

# Understanding Your Assessment and Tax Calculation

## 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 2<sup>nd</sup>. 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

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:

- 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).

## Sales Analysis

Each year the Assessor analyzes all sales of property in each jurisdiction. State law provides guidelines of sales to be used for assessment purposes. Only good sales, or arm's length transactions, are used in determining estimated market value. These sales are used, as a guide to help determine what similar properties would likely sell for if they were placed on the market.

It is important to note that certain sales are not considered in this process and are typically rejected. Some examples of rejected sales are:

- Bank sales
- Short sales
- Foreclosure sales
- Auction sales
- Sales between relatives or friends

## **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.

As part of this mass appraisal process, all properties are re-valued annually based on the information on record. Properties are physically inspected and property records reviewed once every 5 years (as required by Minnesota statute). This is an ongoing process whereby 20% of the properties are inspected each year so that in a cycle of 5 years all properties have been inspected at least once. In addition to this quintile review, properties are also inspected when there is a building permit issued or at the request of the property owner. If you would like to schedule a review of your property, click on “schedule a review”. The sale of a property may initiate a reassessment to determine if any changes have occurred since the last review.

As stated earlier, Minnesota state law governs the assessment date, which is January 2<sup>nd</sup> of each year as well as the sales periods associated with each assessment date.

## **What is a Quintile Review?**

The assessor maintains records on the physical characteristics of each property in the County. The Assessor’s Office is required by State law to physically review your property at least once every five years and record any changes in property characteristics since their last visit. This review is part of an ongoing revaluation program to ensure the accuracy of our data and to assist us in estimating a fair and equitable value of your property for property tax purposes. This process is known as the quintile review. Reference (Minnesota statutes, section 273.01). Appraisal staff carries County identification and will request permission to view the interior and exterior of your property. If you are not home, we will complete an exterior inspection and a notice will be left on your front door notifying you of our visit with any further instructions such as a need for an interior review or verification of information.

Appraisal staff view the interior and exterior of your property to collect property characteristics used in estimating market value. The property characteristics such as year built, style, square footage, quality of construction, and condition are entered into a computerized mass appraisal system.

Douglas County Assessor’s Office

[www.co.douglas.mn.us](http://www.co.douglas.mn.us)

320-762-3884

## Will I be notified when my property is going to be reviewed?

No, we do not mail a separate notice prior to these inspections. This property review will take 10-15 minutes and the appraiser will try to answer any questions that you may have.

## Assessment Timelines

The 2016 assessment which was used for tax calculations for the 2017 taxes was based on transactions that closed between October 1, 2014 and September 30, 2015. Property owners were notified of their 2016 value on their **Notice of Valuation and Classification** (also referred to as a **valuation notice**). The notices were mailed out in March 2016 in the same envelope as the 2016 tax statement. The appeals process took place at the township or city level during the month of April of 2016 and at the county level in June of 2016. At this point it is too late for a property owner to appeal their 2016 assessment (for taxes payable 2017). If you have an issue with your assessment, the first thing you should do is contact the assessor's office. The phone number(s) are listed on your valuation notice.

In conclusion, all arms-length sales that closed between October 1, 2014 and September 30, 2015 have been used to determine valuations for the 2016 assessment, for taxes payable in 2017. And by the time you are paying your 1<sup>st</sup> half real estate tax on May 15 of 2017, the sales that were used to determine the estimated market value on which your taxes are based occurred somewhere between 19 to 31 months earlier.

The following chart may be helpful in following the timeline of your assessment.

Sales Period	Assessment Date	Taxes Payable Year
October 1, 2013 to September 30, 2014	January 2, 2015	2016
October 1, 2014 to September 30, 2015	January 2, 2016	2017
October 1, 2015 to September 30, 2016	January 2, 2017	2018

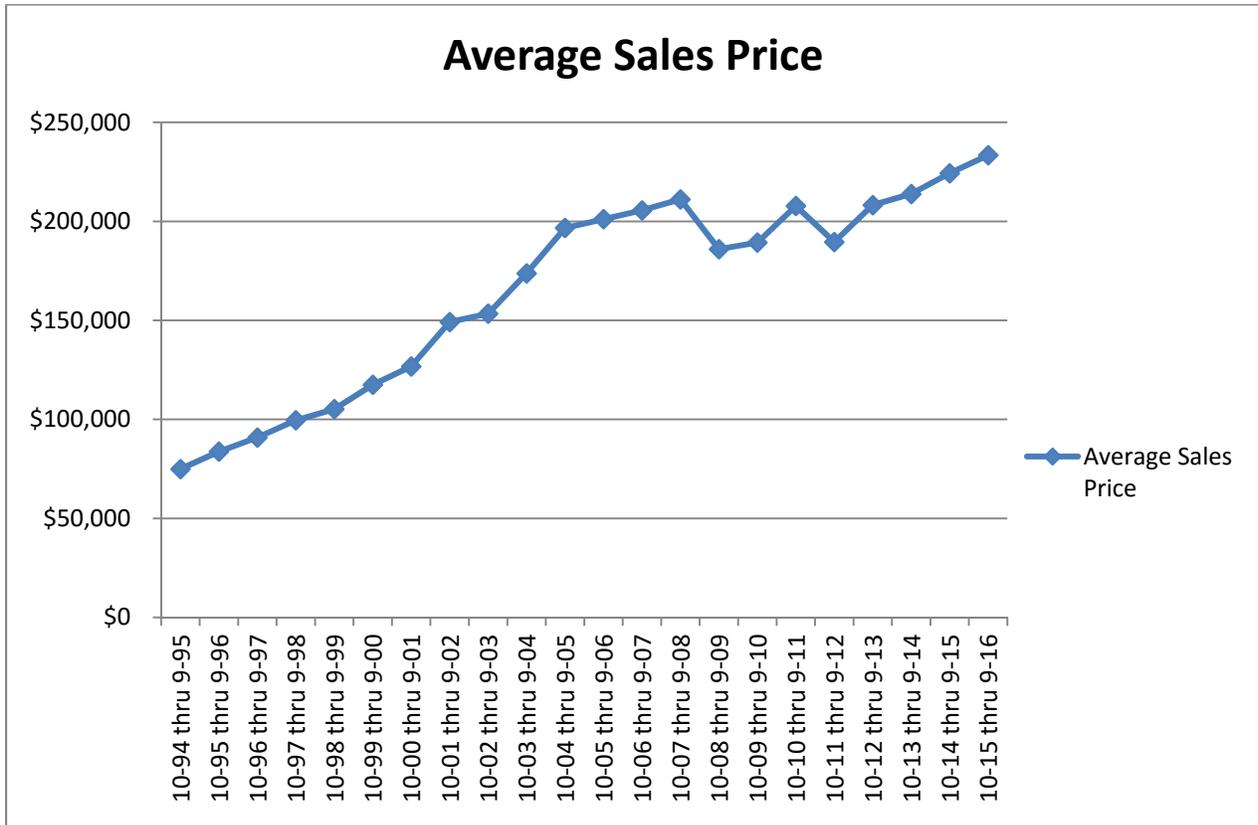
## Assessment Level

State law requires assessors to value property at full market value. The level of assessment is measured through sales ratio studies. Sales ratios are computed by dividing the assessor's market value by the sale price of each individual property. Individual ratios are then analyzed according to property type and municipality to measure the level of assessment. The acceptable level of assessment in Minnesota is to have a sales ratio between 90% and 105%.

If this level of assessment is not reached each assessment year, the State of Minnesota is required to adjust the assessment to an acceptable level within each municipality.

## Assessment vs. the Current Market

We are aware that 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.



## 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. It is possible that if market conditions indicate values on a certain classification/type of property need to increase & other classes/types do not, that they will see a tax increase as a result. That is a tax shift meaning one class of property's share has shifted to or from another class of property. (see 2016 tax calculation & comparison by classification)

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.

The following example illustrates that basic concept.

2015 Assessment Tax Payable 2016		2016 Assessment Tax Payable 2017		Overall Change in EMV
Property	EMV	Property	EMV	
A	\$375,000	A	\$187,500	-\$187,500
B	\$120,000	B	\$60,000	-\$60,000
C	\$150,000	C	\$75,000	-\$75,000
D	\$400,000	D	\$200,000	-\$200,000
E	\$250,000	E	\$125,000	-\$125,000
<b>Total Tax Base</b>	<b>\$1,295,000</b>	<b>Total Tax Base</b>	<b>\$647,500</b>	<b>-\$647,500</b>

Declining Values  
Reduce the  
Total Tax Base

2016 Tax Rate Calculation		2017 Tax Rate Calculation	
Revenue Needed	\$10,000	Revenue Needed	\$10,000
Divided by Total Tax Base	\$1,295,000	Divided by Total Tax Base	\$647,500
Equals Tax Rate	0.0077	Equals Tax Rate	0.0154

A Reduced Total Tax Base  
Requires a Higher Tax Rate to  
Generate the Same Revenue

Resulting 2016 Tax Calculations		Resulting 2017 Tax Calculation		Overall Change in Tax Amount
Property	Tax Amount	Property	Tax Amount	
A	\$2,896	A	\$2,896	\$0
B	\$927	B	\$927	\$0
C	\$1,158	C	\$1,158	\$0
D	\$3,089	D	\$3,089	\$0
E	\$1,931	E	\$1,931	\$0
<b>Total Tax Generated</b>	<b>\$10,000</b>	<b>Total Tax Generated</b>	<b>\$10,000</b>	<b>\$0</b>

Individual Tax Amounts  
Remain Unchanged

## Homestead Market Value Exclusion

Beginning with 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

The homestead exclusion lowered Douglas County's 2014 tax base by roughly 4.7%, which led to increases in the property tax rates of most local taxing jurisdictions. A property tax rate is calculated by dividing the property tax levy by the total tax base.

**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>

## Classification

There are five main classifications (Residential, Seasonal, Apartment, Agricultural, Commercial/Industrial) each containing numerous subclasses. The legislature sets the rate for each classification and even with the same value, some classes pay more tax. (see 2016 tax calculation & comparison by classification)

## Application Forms

In order to qualify for the homestead classification an application must be completed and provided to the assessor. There are numerous "types" of homesteads and other programs that require a specific application. Click on (<http://www.co.douglas.mn.us/dc/assessor-application-forms>) to find the program and application form that you need.