in taxable value shifts the tax burden. With homestead taxable values reduced, other property types (non-homestead, commercial, industrial, apartment, homes with higher values, etc.) pay a larger share of the tax.

Link to the Minnesota Department of Revenue's website providing further explanation of the recent changes to homestead benefits: http://www.revenue.state.mn.us/propertytax/Documents/hmve-taxpayers.pdf