

## Classification of Property

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## Classification of Property

### Classification of Property

#### Introduction to Classification Law

In Minnesota, property is classified according to its use on the annual assessment date of January 2. If a property is improved with a structure, the use of the property is typically quite clear – residential, commercial, industrial, etc. If there is not a structure, the use of the property may be less evident.

Except for property that may be classified as 2b rural vacant land, unimproved property for which there is no identifiable current use must be classified according to its highest and best use permitted under the local zoning ordinance.

- If the ordinance permits more than one use, the land must be classified according to the highest and best use permitted under the ordinance.
- If no such ordinance exists, the assessor shall consider the most likely potential use of the unimproved land based upon the use of the surrounding land or land in proximity to the unimproved land.

There are five basic classifications of property, and there are numerous subclasses of property. Each classification will be discussed in this section.

#### Tax Capacity

As stated in [Module 1](#), the Uniformity Clause of the Minnesota Constitution allows for different classifications of property to be taxed at different rates. Each classification of property has a unique classification rate which is set by the Minnesota Legislature. The Legislature may change these classification rates to accomplish various tax policy objectives. The first step in calculating the tax liability for a property is to determine its tax capacity using the classification rate. Tax capacity is calculated using the following formula:

$$\text{Taxable Market Value (TMV)} \times \text{Class Rate} = \text{Tax Capacity}$$

This **is not** the final amount of property taxes payable and is only the first step in the tax calculation process.

## Class 1

### Class 1a – Residential Homestead

Real estate which is residential and is used for a homestead purposes is class 1a. The market value of class 1a property must be determined based upon the value of the house, garage, and the land.

More information on homesteads may be found in [Module 4 – Homesteads](#).

In the case of a duplex or triplex where one of the units is used for homestead purposes, the entire property is deemed to be used for homestead purposes and should be classified as class 1a.

The first \$500,000 of market value of class 1a property has a net class rate of 1.00%. Any market value exceeding \$500,000 has a class rate as 1.25%.

### Tax Capacity Example:

The tax capacity calculation for class 1a residential homestead property with an EMV of \$600,000 would be calculated as follows (Note: a residential homestead with an EMV of \$600,000 would not receive the residential homestead market value exclusion):

Class	TMV		Class Rate		Tax Capacity
1a	\$500,000	x	1.00%	=	\$5,000
1a	\$100,000	x	1.25%	=	<u>\$1,250</u>
					<b>\$6,250 Total Tax Capacity</b>

Primary Statutory Reference: [273.13, subd. 22, para. \(a\)](#)

### Class 1b – Residential Blind/Disabled/Surviving Spouse of a Paraplegic Veteran Homestead

Class 1b property includes homestead real estate or homestead manufactured homes homesteaded by:

1. Any person who is blind as defined in [section 256D.35, subdivision 4a](#), or the blind person and the blind person's spouse.
  - For a property to qualify, the county assessor must certify that the homestead occupant satisfies the requirements of this paragraph.
2. Any person who is permanently and totally disabled or the disabled person and the disabled person's spouse.
  - For a property to qualify, proof from the relevant government agency or income-providing source must certify that the homestead occupant satisfies the disability requirements of this paragraph and the property is not eligible for the Disabled Veterans Homestead Market Value Exclusion.
3. The surviving spouse of a veteran who was permanently and totally disabled homesteading a property classified under this provision for the 2007 assessment year for taxes payable in 2008, unless they are already receiving the Disabled Veterans Exclusion.

*Statutory Reference: Minnesota Statutes, [section 273.13, subdivision 22, paragraph \(b\)](#)*

**Note:** Property receiving the Disabled Veterans' Homestead Market Value exclusion does not qualify for class 1b.

The class 1b blind/disabled homestead is different than other classifications because the qualification is specific to both the use of the property and to a person (and the person's disabling condition). As a result, the class 1b homestead follows the person who is blind or disabled from one property to another. For general information see [Special Homestead Classification For Property Owners who are Blind or Disabled](#) information page.

The first \$50,000 of taxable market value of class 1b property has a classification rate of 0.45%. The remaining taxable market value has a class rate using the rates for class 1a residential homestead or agricultural homestead, whichever is appropriate.

### Tax Capacity Example:

Fred and Wilma are married. Fred is blind. Wilma is not. They own, occupy and homestead their single family home in the city of Bedrock. The property is valued at \$200,000. After applying the residential homestead market value exclusion, the TMV is \$171,450. The appropriate classification for the property would be:

	\$50,000 Class 1b		Full Blind Homestead	
	\$121,450 Class 1a		Residential Homestead	
Class	TMV		Class Rate	Tax Capacity
1b	\$50,000	x	0.45%	= \$225
1a	\$121,450	x	1.00%	= <u>\$1,215</u>
				<b>\$1,440 Total Tax Capacity</b>

### Application Process

A property owner must apply for the 1b classification by October 1 for the current assessment year for taxes payable the following year per [MN Statute 273.1315](#). Applicants must also complete a homestead application and be granted homestead prior to the county approving an application for 1b. Applicants are required to provide additional documentation along with the 1b application so that assessors can verify whether the applicant qualifies for the classification. Applicants should be notified of their eligibility after the county receives the application. If the application is approved and the classification is granted, the taxpayer does not need to apply again unless there is a change in eligibility. **There is no annual application requirement.**

The Department of Revenue provides standardized applications to be used by all counties when administering classification of 1b blind/disabled homesteads. The applications can be customized to fit your county's needs (logo, address, etc.) but the general format should not be altered. The application should look and function the same from county to county.

**Note:** Please remember that any Social Security and Individual Taxpayer Identification numbers, and income and medical information received from class 1b applicants are private data and should be treated as such.

The onset of a person's disability or blindness must have occurred on or before **June 30** of the year they are filing for the special homestead classification. If the onset of the disability or blindness occurs after June 30, an applicant will not be approved until the next year.

**Blind:** Blind, as determined in Minnesota Statutes, [section 256D.35](#). When applying for class 1b an eye doctor's report or letter giving detail of the person's sight must be included. A statement by the individual is not sufficient.

**Disabled:** Permanently and totally disabled describes a condition which is permanent in nature and totally incapacitates a person from working at an occupation which brings the person an income. A letter from a qualifying agency stating that an individual is permanently and totally disabled and is eligible to receive disability payments is required. Only providing evidence of a payment is not sufficient. A note from a doctor is not sufficient verification of total and permanent disability for purposes of the 1b classification.

The following sources are qualifying agencies and commonly pay disability payments:

- Social Security Administration
- Veterans Administration
- Public or private pension plans
- Welfare Supplemental Security Income
- Workers Compensation
- Insurance program

Most cases the documentation received will specify the person is “permanently and totally” disabled. However, letters from the Social Security Administration (SSA) may not specify whether a property owner is permanently and totally disabled. The SSA’s definition of permanently and totally disabled is very strict and meets the requirements of the 1b classification. The SSA will only pay disability benefits to people with a permanent and total disability. Therefore, a letter from the Social Security Administration that indicates a person is **eligible for disability benefits** is enough documentation to grant the 1b classification. It is important to review the benefit letter sent to the applicant to ensure that the payment is being received because of a disability.

The SSA will stop paying disability benefits once they are over 65. This means that property owners over 65 may not have a recent letter from the SSA showing disability payments. In this situation, old letters may be used to continue to verify the property owner’s eligibility for the 1b classification.

If you receive information attesting to disability from the Veterans Administration, please verify whether the disability is service-connected. If the disability is service-connected, the veteran may qualify for the Disabled Veterans Homestead Market Value Exclusion program. If the disability is not service-connected, but the veteran is still permanently and totally disabled, the class 1b benefits should be applicable. Remember that property owners receiving the Disabled Veterans Value Exclusion are not eligible for the 1b classification.

There are no income requirements, but to be eligible a person must have a disability income and must be able to provide proof of such income before class 1b (disabled) homestead is granted.

### Relative Homestead and 1b

To qualify as class 1b (blind or disabled) on a relative homestead, the qualifying relative occupying the home must be the qualifying person who is blind or disabled. This same concept applies to spouses. For example, if spouse A owns the property and spouse B is blind/disabled but is not listed as an owner, the property would qualify for 1b as long as spouse B is occupying the property. If a person who is blind or disabled owns a home and a non-blind/disabled relative is the one that occupies the home, it does not qualify for a class 1b classification.

Class 1b cannot be granted to minor children who are blind or disabled living with their parents. The homestead is granted to the parents based on their ownership and occupancy of the property. It is not appropriate to grant the reduced class rate for class 1b based on the blindness/disability status of a minor child who lives with them.

### Changing the Classification

If a property no longer qualifies for the 1b classification due to the owner selling the property, using the property in a different way rather than a homestead, or death of the owner then the classification must be reviewed.

If the owner sells the property and moves to a different property, they must qualify for homestead on the new property and apply for the 1b classification by October 1 of that assessment year to qualify for taxes payable the following year. The 1b classification on the initial property would be removed and the property classified as it would have been without the application for 1b. Homestead would remain for that assessment year.

If the property owner dies in the middle of the assessment year, the 1b classification should be left on the property for the current assessment year and be removed the next assessment year. However, if the property were to be sold between the death and the next assessment date, the 1b classification should be removed from the property for the current assessment year. The 1b classification can only be changed to a homestead classification.

### Administration

If, after applying, the county assessor certifies that the class 1b homestead applicant satisfies the necessary requirements, the applicant will receive a reduction in taxes as follows:

- First \$50,000 market value has a net class rate of .45 percent of its market value.
- The remaining market value is classified as either class 1a residential homestead or class 2a agricultural homestead, whichever is appropriate based on the use of the property.

If the qualifying person moves to a new location, they must notify the county assessor of the change within 30 days and the class 1b status will move with the person to a new homestead. The property owner must notify the county assessor within 30 days if the property is sold, if there is a change in occupancy, or if there is a change in status or condition of the occupant that would no longer warrant the special homestead.



If a property owner fails to notify the assessor of such a change within 30 days the property owner may be subject to the fraudulent homestead penalties provided in Minnesota Statutes [273.124, subdivision 13, paragraph \(h\)](#). The property will also lose its current class 1b classification. Upon death of a person meeting the provisions for the class 1b homestead, the 1b classification expires as of the next assessment and does not extend to a surviving spouse or relative.

In terms of persons qualifying under the provision of being blind or disabled, the qualifying person must own and occupy the home, or occupy and homestead with a spouse who owns the home. For joint ownership with someone other than a spouse, fractional benefits will apply to reflect the fractional ownership.

### **HIPAA – Health Insurance Portability and Accountability Act: Privacy Rule**

We have received several questions concerning certain privacy rules contained within the federal Health Information Portability and Accountability Act (HIPAA) and how these privacy rules may interact with the *Disabled Veteran's Market Value Exclusion* and the *Blind/Disabled Special Homestead*.

The main concern was that the HIPAA privacy rules would not allow assessors to make any reference to a person's disability status on the person's tax statements and other tax records that might be viewed by the public. This would have necessitated keeping two separate sets of records; one set for the assessor's office only, and one set that would have any reference to the taxpayer's physical condition removed, which would be viewable to the public.

For your office to be subject to the HIPAA regulations, it would need to have been declared a "covered entity" under the HIPAA privacy rules. After discussions with legal professionals and other state agencies, the department has determined that assessors' offices are most likely **not** "covered entities" under the HIPAA privacy rules. Therefore property tax information relating to the blind/disabled classification and disabled veteran's exclusion is public information.

However, each county has a privacy officer or data practices specialist who will know what departments in that specific county have been declared to be "covered entities" and therefore subject to HIPAA regulations. You should check with your county's specialist to determine if your office is regulated by HIPAA privacy rules. In the unlikely event that your office is a "covered entity" and subject to HIPAA regulations, you may be limited as to what information you can make public. If this is the case, you may contact the department to discuss the best way to move forward.

### Class 1b Blind/ Disabled Homestead Examples

1. A property is receiving a special homestead (blind/disabled) on January 2, 2020. On June 1, 2020, new owners purchase the property and file for a full conventional homestead. The assessor should remove the 1b classification and grant a full regular 1a residential homestead for assessment year 2020.
2. A property is receiving a regular residential homestead on January 2, 2020. On June 1, 2020, a person who is blind or disabled purchases the property and applies for the 1b classification. The assessor should grant the 1b classification for assessment year 2020.
3. A person is receiving the 1b classification on their home. The person decides to sell his home and buy a new home a few miles away. The property owner must notify the county assessor of the change and the 1b classification should be removed from the original property and extended to the newly acquired property.
4. A person receiving the 1b classification passes away mid-year. The 1b classification should be left on the property for the current assessment year and be removed the next assessment year. However, if the property were sold between the death and the next assessment date, the 1b classification should be removed from the property for the current year.
5. A person owns a property, and the property is occupied by a blind/disabled relative. The owner does not occupy the property. This property is eligible for the 1b classification. The person who is blind or disabled occupies the property as a homestead and is a qualifying relative.
6. A property is receiving a special homestead (blind/disabled) on January 2, 2020. On June 1, 2020, new owners purchase the property and do not file for homestead. The assessor should remove the 1b classification, however, the homestead for assessment year 2020 would remain. Homestead is a fact situation as of a particular date and should not be removed; during the assessment year it may only be improved.

### Frequently Asked Questions

1. **If a property owner receiving the 1b classification dies, do the homestead benefits extend to the surviving (non-blind/disabled) spouse? If not, when does the classification change?**  
No. The 1b classification expires with the death of the qualifying property owner. The classification should be removed for the following assessment.
2. **A person is receiving the classification 1b on her home and she owns another home that is occupied by a relative. Is the second home eligible for the class 1b homestead as well?**

No. In order to qualify as class 1b on a relative homestead the relative living in the home must be the person who qualifies as blind/disabled. If a person who is not blind or disabled owns a home which is occupied by a relative who is blind or disabled, the home occupied by the qualifying person who is blind or disabled is eligible for a class 1b relative homestead.

**3. A person is certified as being blind in September of the assessment year and applies for the 1b classification before October 1 of that year. Should the person be approved for taxes payable the next year?**

No. In order to be approved for taxes payable the next year, the onset of blindness must have been on or before June 30 of the current year (the year they file for the special homestead). The application would be held for approval until the following assessment year.

**Example of Tax Calculations on Class 1b Property**

A person qualifying for class 1b residential homestead is the sole owner of a residential homestead valued at \$200,000. Calculate the taxes payable assuming a net tax capacity tax rate of 100.00%.

Estimated Market Value = \$200,000  
Taxable Market Value = \$180,760

Apply 1b class rate of 0.45% to the first \$50,000.

$\$50,000 \times 0.45\% = \$225.00$

The remainder of the value is calculated according to the class rate applied to residential homesteads (1a). The first \$500,000 of 1a property has a tax rate of 1.00%.

$\$130,760 \times 1.00\% = \$1,308$

Add the two results to determine the net tax capacity.

$\$1308.00 + \$225.00 = \$1,533$

This results in a net tax capacity of \$1533.00. Multiply the net tax capacity with the net tax capacity tax *rate* to calculate taxes payable (net tax capacity tax).

$\$1,533 \times 100.00\% = \$1,533$

### Class 1c Homesteaded Resorts

Class 1c property is commercial-use real property that abuts public water (as defined in Minnesota Statutes, [section 103G.005, subdivision 15](#)) or a state trail administered by the Department of Natural Resources. It is used for temporary and seasonal residential occupancy for recreational purposes, as long as the property is **not** devoted to commercial purposes for more than 250 days in the year preceding the year of assessment.

The property must also include a portion used as a homestead by the owner. The dwelling can be occupied as a homestead by any of the following:

- an owner as sole proprietor;
- a shareholder of a corporation that owns the resort;
- a partner in a partnership that owns the resort; or
- a member of a limited liability company that owns the resort.

Property is considered as devoted to a commercial purpose on a specific day if any portion of the property, excluding the portion used exclusively as a homestead, is used for residential occupancy and a fee is charged. A camping pad offered for rent that is part of a property that otherwise qualifies for class 1c is also class 1c, regardless of the term of the rental agreement, as long as the camping pad is not used for more than 250 days.

### Rental Units

Class 1c property must have three or more rental units. Rental units are defined as cabins, condos, townhouses, sleeping rooms, or individual camping sites equipped with water and electrical hookups for recreational vehicles.

### Recreational Activities

The property must provide recreational activities such as:

- rental of ice fishing houses;
- rental of boats and motors;
- rental of snowmobiles;
- rental of downhill or cross country ski equipment;
- providing marina services;
- providing launch services;
- providing guide services; or
- selling bait and tackle.

### Class Rates

After subtracting the homestead unit, the remainder of the resort property is classified as class 1c and the appropriate classification rates are as follows:

- Tier I: The first \$600,000 at 0.50%
- Tier II: \$600,001-\$2,300,000 at 1.00%
- Tier III: Over \$2,300,000 at 1.25%\*

\*Any value in Tier III is subject to the state general levy.

### Declaration Required

Owners of real property desiring classification as 1c must submit a declaration to the assessor's office and provide guest registers or other records, by January 15 of the assessment year, that show which cabins or units were occupied for 250 days or less in the year preceding the assessment year. Those cabins or units and a proportionate share of the land on which they are located will be designated as class 1c.

### Split Classifications

Non-qualifying cabins or units (those rented for more than 250 days) and a proportionate share of land on which they are located must be classified as class 3a commercial. In addition, the portion of the property operated as a restaurant, gift shop, bar, conference center/meeting room, and other nonresidential facilities that are operated on a commercial basis not directly related to temporary and seasonal residential occupancy for recreational purposes do not qualify for class 1c. This portion of the property should be classified as class 3a commercial, or potentially class 4c(10) if there is a qualifying seasonal restaurant on a lake.

Any unit in which the right to use the property is transferred to an individual or entity by deeded interest, or by the sale of shares or stock, no longer qualifies for class 1c even though it may remain available for rent. These units shall be reclassified according to their use as of the next assessment date following the transfer.

The portion of the property used as a homestead (house, garage, and up to one acre of land) by the owner should be classified as class 1a residential homestead.

### Tax Capacity Example:

Tom and Katie are married. They own, occupy, and operate a resort on Gull Lake. The resort units are all occupied for fewer than 250 days per year, and no portion of the property is classified as commercial property. The homestead portion of the property is valued at \$250,000 with a taxable market value of \$235,260 after the homestead market value exclusion. The remainder of the resort is valued at \$2.5 million. The property would be classified as follows:

Class 1a Residential Homestead = \$250,000

Class 1c Homesteaded Resort = \$2.5million

The tax capacity would be calculated as follows:

Class	TMV		Class Rate		Tax Capacity
1a	\$ 235,260	x	1.00%	=	\$ 2,353
1c (Tier I)	\$ 600,000	x	0.50%	=	\$ 3,000
1c (Tier II)	\$1,700,000	x	1.00%	=	\$17,000
1c (Tier III)	\$ 200,000	x	1.25%	=	<u>\$ 2,500</u>
					<b>\$24,853 Total Tax Capacity</b>

In this example, the property would also be subject to the state general tax. For purposes of this example, we are only calculating the net tax capacity, but the value in Tier III will be subject to the state general levy.

### “Linking” – Limited Option

In 2011, this statute was modified to allow one class 1c classification and corresponding tiers and tax classification rates to two separate resorts if all of the following conditions are met:

- one of the properties must be owner-occupied (or occupied by a member of an LLC that owns the property) and qualifying for homestead
- both resort parcels must be located within the same township
- if both parcels are owned by LLCs, each LLC must have identical ownership structures
- all other requirements for 1c classification beyond homestead (i.e., located on public water, used seasonally, provides recreational activities, etc.) must be met

If these requirements are met, the value of both parcels is treated as if it were one class 1c property, with one HGA.

Primary Statutory Reference: [273.13, subd. 22, para. \(c\)](#)

### Class 1d –Housing for Seasonal Workers (structures only)

Class 1d property includes structures only (not land), which meet all of the following criteria:

- The structure is located on property that is otherwise classified as agricultural under [section 273.13](#).
- The structure is occupied exclusively by seasonal farm workers during the time they work on that farm, and the occupants are not charged rent for the privilege of occupying the property, provided that use of the structure for storage of farm equipment and produce does not disqualify the property from classification under this provision.
- The structure meets all applicable health and safety requirements for the appropriate season.
- The structure is not saleable as residential property because it does not comply with local ordinances relating to location in relation to streets or roads (e.g. setback requirements).

The taxable market value of class 1d housing for seasonal workers has the same class rates as class 1a property. The first \$500,000 of taxable market value of class 1c property has a class rate of 1.00%, and market value exceeding \$500,000 has a class rate of 1.25%.

#### Tax capacity example:

Farmer McDonald farms 2,000 contiguous acres with the help of several workers who assist him on a seasonal basis. As part of the workers' compensation, he provides housing for them during the months they are working on the farm. The structure where the workers live has a taxable market value of \$130,000. The tax capacity of the structure would be calculated as follows:

Class	TMV		Class Rate		Tax Capacity
1d	\$130,000	x	1.00%	=	<u>\$1,300</u>
					\$1,300 Total Tax Capacity

Primary Statutory References: [273.13](#), [273.124](#)

## Class 2

### Class 2a –Agricultural Land

Class 2a agricultural land consists of parcels of property, or portions thereof that are agricultural land and buildings.

Class 2a land may be homestead or non-homestead depending on ownership, occupancy and active farming scenarios. The homestead determination is made independently of the classification of the property, and are discussed in greater detail in Module 4.

Minnesota Statutes, [section 273.13, subdivision 23](#), provides a number of requirements that must be met in order to be classified as class 2a land. These can be divided into requirements for parcels that are greater than 10 acres in size, and parcels that either are 10 acre or less or 11 acres or less with a structure.

#### Parcels larger than 10 acres

For parcels that are larger than 10 acres (or 11 acres that have a structure), there must be at least 10 contiguous acres of land used during the preceding year for **agricultural purposes**.

For classification of agricultural land with at least ten acres used for agricultural purposes, “contiguous acreage” means all (or a contiguous portion of) a single tax parcel as described in Minnesota Statutes, [section 272.193](#).

**Agricultural purposes** means the raising, cultivation, drying or storage of agricultural products for sale, or the storage of machinery or equipment used in support of agricultural production by the same farm entity. For a property to be classified as agricultural based only on the drying or storage of agricultural products, the products being dried or stored must have been produced by the same farm entity as the entity operating the drying or storage facility. Some examples of activities that would not qualify as agricultural purposes under this section include grain bins used for storing crops produced by other farmers, buildings used for storing another farmer’s machinery, and grain elevators.

Agricultural purposes may also include certain land that is being used for environmental purposes. Land that is enrolled in the Reinvest in Minnesota (RIM) program, the federal Conservation Reserve Program (CRP), or a similar state or federal conservation program is deemed as used for agricultural purposes if the property was classified as agricultural property:

- since the 2002 assessment; or
- in the year prior to its enrollment in the conservation program.

Additionally, up to three acres of land that is used to provide environmental benefits may be deemed as being used for agricultural purposes. Statute lists buffer strips, [old growth forest](#) restoration or retention, and retention ponds to prevent soil erosion as examples of environmental benefits.



A program is deemed “similar” to RIM or CRP if it shares the main objectives of the aforementioned programs. This means that the program must focus on taking agricultural land out of production and focusing on conserving it. While many conservation programs may enroll previously farmed land, this is not a sufficient enough similarity to RIM or CRP to qualify as being used for an agricultural purpose. Programs such as the Wetland Reserve Program (WRP) do **not** qualify, because while previously agricultural land is often enrolled, it is not specifically intended for agricultural land.

This property classification supersedes, for property tax purposes only, any locally administered agricultural policies or land-use restrictions that define minimum or maximum farm acreage requirements.

The grading, sorting, and packaging of raw agricultural products for first sale is considered to be an agricultural purpose.

If a parcel is used for both agricultural purposes and for commercial or industrial purposes including but not limited to:

- Wholesale and retail sales;
- Processing of raw agricultural products or other goods;
- Warehousing or storage of processed goods; and
- Office facilities for the support of the activities listed above.

then the assessor shall classify the portion of the property used for productive agricultural purposes as class 2a, and the rest of the property should be classified according to its use.

For example, an owner-occupied dairy farm also has several buildings onsite that are used to produce ice cream. The total size of the property is 80 acres. The house, garage and first acre (HGA) occupied by the owner of the property should be classified as class 2a. The portion of the property used for dairy production should also be classified as class 2a productive agricultural land. The portion of the property used for the production of ice cream including any area used for processing, packaging, freezing, sales, and office space should be classified as class 3a commercial/industrial property.

Similarly, a vineyard may also have several uses. The acres that are used to grow grapes to be used in wine production should be classified as 2a agricultural land while the portion of the property used for wine production, tasting, sales, etc. should be classified as class 3a commercial/industrial.

A greenhouse or other building where floricultural, horticultural or nursery products are grown that is also used for the purpose of retail sales must be classified as agricultural only if it is primarily used for growing floricultural, horticultural or nursery stock from seeds, cuttings or roots, and occasionally as a showroom for the retail sale of the products. The use of a

greenhouse or building **only** for the display of already grown floricultural, horticultural or nursery products **does not** qualify as an agricultural purpose.

In most cases, a property will qualify for the agricultural classification because they are producing **agricultural product**. For the purposes of classifying land for property tax purposes, the term “*agricultural products*” includes the **production for sale** (defined below) of:

- a) livestock, dairy animals, dairy products, poultry and poultry products, fur-bearing animals, horticultural and nursery stock, floriculture, fruit of all kinds, vegetables, forage, grains, bees, and apiary products by the owner;
  - a. Floriculture includes the production of bedding and garden plants, foliage plants, potted flowering plants, and cut flowers.
- b) aquaculture products for sale and consumption if production occurs on land zoned for agricultural use;
- c) the commercial boarding of horses. This may also include related horse training and riding instruction, if the commercial boarding is done on property that is also used for raising pasture to graze horses or raising or cultivating other agricultural products as defined in (a) above;
- d) property that is owned and operated by non-profit organizations used for equestrian activities, excluding racing;
- e) game birds and waterfowl that are bred and raised:
  - a. on a game farm licensed under [section 97A.105](#), provided that the annual licensing report required under that section indicates that at least 500 birds were raised or used for breeding stock on the property and the owner provides the assessor with the most recent schedule F; or
  - b. for use on a shooting preserve that is licensed under Minnesota Statutes, [section 97A.115](#);
- f) insects that are primarily bred to be used as food for animals;
- g) trees, grown for sale as a crop (e.g. Christmas trees), including short rotation woody crops, as long as they are not harvested and sold for timber, lumber, wood, or wood products;
- h) maple syrup taken from trees grown by a person who is licensed by the Minnesota Department of Agriculture under Minnesota Statutes, [Chapter 28A](#) as a food processor.

### Production for Sale

The agricultural product being produced on the land must be produced for the purpose of sale. Although income should not be the sole determining factor, the assessor may want to consider the following factors:

- Income (Schedule F) from sale of agricultural products (crops, livestock, etc.)
- How the agricultural products were sold (wildlife food plots do not qualify)
- Income earned in the past year from the sale of animals
- The income from the productive acres divided by the number of total acres

- Rental income from an agricultural lease

### Contiguous Acreage

Contiguous is defined by Minnesota Statute 273.13, subdivision 23(e) as:

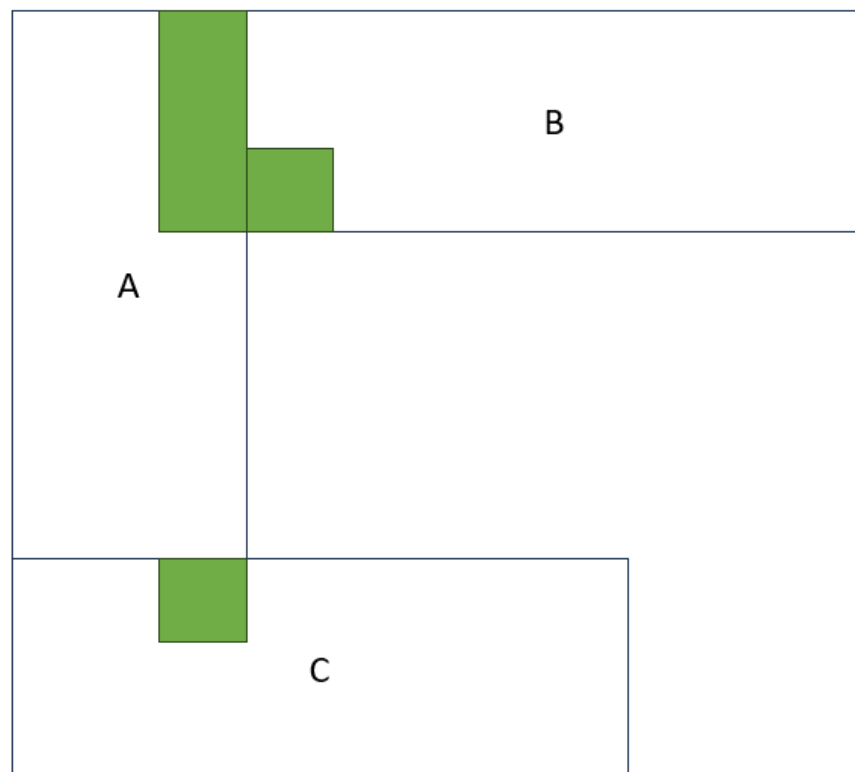
*all of, or a contiguous portion of, a tax parcel as described in section 272.193, or all of, or a contiguous portion of, a set of contiguous tax parcels under that section that are owned by the same person.*

Contiguous is simply defined as “connected to” or “next to.” This means that there must be ten acres **together** that are used for agricultural purposes. A parcel with singular acres scattered around the property would not qualify even if there were a total of ten acres used for agricultural purposes because the acres are not contiguous. Notably, this extends across parcels owned by the same person; this means if there is a field that is over ten acres, it does not matter where the parcel lines are as long as they are owned by the same person. Multiple parcels of agricultural land may be referred to as a “contiguous landmass”.

### Example:

A property owner owns several parcels, arrayed in the diagram on the right:

- Parcel A is 40 acres, with 13 contiguous acres of land used for agricultural purposes. The rest is 2b rural vacant land.
- Parcel B is 80 acres, with 5.3 acres of land used for agricultural purposes that is contiguous with the agricultural land in parcel A. The rest is 2b rural vacant land.
- Parcel C contains 5 acres of land used for agricultural purposes that is not contiguous with the agricultural land in parcel A. The rest is 2b rural vacant land.



In this situation, the land used for agricultural purposes on parcels A and B would qualify for the 2a agricultural classification, but the land on parcel C would not. The land on parcel A would qualify because it is more than 10 contiguous acres. The land on parcel B would qualify even though it is below ten contiguous

acres because it is contiguous to the land used for agricultural purposes on parcel A and parcels A and B are under the same ownership. The land used for agricultural purposes on parcel C would **not** qualify because it is under ten acres and is not contiguous to any other agricultural land.

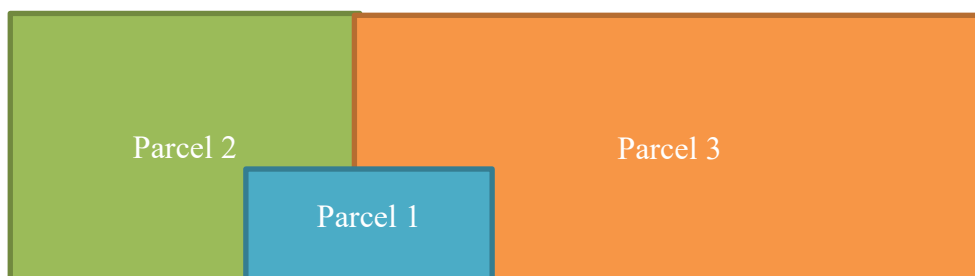
### “Same Ownership”

When spouses own property as individuals, meaning one of them is listed as an owner on the deed, they would still be considered “one person/same person” and meet the definition of contiguous. However, when agricultural land is owned by multiple owners, determining whether contiguous parcels qualify for the agricultural classification can be difficult. The assessor must verify the ownership of each parcel before determining the classification status of a parcel. There are no exceptions within 273.13 that allow partial ownership to be considered the same as individual ownership for classification purposes.

### Example:

Tract A has been split into three separate parcels with different ownership:

- Parcel 1: 6 acres, mom fully owns and occupies, is not used for intensive agricultural production
- Parcel 2: 15 acres, owned 50% by mom, 25% by son A, and 25% by son B, used for corn production
- Parcel 3: 99 acres, owned 50% by mom and 50% by Family Trust, used for corn production
- Mom and dad are the sole grantors of the family trust, dad has passed away
- Son A owns and occupies his own agricultural homestead
- Son B lives in town, he owns and farms agricultural land and is receiving a special agricultural homestead
- Both sons live within four cities or townships of the parcels in question



Due to the different ownership of the three parcels, each parcel must meet the agricultural classification requirements on their own.

- Parcel 1 does not meet the requirements and should be classified as residential. Mom’s ownership in parcel 2 and parcel 3 does not qualify this parcel for the agricultural classification because it does not meet the definition of contiguous.

- Parcel 2 does meet the requirements for the agricultural classification.
- Parcel 3 does meet the requirements for the agricultural classification.

### **Impractical to Separate**

Once this determination is made, any land deemed “impractical to separate” and any other smaller land masses of class 2a land on the same parcel may be classified as class 2a land as well. *(More detailed information about “Impractical to Separate” determinations can be found after the Class 2b information.)*

Class 2a land must also contain any property that would otherwise be classified as 2b rural vacant land, but is interspersed with class 2a property. This includes but is not limited to sloughs, wooded wind shelters, acreage abutting ditches, ravines, rock piles, land subject to a setback requirement, and other similar land that is impractical for the assessor to value separately from the rest of the property or that is unlikely to be able to be sold separately from the rest of the property.

### **Intensive Livestock or Poultry Confinement**

Property used for intensive livestock or poultry confinement may be agricultural regardless of the size of the parcel the confinement activity is located on. The acreage must be contiguous and have been used for intensive livestock or poultry confinement during the preceding year. The property may be homesteaded as agricultural land, but would not be eligible for Green Acres unless the other requirements for Green Acres – including the parcel being at least 10 acres– are met (see [Module 2 – Valuation](#) for more information).

### **Farmed Wild Animals**

The Legislature has designated that certain species of wild animals that are being farmed for certain agricultural purposes are considered to be livestock for sales tax, hunting and wildlife law purposes. The department has taken the position that the following may be considered as livestock for property tax purposes, but these classifications are not determinative of qualifying for the agricultural property tax classification:

- Farmed cervidae, such as deer, elk, or moose.
- Farmed ratitae, such as ostriches, emus, and rheas.
- Farmed llamas.

These animals and their products, such as fiber, meat, or other animal by-products, are treated as livestock and farm products. Raising farmed cervidae, ratitae, or llamas is an agricultural production.

Primary Statutory References: [17.452](#), [17.453](#), [17.454](#), [17.455](#), [17.456](#)

### Classification of property used of horse breeding and boarding

- Horses used for personal or recreational use DO NOT enable a property to qualify for the agricultural classification. (There are no agricultural products being produced for sale in this situation.)
- Ten acres or more of pasture used to provide feed for horses that are being used by the owners for their own personal/recreational use DOES NOT qualify the property for the agricultural classification – there is not an agricultural product being produced for sale.
- Ten acres or more of pasture being used to provide feed as part of a commercial boarding operation on the same property DOES qualify the property for the agricultural classification. In addition, horse training and riding instruction **related** to the commercial boarding may also be included in the agricultural classification if the boarding is done on property that is also used for raising pasture to graze horses or raising or cultivating other agricultural products specified in [section 273.13, subdivision 23, paragraph \(i\), clause \(1\)](#). It is the expectation that the training and riding instruction related to the commercial boarding is provided to those individuals who are boarding their horses onsite. If the training and riding instruction are provided to the general public (e.g. those who do not board their horses onsite) that portion of the property would be classified as commercial.
- Land used to produce horses bred or raised for sale should qualify toward the 10-acre requirement for the agricultural classification. However, breeding/selling 1-2 horses is likely not enough to qualify a property for the agricultural class, similarly to how selling 1-2 cows, 1-2 sheep, etc. would not automatically qualify a property. Assessors must use good professional judgment to differentiate between hobby and business enterprises. Assessors may want to ask for additional information such as receipts of sale, Schedule F, etc. to help make this determination.
- Ten acres or more of pasture being used to feed horses that are being bred/raised for sale DOES qualify for the agricultural classification since there is a product being sold (the horses). The assessor must determine if there is significant production taking place (enough animal units being sold each year) to warrant the agricultural classification.
- If a property is used for both breeding horses for sale and commercial boarding, the assessor would classify the entire property as agricultural, assuming there is no other use of the property (e.g. rural vacant land which would be classified as class 2b or a tack shop or event center which would both be classified as class 3a commercial, etc.).
- Any commercial use of the property such as tack shops, riding lessons for the general public, horse rental (e.g. trail rides, hay rides, or other service typically sold by the hour), conference centers, event centers, etc. must be classified as 3a commercial property.

### Exclusive Use - Real Estate of Less Than 10 Acres

Real estate of **less than** 10 acres that is **exclusively** used to raise or cultivate agricultural products should be considered to be agricultural land. “Exclusively” means the entire parcel, border-to-border is used for an agricultural purpose – there is no house, no cabin, and no other use of the parcel. If there is another use on the property, it is by definition not used exclusively for agricultural purposes.

### Intensive Use Real Estate of Less Than 11 Acres Improved With Residential Structure

If a property is less than 11 acres in size **and** has a residential structure, the property must be used for one of the following purposes to be considered agricultural:

- Intensive grain drying or storage;
- Intensive storage of machinery or equipment used to support agricultural activities on other parcels of property operated by the same farming entity;
- Intensive nursery stock production, provided that only those acres used to produce nursery stock are considered as agricultural land (land used for parking, retail sales, etc. does not qualify);
- Intensive market farming (see the “Market Farming” section for more information).

Exclusive	Intensive
Less than 10 acres	Less than 11 acres
Entire parcel, border to border	Ag use and residential use
No structure on the parcel	Has a residential structure
Only can establish homestead if contiguous to other ag land	Only <b>4 intensive ways</b> to use the property for it to qualify
Non-contiguous parcels must be linked to qualify for homestead	Can qualify for occupied ag homestead

### Market Farming

For the purposes of the agricultural classification, market farming is defined as “the cultivation of one or more fruits or vegetables or production of animal or other agricultural products for sale to local markets by the farmer or an organization with which the farmer is affiliated.” This requires that the farmer sell their agricultural products to a local market or otherwise be associated with an organization that sells their products to the local market. Assessors may request documentation such as farmers market applications or permits to verify that the farmer is participating in market farming.

Properties that are market farming can qualify for the 2a classification in two different ways. Please note that these two ways of qualifying for the 2a classification are independent, and a property owner only has to qualify under one set of requirements.

#### Property under 11 acres with a residence

- The contiguous acres exclusive of the house, garage, and surrounding acre of land was used in the preceding year for “intensive” market farming.
- Items to review to determine if the property meets the requirements of “intensive” market farming include:
  - The income generated by agricultural production on a property.
  - The amount of labor required for production.
  - Farmers’ market applications or permits.
  - Any other information deemed necessary to help the assessor make this determination.

#### Property under 15 acres with a residence- **Effective beginning in Assessment Year 2026.**

Property that is under 15 acres with a residence may qualify for the agricultural classification if they meet the following three requirements:

- The contiguous acres inclusive of the house, garage, and surrounding acre were used in the preceding year for market farming.
- The property owner provides the county assessor with the filed Schedule F for the most recent completed tax year showing gross income of at least \$20,000.
  - As the assessment date and valuation notices are sent before income taxes are due, assessors may accept the Schedule F from one year prior. E.g., for assessment year 2026, the assessor may accept the Schedule F filed in year 2025 showing income from year 2024.
  - If the more recent year’s Schedule F meets the income requirements, the property owner may provide it to the assessor to qualify for the classification, even if the Schedule F from two years prior did not.
    - This should be done as soon as possible.
    - If the property owner does not provide the Schedule F within 10 days of the Local Board or Open Book meeting, they must appeal their classification at the meeting.
    - Once boards have concluded, the classification of properties may not change outside of Minnesota Tax Court.
- The Schedule F must show a gross income of at least \$20,000.
  - The Schedule F must be the property owner or their spouse’s form. It cannot be from a relative or lessee.
  - The \$20,000 must be generated from market farming on the under 15-acre parcel to qualify.
    - If the property owner has multiple parcels that contribute income to the Schedule F, the property owner must provide documentation of the amount earned from the under-15-acre parcel.



- Similarly, if the parcel has income from market farming and non-market farming, the property owner must provide documentation showing which income is from market farming versus non-market farming.

**Administration:**

- Once a property owner has qualified under this clause, the assessor should verify this requirement annually with the property owner.
  - This should be done regardless of income shown on the previous Schedule F.
  - For customer service purposes, assessors should treat this verification similar to special agricultural homestead reapplications. Ultimately, the burden is on the property owner to provide their Schedule F.

**House, Garage and One Acre (HGA)**

When assessing farm property, the assessor must determine the market value of the HGA and list it separately on the property records. If any farm buildings or structures are located on this acre of land, their market value shall not be included in this separate determination. This distinction is very important as it is used for state aids, referendum market values, property tax refunds, and more. Assessors should take great care in making certain these values are uniform and equalized.

### Local Conservation Programs

Starting with the 2018 assessment year, the definition for agricultural purposes is expanded for property tax classification to include local conservation programs. Local conservation programs may be administered by a town, city, county, watershed district, water management organization, or soil and water conservation district.

To meet the definition of a local conservation program to qualify for agricultural classification, all of the following requirements must be met.

The land must:

- have been classified as agricultural in the year before enrollment
- receive payments of at least \$50 per acre in exchange for use or other restrictions on the land

Additionally, the landowner must:

- apply to the assessor by February 1 of the assessment year
- submit information required by the assessor including a copy of program requirements, the agreement between land owner and the local agency, and a map of the conservation area

Primary Statutory Reference: [273.13, subdivision 23](#)

### Tax capacity example:

Again using the example for [seasonal housing](#), Farmer McDonald owns, occupies and farms 2,000 contiguous acres with the help of several workers who assist him on a seasonal basis. As part of the workers' compensation, he provides housing for them during the months they are working on the farm. The structure where the workers live has a taxable market value of \$130,000. The HGA has a taxable market value of \$165,000. All of the land has been classified as class 2a agricultural land by the assessor. The excess land has a taxable market value of \$4,000,000. The tax capacity of the property is as follows:

Class	TMV		Class Rate	Tax Capacity
2a (HGA)	\$ 165,000	x	1.00% =	\$1,650
2a excess land	\$1,500,000	x	0.50% =	\$7,500
2a excess land	\$2,500,000	x	1.00% =	\$25,000
1d	\$ 130,000	x	1.00% =	<u>\$1,300</u>
				<b>\$35,450 Total Tax Cap.</b>

Primary Statutory References: [273.13, subdivision 23](#)

### Class 2b – Rural Vacant Land

Class 2b rural vacant land consists of property that is unplatted, unimproved, rural in character and is not used for agricultural purposes. It also includes land that is used for growing trees for timber, lumber, wood and wood products.

### Minor, Ancillary Structures

Class 2b land cannot be improved with a structure unless the structure is a minor, ancillary, non-residential structure as defined by the Commissioner of Revenue. The Department of Revenue has defined **minor, ancillary structures** as sheds or other primitive structures that are less than 300 square feet and are not used residentially. A structure can still be considered minor and ancillary if it is occasionally used overnight for hunting or other outdoor activities.

A structure or group of structures **may not** be considered minor and ancillary if they total 300 or more square feet, if any structure is used residentially on more than an occasional basis, or if there is an improved building site that provides water, sewer, or electrical hook ups for residential purposes. If there is a non-minor/ancillary structure on the property, then the property must be split classed according to the appropriate use or uses of the property. Some indications that the structure is not a minor, ancillary structure would be the fact that it is designed for residential occupancy and includes kitchen facilities, separate bedroom areas, or gas service.

If a parcel of 20 acres or more in size is improved with a structure that is not minor and ancillary, then the assessor should split-classify the property. The structure and 10 acres should be classified according to the use of the structure (residential, seasonal residential recreational, etc.) and the remaining land should be classified as class 2b rural vacant land. There is an exception to this if the parcel is enrolled in Sustainable Forest Incentive Act program. See below.

### Platted Rural, Unimproved, Non-Agricultural Parcels

A rural, unimproved, non-agricultural parcel may retain the 2b rural vacant land classification if it is platted due to a government requirement, such as a local ordinance or other administrative mandate.

### Distinction Between Administrative and Owner-Initiated Plats

- **Administrative plats:** Required by a government entity (e.g., county ordinance, land survey mandates, Homestead Act of the 1800s). These do not automatically disqualify the property from the 2b classification, provided the remaining lot is at least 20 acres in size.
- **Owner-initiated plats:** Completed for personal reasons (e.g., estate planning, future development, or sale). These make the property ineligible for the 2b classification.

## Assessor Review Requirements

- If the remaining lot is **20 acres or more**, the assessor must evaluate additional factors such as rural character and the use of surrounding land before determining classification.
- If the remaining lot is **less than 20 acres**, classification should be based on the property's current use or, if unused, its most probable highest and best use.

## Tax Capacity Examples

### Example #1:

Tom owns a 100-acre parcel of wooded land in southeastern Minnesota but lives in Florida. The land does not produce any agricultural products, is not platted and is rural in character. The property has a taxable market value of \$1.1 million. The property should be classified as class 2b rural vacant land.

The tax capacity would be calculated as follows:

Class	TMV		Class Rate		Tax Capacity
2b	\$1,100,000	x	1.00%	=	<u>\$11,000</u>
					\$11,000 Total Tax Capacity

### Example #2:

The same situation exists as in example #1 above except that there is a hunting cabin located on the property. The property has a taxable market value of \$1,150,000. Ten acres of land plus the cabin must be classified as class 4c(12) seasonal residential recreational-noncommercial. The remainder of the property should be classified as class 2b rural vacant land.

The tax capacity would be calculated as follows:

Class	Type	TMV		Class Rate		Tax Capacity
4c(12)	Cabin	\$ 50,000	x	1.00%	=	\$ 500
2b	RVL	\$1,100,000	x	1.00%	=	<u>\$11,000</u>
						\$11,500 Total

Class 2b land may qualify as part of an agricultural homestead if it is contiguous to qualifying class 2a agricultural land under the same ownership. The class 2b would be included in the agricultural homestead classification rates and tiers.

### Class 2b and Sustainable Forest Incentive Act Enrolled Land

[Minnesota Statute 273.13, subdivision 23\(c\)](#) provides the exception to the split classification requirement for Sustainable Forest Incentive Act (SFIA) enrolled land.

The law requires assessors to split classify 2b property differently if a parcel meets all the criteria below:

- 20 or more acres in size
- is enrolled in the Sustainable Forest Incentive Act (SFIA) program
- improved with a structure (that is not a minor, ancillary nonresidential structure)

If a parcel meets these requirements, then the number of acres split classified according to the use of the structure must equal the number of acres (or 3 acres at a minimum) excluded from the SFIA covenant due to the structure.

This law change is an exception to the general rule for split classifying property that is 20 or more acres in size and improved with a structure. This change only applies to SFIA enrolled land.

The law change was made because there was a conflict between the direction under SFIA and class 2b statutes when a structure is located on a parcel that is over 20 acres in size. This conflict in acreage could result in acres of enrolled land receiving a classification that violates the SFIA definition of forest land (which excludes land used for residential or agricultural purposes).

### Assessor Responsibilities:

- Assessors do not need to determine if a parcel qualifies for SFIA. DOR and the Department of Natural Resources (DNR) determine active eligible acres for SFIA. Both departments utilize the information you provide to us in making determination on whether parcels are still eligible.
- A list is sent to the county assessor by the Department of Revenue SFIA administrator each year which includes the SFIA enrolled parcels. Assessors must review enrolled SFIA parcels that have a structure and update the number of acres that are classified according to the structure to match the number of acres that are excluded in the SFIA covenant. If there are no acres excluded on the covenant, a minimum of 3 acres must be classified according to the structure. SFIA covenants are recorded with the county recorder's office. The map of the property which includes any excluded acres are found on Exhibit B of the covenant. To find an example of what a covenant looks like, go to the [SFIA website](#) under How to Enroll.

## Examples of Split Classification of a Parcel Enrolled in SFIA

### Example 1

A 60-acre parcel with a residence with 5 acres being used residentially, and 55 acres of woods. 55 acres are enrolled in SFIA and the covenant shows an exclusion of 5 acres. The parcel would be classified as follows:

- Since the parcel is over 20 acres, contains a non-minor structure, and enrolled in SFIA you must refer to the SFIA covenant to determine how many acres surrounding the structure you must classify according to the use of the structure.
- In this example 5 acres were excluded so you must classify the immediately surrounding 5 acres according to the use of the structure. The remaining acres are classified as 2b rural vacant land.

### Example 2

A 40-acre unimproved parcel with 8 acres being tilled, and 32 acres of woods. Part of this parcel is enrolled in SFIA. The parcel would be classified as follows:

- Since the parcel is over 20 acres, is not improved with any non-minor structures, and does not have at least 10 contiguous acres in used for agricultural purposes, you must classify the entire property as 2b rural vacant land.
- If a structure is built in the future, you will need to review the classification for that assessment year and classify accordingly.

### Example 3

An 80-acre parcel has a hunting cabin on it and is enrolled in SFIA. No acres were excluded on the covenant. The parcel would be classified as follows:

- Since the parcel is over 20 acres, contains a non-minor structure, enrolled in SFIA and does not have a specified exclusion amount on the covenant, three acres must be split classified according to the use of the structure.
- The remaining acres are classified as 2b rural vacant land.
- This is a potential violation of SFIA and should be reported to [proptax.sfia@state.mn.us](mailto:proptax.sfia@state.mn.us) and we will work with DNR to review the parcel.
- Note: if this parcel was not enrolled in SFIA, then the split classification would be 10 acres with the use of the structure and the remaining 70 acres as 2b.

### Example 4

An 18-acre unimproved parcel with 5 acres being tilled, and 13 acres of woods. This property is NOT enrolled in SFIA. This property would be classified as follows:

- Since the parcel is less than 20 acres, is not improved with any non-minor structures, and does not have at least 10 contiguous acres used for agricultural purposes, you must classify the entire property as 2b rural vacant land.

Primary Statutory References: [273.13, subdivision 23](#)

## 2a/2b Agricultural Homestead First-Tier Valuation Limits

Beginning with the 2006 assessment, the Commissioner of Revenue annually calculates and certifies the first-tier limit for agricultural homestead property, as required by law.

The Department of Revenue calculates and certifies the first-tier valuation limit rounded to the nearest \$10,000. Assessment data is used to calculate the new limit, which is the product of:

- the first-tier limit for the preceding assessment year, and
- the ratio of the statewide average taxable market value of agricultural property per acre in the preceding assessment year to that of the second preceding assessment year.

The table showing the certified agricultural homestead first-tier valuation limit amounts for current and past assessment years can be found on the [Agricultural Homesteads First-Tier Valuation Limit website](#).

### Defining 2a/2b Using “Impractical to Separate”

Some lands not used to produce agricultural products for sale may still be classified as 2a in limited circumstances. Minnesota Statutes, [section 273.13](#), says:

*“Class 2a property must also include any property that would otherwise be classified as 2b, but is interspersed with class 2a property, including but not limited to sloughs, wooded wind shelters, acreage abutting ditches, ravines, rock piles, land subject to a setback requirement, and other similar land that is impractical for the assessor to value separately from the rest of the property or that is unlikely to be able to be sold separately from the rest of the property.”*

“Interspersed” is commonly defined as being placed at intervals among other things; the word is synonymous with strewn or sprinkled. Small tracts of land not used for agricultural purposes that are scattered throughout the entire parcel and considered “interspersed” include:

- sloughs
- wooded wind shelters
- grass setback acres abutting ditches
- grass setback acres abutting public waters
- ravines
- rock piles
- waterways
- ridges
- pivot points
- terraces
- ditches
- sink/pot holes
- fence lines

These types of interspersed lands should be classed as 2a land.

The term “interspersed” implies that in most cases, the amount of interspersed acres will be a small amount in relation to the total acreage for that parcel.

“Land subject to a setback requirement” is understood to be any land prohibited by local requirements/ordinances from being used for agricultural purposes (i.e. setbacks from feedlots, wind turbines, or water frontage, etc.). This land should generally be considered impractical to separate and should be classed as 2a land because the setback prohibits agricultural use.

In 2008 (before this language), the department issued the following policy statement:

*“In most cases according to the DNR, in shore land districts, agricultural areas adjacent to lakes, rivers, and streams a buffer strip of permanent vegetation that is at least 50’ wide is required. In the real world, these buffer strips will vary in width based on the topography and pre-existing natural vegetation. To compensate for this and avoid penalizing farms that demonstrate good conservation practices we have developed the following policy regarding lands abutting lakeshore, rivers, and streams.*

*If 50% or more of a contiguous land mass which lies within 400’ of the Ordinary High Water Line is in agricultural production, the entire land mass within the 400’ will be considered 2a and eligible for consideration for GA [Green Acres].*

*If less than 50% of that land is in agricultural production, only the land actually in production shall be classed as 2a. The nonproductive land should be classified as 2b and therefore ineligible for green acres.*

*If local zoning or shore land ordinances require a lot depth greater than 400’ for development, the land area used to calculate the percentage of land in agricultural production shall be extended from the 400’ mark to that local depth standard. The 400’ delineation should be used in situations where the state or local requirement is less than 400’ to provide as much consistency as possible.*

*This policy will allow for substantial irregularities in the shape of the buffer strip yet require the strip to “average out” to 200’ or less to qualify as 2a.”*

Legislature directed assessors to consider whether land would be “unlikely to be able to be sold separately” from the rest of the property. This factor should be given considerably less weight than the other factors in the determination of impractical to separate. A very literal reading of this language could prevent the vast majority of rural vacant lands from being separated as 2b land because of market evidence. This was not the intent of the legislation.



The general rule is that contiguous class 2b land masses that are 10 acres or more in size should be considered practical to separate from 2a land, while contiguous land masses less than 10 acres in size should be considered impractical to separate.

### Applying a 10-Acre Rule for “Impractical to Separate”

Assessors should be able to easily apply the 10-acre rule in the majority of situations. The contiguous acreage of the non-agricultural land that has been identified is first considered. This is land that is not tilled, actively grazed, or mowed for hay.

- If this land mass is **10 acres or more**, the assessor would separate it from the class 2a land and classify it as class 2b rural vacant land. If the owner applies and meets the other requirements, the 2b land may be eligible for the Rural Preserve Program.
- If this land mass is **less than 10 acres**, you would not separate it from the class 2a agricultural land since it would be considered “impractical to separate,” and it would be classified as class 2a.

### Exceptions to the 10-Acre Rule for “Impractical to Separate”

The 10-acre rule for “impractical to separate” should work in the majority of situations. However, one rule can only rarely fit all circumstances, and that is the case when determining the classification of land in Minnesota. The state and its lands are too diverse.

To account for this diversity and allow for professional judgment and common sense of assessors, the Department of Revenue has developed a list of factors (see below) that assessors should consider if they are justifying a case where the 10-acre rule for “impractical to separate” has not been applied.

Counties should create a policy as to how they will use these factors and how they will document the decisions and rationale used in applying the factors. This policy should be consistent for the county and similar to what is being done in the region. The department’s Property Tax Compliance Officers can help to coordinate these policies.

These factors should help to achieve consistency because assessors will be working from the same set of considerations to determine what is impractical to separate.

### Factors for Separating Class 2b Lands

The 10-acre rule should usually provide sufficient guidance for assessors trying to determine whether to separate class 2b lands, but there will obviously be some exceptions.

In cases where the 10-acre rule does not provide sufficient guidance, assessors should consider and utilize the following factors in determining what is practical or impractical to separate:

1. How is “interspersed” a factor?
  - a. Size (acreage)/predominance of the class 2b land to the size of the overall parcel
  - b. Characteristics (shape, edges, contours, topography) of the 2a and 2b land
  - c. Location of the 2b land – in relation to parcel, to class 2a land, to other 2b land
2. How are alternate uses to the land a factor?
  - a. Converting the lands to agricultural use
    - i. Is it easy/feasible to till the land?
    - ii. Is it possible, or impossible?
    - iii. For what reason is any land that could be farmed nor being farmed (i.e. is it physically impossible to get machinery there, etc.)?
    - iv. Are there economic, legal, or zoning considerations preventing farming the land?
3. How are setback requirements a factor?
  - a. Are there setback requirements that prevent farming the land?
    - i. What is the size of setback or amount of land required to be set aside?
4. How is “likely to be sold separately” a factor? Remember this factor is given less weight than the others. It should not be the only factor used in making determinations.
  - a. Local market considerations –
    - i. Has this land sold separately in the past? Is it accessible if sold? Is it usable if sold?
    - ii. Instead of selling, are hunting rights to this type of land typically leased?
  - b. Does the size, shape, or location of this land result in an unusual land mass for sale or to split?

The following examples illustrate potential exceptions to the 10-acre rule for “impractical to separate” and how to use the above factors in making that determination.

**Example where less than 10 acres may be considered practical to separate.** A tract of land with a 3 acre wooded area (not used agriculturally) borders tilled land. Other similar wooded land has been split off as residential sites in the past. The 3 acres are less than the 10-acre rule, but it is feasible and legal to split off for residential development, the characteristics of this land (it is a contiguous mass and shaped/located for a residential site), and there is also a history of this type of sale. The 3 acres should be separated and classed according to use, but are not considered class 2a.

**Example where more than 10 acres may be considered impractical to separate.** An 80-acre parcel of mostly tilled lands includes a strip of land running next to a waterway. This land cannot be tilled because of setback requirements and the topography of the land. It totals 14 acres, which exceeds the 10-acre rule, but it should be considered impractical to separate because of the setback requirements and the fact that the topography of this land makes it not possible to be used for agricultural purposes. The 14 acres should be classified as 2a land.

**Example where not being “interspersed” may be considered practical to separate.** A 25-acre parcel has 10 acres being tilled and 15 acres not being used for agricultural production. Some of these 15 acres are in contiguous land masses that are larger in size, and others are in one- or two-acre groupings. Because these 15 acres are not a small amount in relation to the total acreage for that parcel, they should not be considered interspersed. The 15 acres should be classified as class 2b land.

**Example where being “interspersed” may be considered impractical to separate.** An 80-acre parcel has 65 acres being tilled and 15 acres not being used for agricultural production. Some of these 15 acres are in contiguous land masses (all less than 10 acres), but others are in one or two acre groupings. Because these 15 acres are scattered and are a small amount in relation to the total acreage for that parcel they should be considered interspersed, the 15 acres should be classified as class 2a land.

**Example where acres of certain types of non-agricultural land may be considered impractical to separate while other types may be considered practical to separate.** A 40-acre parcel has a 10-acre area of woods not used agriculturally in one corner, a 9-acre ravine that cannot be used for agriculture due to the slope running through its center, and 21 acres being pastured.

While there are more than 10 total non-agricultural acres on this parcel, not all necessarily should be considered practical to separate. The 10-acre woods which are feasible to be split and are in a land mass that is conducive to other uses should be considered practical to separate and be classified according to use (likely class 2b).

However, the 9-acre ravine cannot be farmed because of topography and is specifically listed in the statute. It should be considered “impractical to separate” and classified as 2a land (if the ravine was more than 10 acres, the assessor would need to work through the factors to see if it should be an exception to the impractical to separate rule).

### Additional Comments on “Impractical to Separate”

Statute lists certain features or types of land that are not physically possible to farm and/or that may be an integral part of the farm. When these lands are interspersed with class 2a land, they should not be included in the acreage counts when using the 10-acre rule. Such lands would be impractical to separate and should be classified as 2a land.

Other land that the owner may be choosing not to use agriculturally, but that is not an integral part of the farm, or that is not interspersed with class 2a land should be counted under the 10-acre rule. Classification of such land would need to be determined using the above criteria. An example of this would be food plots left for wildlife. This is a choice the owner makes, and the land would be considered practical to separate and not considered class 2a land.

Class 2a eligibility cannot be created due to lands being considered “impractical to separate” and therefore being included as class 2a land. The property must first have at least 10 acres used for agricultural production before having land included that is “impractical to separate.”

### Split-Classifying Agricultural Property (2a/2b)

The first step in classifying property is to identify the acreage that is used for agricultural purposes as defined in statute and therefore classified as 2a land. Then assessors should identify the acreage that is used for a different and separate use. If there is no separate use, then the property is classified as class 2a for the agricultural lands and class 2b for the unused lands, and there is a potential for an agricultural homestead.

If there is an identifiable separate use, then the property is split-classified. In the department's opinion, there are five split-classification options, each dependent on the number of acres in agricultural production (therefore class 2a land). Each option has homestead eligibility implications.

1. If there are at least 10 contiguous acres used for agricultural purposes, those acres are classified as 2a land. The remainder of the land is classified according to its identifiable separate use(s) – potentially class 2b rural vacant lands, class 3a commercial, etc. The class 2a and 2b portions of the property may be eligible for homestead.

Options (2) through (5) apply **if there are less than 10 contiguous acres used for agricultural purposes** (except in situations covered by the intensive or exclusive provisions in statute or other rare circumstances laid out in this section). If there are less than 10 contiguous acres in agricultural production, no acres will be classified as 2a land and the property is not eligible for agricultural homestead on its own.

2. If the parcel is **less than 20 acres** in size, unplatted, rural in character, and is not improved with a structure (unless the structure is minor and ancillary as defined [in the above section on 2b rural vacant land](#)), the entire property is classified as 2b rural

vacant land. The property on its own is not eligible for any type of homestead. (It could be linked to an agricultural homestead if the parcel is contiguous to class 2a land under the same ownership.)

3. If the parcel is **less than 20 acres** in size and is improved with a structure (other than a minor or ancillary structure), the property is classified according to the use of the structure. If the structure is a residence, the property may be eligible for a residential homestead.
4. If the parcel is **20 or more** acres in size and is unplatted, rural in character, and not improved with a structure (unless the structure is minor and ancillary), the entire property is classified as 2b rural vacant land. The property on its own is not eligible for any type of homestead. (It could be linked to an agricultural homestead if the parcel is contiguous to class 2a land under the same ownership.)
5. If the parcel is **20 or more** acres in size and is improved with a structure (other than a minor or ancillary structure), the structure and the immediately surrounding 10 acres are classified according to the use of the structure. If the structure is a residence, that portion of the property may be eligible for a residential homestead. The remainder of the property is classified as 2b rural vacant land and on its own is not eligible for any type of homestead.

For options (2) through (5) above, if classification as 2b is not applicable because of enrollment in class 2c Managed Forest Land or some other program, or because another classification is appropriate based on the use of the land, then the appropriate classification should be used in place of class 2b.

There may also be instances where three or more different uses of the parcel are identified (for example, a house, 2b land, and commercial use). In these cases, the parcel may have multiple classifications. What this illustrates is that when there are less than 10 contiguous acres used for agricultural purposes, none of the land is classified as 2a (unless it is one of the rare circumstances laid out in this section).

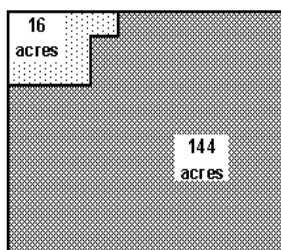
Minnesota Statutes, [section 273.13, subdivision 23](#) states that no land can be classified as class 2a unless there is first at least 10 contiguous acres used agriculturally, with the exceptions of intensive or exclusive use. The statute specifically states that class 2a agricultural land is *"contiguous acreage of ten acres or more used during the preceding year for agricultural purposes..."* The statute also includes very specific performance requirements (the production of an agricultural product for sale) that must be met to qualify for the 2a class. This will likely result in instances where a parcel with some agricultural use, but less than 10 tilled acres, will not be eligible for 2a classification. The department recommends these parcels be classified according to a statutorily-allowable classification, which will likely be class 2b.

While statute prohibits class 2b land being used for agricultural purposes, because there is less than 10 acres in production, the land is not being used for agricultural purposes.. If there is a non-minor or ancillary structure on the property, then the classification would be based on the use of the structure. For example, a parcel with eight acres and a house would likely all be classified as residential.

### Classification Determination Examples:

The following illustrate some potential split-classifications when the rural vacant land (class 2b) classification is applicable.

Note: these are simplified examples for illustrative purposes only. They assume the only uses are class 2b rural vacant land or residential when there is a structure on the property. They also assume these parcels are not contiguous to any other parcels under the same ownership.

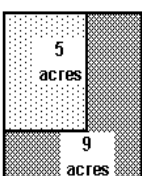


#### Example 1

*A 160 acre unimproved parcel with 16 acres being tilled, and 144 acres of woods. This property would be classified as follows:*

Since the parcel has at least 10 contiguous acres used for agricultural purposes, you must classify the land according to its use. The 16 acres would be classified as 2a productive land and the 144 acres of woods would be classified as 2b rural vacant land.

The parcel, on its own, would not be eligible for any homestead.

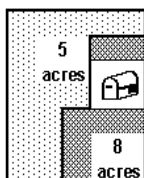


#### Example 2

*A 14 acre unimproved parcel with 5 acres being tilled, and 9 acres of slough. This property would be classified as follows:*

Since the parcel is less than 20 acres, is not improved with any non-minor structures, and does not have at least 10 contiguous acres used for agricultural purposes, you must classify the entire property as 2b rural vacant land.

The parcel, on its own, would not be eligible for any homestead.

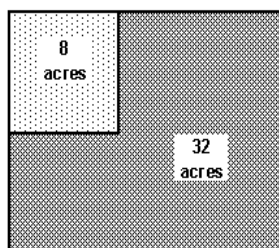


#### Example 3

*A 14 acre parcel with a residence, 5 acres being tilled, and 8 acres of marsh. This property would be classified as follows:*

Since the parcel is less than 20 acres, is improved with a non-minor structure, and does not have at least 10 acres used for agricultural purposes, you must classify the entire property according to the use of the structure.

The parcel could be eligible for a residential homestead.

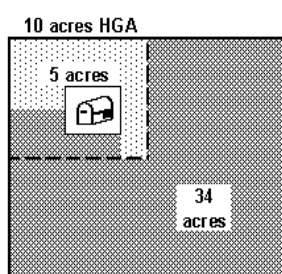


#### **Example 4**

*A 40 acre unimproved parcel with 8 acres being tilled, and 32 acres of woods. This property would be classified as follows:*

Since the parcel is over 20 acres, is not improved with any non-minor structures, and does not have at least 10 contiguous acres in used for agricultural purposes, you must classify the entire property as 2b rural vacant land.

The parcel, on its own, would not be eligible for any homestead.



#### **Example 5**

*A 40 acre parcel with a residence, 5 acres being tilled, and 34 acres of marsh. This property would be classified as follows:*

Since the parcel is over 20 acres, contains a non-minor structure, and does not have at least 10 contiguous acres used for agricultural production, you must classify the immediately surrounding 10 acres according to the use of the structure. The remaining acres are classified as 2b rural vacant land. The 10 acres could be eligible for a residential homestead.



### Class 2c – Managed Forest Land

Class 2c property is managed forest land that would otherwise likely be classified as class 2b, but its use is restricted under a forest management plan (FMP).

Class 2c land consists of no less than 20 acres and no more than 1,920 acres statewide per taxpayer.

The FMP must meet the requirements of Minnesota Statutes, chapter 290C (Sustainable Forest Incentive Act program). However, class 2c land **cannot** simultaneously be enrolled in the Sustainable Forest Incentive Act program (SFIA).

The class rate for 2c property is 0.65% of its taxable market value.

Property owners must apply to the assessor to receive the 2c classification. The Commissioner of Natural Resources must also concur that the land is qualified for 2c classification and shall provide annual verification information. A copy of an applicant's FMP must be attached to their initial application. Property owners must follow the guidelines prescribed by the FMP if they wish to continue to receive the classification.

To qualify for Class 2c the property can neither be platted nor can the property be improved with a structure. Class 2c land may not be improved with a structure other than a minor, ancillary, non-residential structure ([as defined in the section on 2b rural vacant land](#)). Properties that are improved with a structure that is not a minor, ancillary, non-residential structure (e.g. home, cabin, commercial building, etc.) must be split-classified with at least 10 acres being assigned to the structure. It is up to the assessor to remove the 10 acres for any structure that does not qualify as a minor, ancillary, non-residential structure. The portion of the property that includes the structure would then be classified based on the use of the structure.

If a property must be split-classified and the resulting forest land is less than 20 acres, the property is not eligible for the 2c classification. For example, if a wooded property is 25 acres in size and there is a single family dwelling that is occupied as homestead by the owner, the property would not qualify for class 2c. The reason is that, after removing 10 acres surrounding the home, only 15 acres of forest property remain, which is short of the statutory minimum of 20 acres to qualify for class 2c.

There may be instances when parcels containing forest land will have more than one use. In these circumstances, the land covered under the FMP should be split-classified as 2c and the remaining land should be classified according to its use. For example, a 360-acre parcel containing 200 acres of agricultural land and 160 acres of forest land that is covered by a FMP should be split-classified. The 200 farmed acres would be classified as 2a agricultural land and the 160 acres of forest would be classified as 2c managed forest land (assuming proper application is made and approved by the appropriate parties).



Noncontiguous forest land can qualify for the 2c classification providing it is covered under the same FMP (there must be at least 20 acres total), under the same ownership, and located on contiguous parcels.

When determining eligible acres, follow these steps:

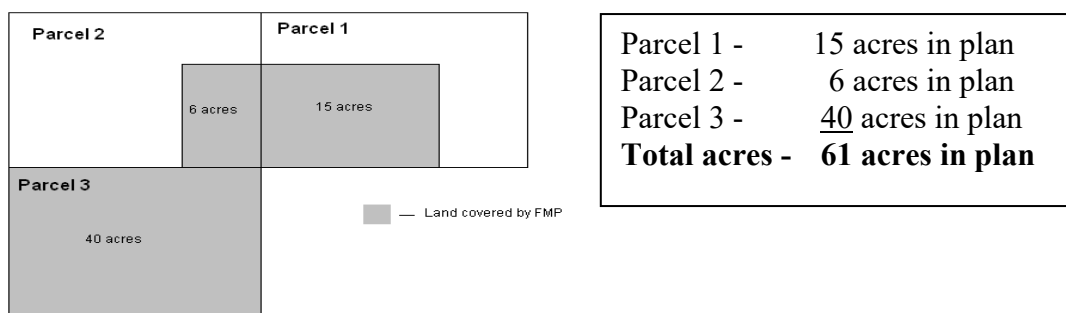
1. Determine what parcels are contiguous and under the same ownership.
2. Determine how many acres of FMP land (must be the same FMP) there are on the contiguous parcels.
3. If the FMP land adds up to at least 20 acres, all contiguous parcels and all eligible FMP land located on those parcels can qualify for the 2c classification.

Generally, any land covered under the forest management plan are “eligible acres” for the 2c classification. Exceptions include land enrolled in SFIA, open water greater than three acres in size, or CRP land. The determination of eligible acres should be done on a case-by-case basis.

The Department of Revenue will provide assessors with lists of parcels that are enrolled in SFIA on an annual basis. The Department of Natural Resources will provide county assessors with annual lists of property owners who have registered FMPs in each county. In order to continue to qualify for class 2c, property owners must be listed on the annual list of registered FMPs. It will be the responsibility of the county assessor to verify that any parcels receiving the reduced classification rate for class 2c are not enrolled in SFIA.

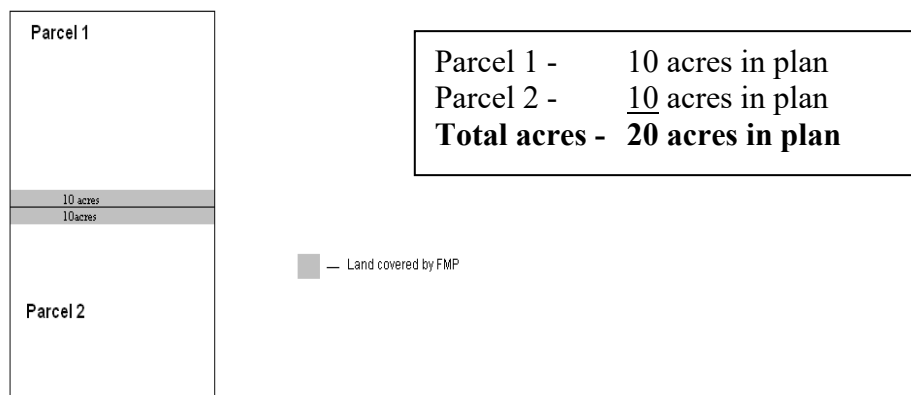
The following examples of eligible property are included for illustration purposes. Assume all examples have the same ownership and same forest management plan.

**Example 1:** Three contiguous parcels covered under the same forest management plan.



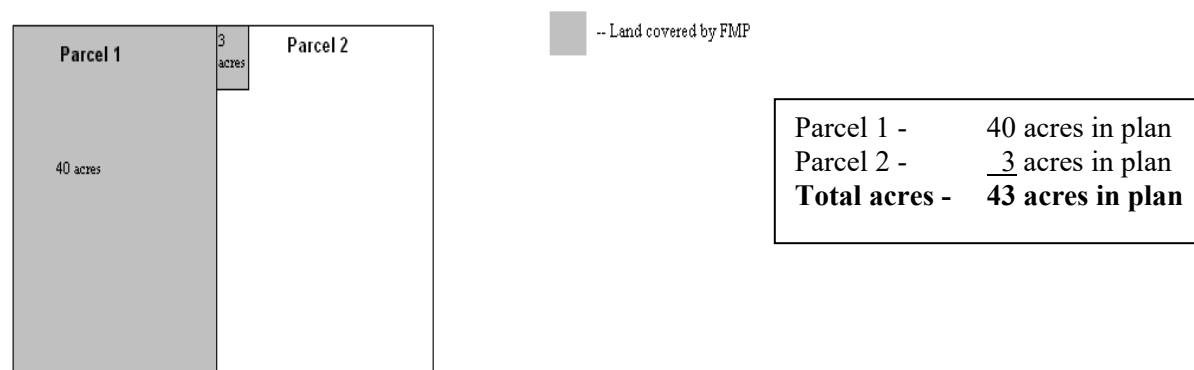
**Solution 1:** Parcel 1, 2, and 3 would qualify because together they contain over 20 acres of land covered under a forest management plan, and all three parcels are contiguous. All 61 acres in the plan qualify.

**Example 2:** Two contiguous parcels covered under the same forest management plan.



**Solution 2:** Both parcel 1 and 2 qualify for the 2c classification; there are 20 acres of land with an FMP and the parcels are contiguous. All 20 acres in the plan qualify.

**Example 3:** Two contiguous parcels covered under the same forest management plan.



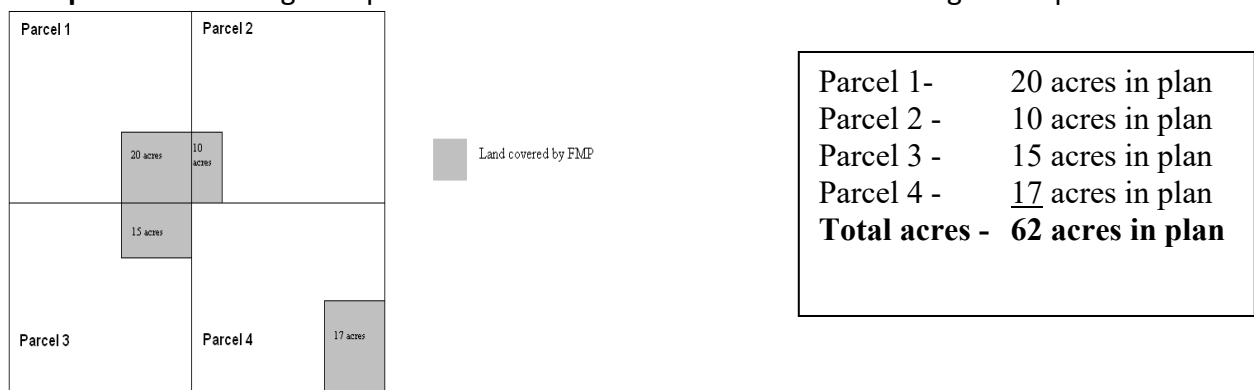
**Solution 3:** Both parcel 1 and 2 qualify. There are over 20 acres of FMP land located on contiguous parcels. Even though Parcel 2 only has three acres in the plan it qualifies because it is on a contiguous parcel and has the same forest management plan.

**Example 4:** Two contiguous parcels covered under the same forest management plan.



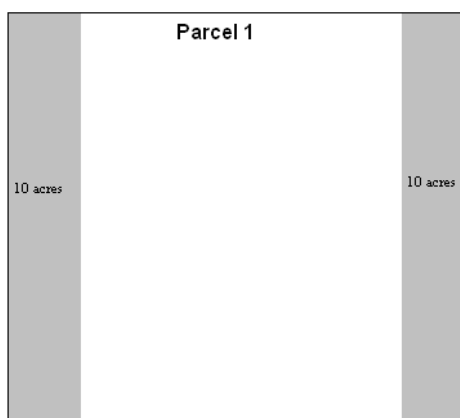
**Solution 4:** Neither parcel 1 or 2 would qualify for the 2c classification. 10 acres must be removed and assigned to the structure, leaving only 15 acres eligible for the 2c classification (5 acres on parcel 1 and 10 acres on parcel 2). There must be at least 20 acres eligible for the 2c classification in order to qualify. Zero acres in the forest management plan would qualify for class 2c.

**Example 5:** Four contiguous parcels covered under the same forest management plan.




**Solution 5:** All parcels (1,2,3, and 4) would qualify for the 2c classification. All four parcels are contiguous. The sum of the acres covered under a FMP is at least 20. Even though the FMP land on parcel four is not contiguous to the other FMP land, the parcel is contiguous to the other parcels (and has the same FMP), so all 62 acres can qualify.

**Example 6:** One parcel with forest management plan



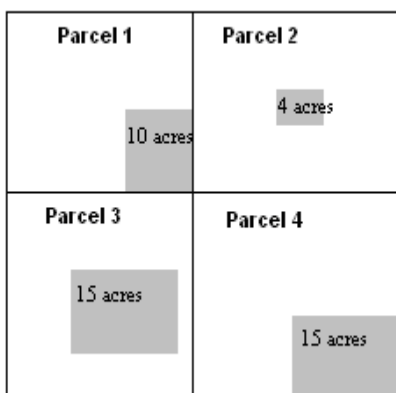
Parcel 1- 20 acres in plan – *(two noncontiguous 10 acre tracts)*


**Total acres - 20 acres in plan**

 Land covered by FMP

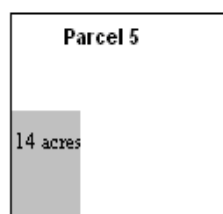
**Solution 6:** Parcel 1 would qualify. The parcel contains 20 acres of land with an FMP. The FMP land is not contiguous, but it is on the same parcel (or contiguous parcels) and is at least 20 acres. All 20 acres in the plan qualify.

**Example 7:** Four contiguous parcels covered under the same forest management plan. One non-contiguous parcel with same forest management plan.



 -- Land covered by FMP

Parcel 1 -	10 acres in plan
Parcel 2 -	4 acres in plan
Parcel 3 -	15 acres in plan
Parcel 4 -	15 acres in plan
Parcel 5 -	14 acres in plan
<b>Total acres -</b>	<b>58 acres in plan</b>



**Solution 7:** Parcels 1, 2, 3, and 4 would qualify. Parcel 5 would not qualify. Parcel 5 is not contiguous to the other parcels and does not contain 20 acres of FMP land. If parcel 5 had 20 acres of FMP land, it could qualify on its own. 44 acres in the plan qualify.

## 2c - Frequently Asked Questions

1. **Must a property be classified as class 2b rural vacant land prior to being classified as class 2c managed forest land?**

**Answer:** No. Land may have been classified in any number of ways before being enrolled in class 2c. For example, a qualifying tract of land that is located on a lake may have been previously classified as class 4c seasonal residential recreational – non-commercial property. If the owner obtains a FMP, follows its provisions and makes proper application to the assessor, that property may qualify for class 2c.

2. **How does 2c property relate to homestead?**

**Answer:** 2c property should not be used to qualify property for homestead. If a property containing 2c land meets all the requirements for either agricultural or residential homestead, then that property may receive homestead.

3. **If a portion of a property is farmed, can it be eligible for class 2c?**

**Answer:** It is possible for a parcel of property to be partially-farmed and be eligible for the 2c classification. Simply farming a portion of a property does not disqualify the remaining portion of the property from being eligible for class 2c. However, any land that is used for agricultural purposes cannot receive the 2c classification. For example, a property owner owns an 80-acre parcel, 30 of which are farmed and 50 of which are wooded. In this case, the 50 acres may qualify for 2c if all other requirements are met. The 30 acres that are farmed are not eligible. *Please be aware that the property in question may benefit more by having the forest land classified as class 2b rural vacant land if it is contiguous to the 2a productive land under the same ownership and the owner meets the requirements for an agricultural homestead. Class 2c property cannot be homesteaded.*

4. **What is a Minnesota Forest Stewardship Plan?**

**Answer:** The terms “Minnesota Forest Stewardship Plan” and “forest management plan (FMP)” are interchangeable. The DNR administers a program called the Forest Stewardship Program to promote sustainable forestry. Participants in this program get a “Forest Stewardship Plan” or FMP. They both reference the same thing which is provided by either the DNR or DNR-approved plan writers with the purpose of maintaining the sustainability of forested land.

**5. Does the FMP follow the owner upon sale or is it tied to the owner that enrolled the property?**

**Answer:** The FMP is tied to the owner of the land. The DNR has informed us that they would like the FMP to be updated to reflect current ownership. Therefore, if a property is sold or transferred, the FMP must be updated and a new application must be submitted in order for the new owner to qualify for the 2c classification. The 2c classification should be removed for the next assessment year if the new owner has not submitted a new application containing an updated FMP by that time. *We strongly recommend that assessors send a new application or letter to the new owners informing them that their newly purchased property will only remain classified as class 2c property if they update their FMP and submit a new application.*

**2c Tax Capacity Example:**

Woody owns a 40-acre tract of property in St. Louis County. There is no residence on the parcel and Woody has made a timely application for class 2c. The DNR has certified that his property meets the requirements for the SFIA program but it is not enrolled in the SFIA program. There is no other use of the property. The parcel is valued at \$40,000. The property should be classified as class 2c managed forest land.

The tax capacity is calculated as follows:

<b>Class</b>	<b>TMV</b>		<b>Class Rate</b>		<b>Tax Capacity</b>
2c	\$40,000	x	0.65%	=	<u>\$260</u>
					<b>\$260 Total Tax Capacity</b>

Primary Statutory References: [273.13, subdivision 23, paragraph \(d\)](#)

**Class 2d – Private Airport**

Class 2d property is an airport landing area or public access area of a privately owned public-use airport. To qualify for this classification, a privately owned public-use airport must be licensed as a public airport under Minnesota Statutes, [section 360.018](#).

**Landing area** means that part of a privately owned public-use airport properly cleared, regularly maintained, and made available to the public for use by aircraft and includes runways, taxiways, aprons, and sites upon which landing or navigational aids are situated. A landing area also includes land underlying both the primary surface and the approach surfaces that comply with **all** of the following:

- The land is properly cleared and regularly maintained for the primary purposes of the landing, taking off, and taxiing of aircraft; but that portion of the land that contains facilities for servicing, repair, or maintenance of aircraft is not included as a landing area.
- The land is part of the airport property.
- The land is not used for commercial or residential purposes.

The land contained in the landing area must be described and certified by the Commissioner of Transportation. This certification is effective until it is modified or until the airport or landing area no longer meets these requirements.

**Public access area** means property used as an aircraft parking ramp, apron, or storage hangar, or an arrival and departure building in connection with the airport.

Class 2d has a classification rate of 1.00%.

Primary Statutory References: [273.13](#), [subdivision 23](#), [para. \(l\)](#)

### Class 2e – Land with a Commercial Aggregate Deposit

Class 2e land is land with a commercial aggregate deposit that is **not actively being mined** and that is not otherwise classified as class 2a or 2b. Property classified as 2e may be eligible for valuation deferment under the Aggregate Resource Preservation Property Tax Law. The Aggregate Resource Preservation Property Tax Law is discussed in greater detail in Module 2.

Counties may choose to opt-out of the Aggregate Resource Prevention program; by doing so, those counties also opt-out of the 2e classification.

A **commercial aggregate deposit** is a deposit that will yield crushed stone or sand and gravel that is suitable for use as a construction aggregate. **Actively mining** means the removal of top soil and overburden in preparation for excavation or the actual excavation of the commercial deposit.

To qualify for the 2e classification, the property must be at least 10 contiguous acres in size and the owner of the property must record an affidavit with the county that contains:

- a legal description of the property;
- a disclosure that the property contains a commercial aggregate deposit that is not actively being mined but is present on the entire parcel enrolled;
- documentation that the conditional use under the county or local zoning ordinance of the property is for mining; and
- documentation that a permit has been issued by the local unit of government or that the mining activity is allowed under local ordinance. The disclosure must include a statement from a registered professional geologist, engineer, or soil scientist delineating the deposit and certifying that it is a commercial aggregate deposit.

When any portion of class 2e land begins to be actively mined (provided that the minimum acreage change is 5 acres even though they all may not begin actual mining), the owner must file a supplemental affidavit within 60 days from the first day any aggregate is removed indicating the number of acres of the property that is being actively mined. These acres will then be classified and valued as commercial property for the next assessment. Any of those acres also enrolled in the Aggregate Resource Preservation Program will no longer be eligible for that program.

Copies of both the original affidavit and all supplemental affidavits must be filed with the county assessor, as well as the local zoning administrator and the Department of Natural Resources' Division of Land and Minerals.

Class 2e property has a class rate of 1.00%.

### County Opt-Out Provisions

Counties had the opportunity to opt out of the Aggregate Resource Preservation program and class rate before June 1, 2010, by resolution following notice and public hearing. Further information can be found in [Minnesota Statute 273.1115, subdivision 6](#).

Primary Statutory References: [273.13, subdivision 23, para. \(m\)](#)



## Class 3

### Class 3a – Commercial-Industrial and Public Utility, Public Utility Machinery, Real Property Owned in Fee by a Utility for Transmission Line Right-of-Way, Transit Zone

Commercial, industrial, and utility real and personal property is class 3a. In general, commercial properties are office buildings, retail stores, malls, hotels, banks, restaurants, service outlets, etc., whereas industrial properties are often manufacturing, warehouse, and distribution facilities.

For classification purposes, parcels are contiguous even if they are separated by a road, street, waterway, or other similar intervening type of property. Connections between parcels that consist of power lines or pipelines do not cause parcels to be contiguous.

The class rate of 3a property is generally 1.50% for the first \$150,000 in market value, and 2.00% thereafter, with some exceptions as described below:

1. Each parcel of commercial, industrial, or utility real property has a class rate of 1.50% for the first tier (up to \$150,000) of market value and 2.00% for the remaining market value. This first tier is known as the ***“preferred commercial”*** classification.

If a property owner has contiguous parcels of property that are separate businesses, in separate structures, and those businesses are operated by the owner may qualify for a first-tier class rate for both businesses. The owner must notify the assessor by **July 1** of the assessment year to be eligible for the current assessment year for taxes payable the following year. Contiguous parcels **under different ownership** used by a single business may be eligible for more than one first tier classification.

The entire market value of real property owned in fee by a utility for transmission line right-of-way has a class rate of 2.00%.

2. All railroad operating property has a class rate of 1.50% for the first tier (up to \$150,000) of market value and 2.00% for the remaining market value. In addition, the following property also has a class rate of 1.50% for the first tier (up to \$150,000) of market value and 2.00% of the remaining market value:
  - a. All property that is part of an electric generation, transmission or distribution system;
  - b. All property that is part of a pipeline system transporting or distributing water, gas, crude oil, or petroleum products; and
  - c. All property that is not described in number three below.

In the case of multiple parcels in one county that are owned by one person or entity, only **one** first tier amount is eligible for the reduced rate.
3. The entire market value of the following personal property has a class rate of 2.00%:

- a. Tools, implements and machinery of an electric generation, transmission, or distribution system;
  - b. Tools, implements and machinery of a pipeline system transporting or distributing water, gas, crude oil, or petroleum products; or
  - c. The mains and pipes used in the distribution of steam or hot or chilled water for heating or cooling buildings.
4. If the solar energy generating system is subject to production tax, the real property under the system is classed as 3a. If the solar energy generating system is not subject to the production tax, the real property is classified without regard to the system; except if there is more than one solar energy generating system on the same property with nameplate capacities that total more than 1 megawatt. In those instances, the real property under the multiple systems on one property is classified as 3a.
  - a. The U.S. Energy Information Administration (EIA) has a resource (linked below) that lists all solar facilities that are above 1 megawatt. While this is not a comprehensive list of systems that may be classified as 3a as multiple facilities under 1 megawatt may fall under this provision, it can be a helpful resource in identifying possible facilities that should be classified as commercial.
    - i. The resource lists multiple types of power plants but can be filtered to only show solar facilities.
    - ii. [A link to the website can be found here.](#)
  - b. Counties additionally should have permits for large solar sites, which usually reference the nameplate capacity.
5. All real property used for raising, cultivating, processing, or storing cannabis plants, flower, or products for sale is classified as 3a. Cannabis property is allowed to receive a first-tier classification rate under the same criteria as other types of commercial property. Cannabis plant, flower, and product are defined in Minnesota Statutes 342.01 and does not include medical cannabis or hemp.

Class 3a property is also subject to the state general tax. Electric generation attached machinery and airport property that is exempt from city and school district property taxes under Minnesota Statutes, [section 473.625](#), are exempt from the state general property tax. (MSP International Airport and St. Paul's Holman Field are exempt under this provision).

Primary Statutory References: [273.13](#), [subdivision 4](#); [473.625](#)

**Tax Capacity Example:**

A restaurant (class 3a commercial) has a taxable market value of \$500,000. The property qualifies for the preferred commercial classification. The tax capacity is calculated as follows:

Class	TMV		Class Rate	Tax Capacity
3a	\$150,000	x	1.5% =	\$2,250
3a	\$350,000	x	2.0% =	<u>\$7,000</u>
				<b>\$9,250 Total Tax Capacity</b>

*\*Class 3a property is also subject to the state general tax. For the purposes of this example, we are only calculating the net tax capacity.*

Utility and pipeline companies are eligible for one preferred tier on all **personal property** in each county. Other machinery and electric generation machinery are **only** eligible for the 2% class rate. Structures on owned land and other locally assessed real property in a county that are non-contiguous parcels are **each** eligible for a preferred tier.

Structures on owned land are considered real property of a utility or pipeline company. Structures on leased land are considered personal property of a utility or pipeline company.

**Tax Capacity Example 2:**

An electric utility (class 3a) has the following 5 parcels in your county:

Parcel	City/Township Name	Property Type Description	Taxable Market Value
<b>Parcel 1</b>	Apple City Of	Other Machinery	\$100,000
<b>Parcel 1</b>	Apple City Of	Structure, Owned Land	\$75,000
<b>Parcel 1</b>	Apple City of	Land	\$10,000
<b>Parcel 2</b>	Apple City Of	Other Machinery	\$30,000
<b>Parcel 2</b>	Apple City Of	Structure, Owned Land	\$22,000
<b>Parcel 2</b>	Apple City Of	Land	\$10,000
<b>Parcel 3</b>	Maple Town of	Other Machinery	\$30,000
<b>Parcel 3</b>	Maple Town of	Structure, Leased Land	\$4,000
<b>Parcel 4</b>	Countywide	Elec Dist Lines City	\$8,000,000
<b>Parcel 5</b>	Countywide	Elec Dist Lines Twp	\$13,000,000

Parcels 1, 2, and 3 are substations containing utility-owned machinery and structures. The substation parcels are not contiguous.

The structures on each parcel of company-owned land are eligible for the 1.5% preferred tier rate up to \$150,000 of estimated market value of the parcel and improvements. The other machinery at each substation is not eligible for the preferred-tier rate.

The structure at the substation on land the company **leases**, electric distribution lines in a city, and electric distribution lines in a township together will receive one preferred-tier rate. They do not each qualify for a preferred-tier rate.

Parcel	City/Township Name	Property Type Description	Taxable Market Value	Class Rate
<b>Parcel 1</b>	Apple City of	Other Machinery	\$100,000	2.0%
<b>Parcel 1</b>	Apple City of	Structure, Owned Land	\$75,000	1.5%
<b>Parcel 1</b>	Apple City of	Land	\$10,000	1.5%
<b>Parcel 2</b>	Apple City of	Other Machinery	\$30,000	2.0%
<b>Parcel 2</b>	Apple City of	Structure, Owned Land	\$22,000	1.5%
<b>Parcel 2</b>	Apple City of	Land	\$10,000	1.5%
<b>Parcel 3</b>	Maple Town of	Other Machinery	\$30,000	2.0%
<b>Parcel 3</b>	Maple Town of	Structure, Leased Land	\$4,000	1.5%
<b>Parcel 4</b>	Countywide	Elec Dist Lines City	\$146,000	1.5%
		<i>Value Over First Tier</i>	\$7,854,000	2.0%
<b>Parcel 5</b>	Countywide	Elec Dist Lines Twp	\$13,000,000	2.0%

### Tax Capacity Example 3:

A fluid transportation pipeline (class 3a) has 4 parcels in your county. Parcels 1 and 2 are pumping stations containing utility-owned structures and other machinery. The company owns

the land at parcel 1 and leases the land at parcel 2. The pumping station parcels are not contiguous to each other.

Parcels 3 and 4 are personal property transmission pipelines parcels.

Parcel	City/Township Name	Property Type Description	Taxable Market Value
<b>Parcel 1</b>	Fig City of	Other Machinery	\$50,000,000
<b>Parcel 1</b>	Fig City of	Structure, Owned Land	\$1,500,000
<b>Parcel 1</b>	Fig City of	Land	\$150,000
<b>Parcel 2</b>	Plum City of	Other Machinery	\$22,000,000
<b>Parcel 2</b>	Plum City of	Structure, Leased Land	\$1,500,000
<b>Parcel 3</b>	Fig City of	Trans Pipeline	\$10,000,000
<b>Parcel 4</b>	Plum City of	Trans Pipeline	\$65,000,000

The real property at parcel 1 is eligible for the 1.5% preferred-tier rate up to \$150,000 of estimated market value. The other machinery at each pumping station is not eligible for the preferred-tier rate.

The personal property (other than machinery) at the pumping station on leased land and the transmission pipeline personal property in Fig City and Plum City combined is eligible for one preferred-tier rate.

Parcel	City/Township Name	Property Type Description	Taxable Market Value	Class Rate
<b>Parcel 1</b>	Fig City of	Other Machinery	\$50,000,000	2.0%
<b>Parcel 1</b>	Fig City of	Structure, Owned Land	\$1,500,000	2.0%

		Land	\$150,000	1.5%
<b>Parcel 2</b>	Plum City of	Other Machinery	\$22,000,000	2.0%
<b>Parcel 2</b>	Plum City of	Structure, Leased Land	\$150,000	1.5%
<b>Parcel 2</b>		<i>Value Over First Tier</i>	\$1,350,000	2.0%
<b>Parcel 3</b>	Fig City of	Trans Pipeline	\$10,000,000	2.0%
<b>Parcel 4</b>	Plum City of	Trans Pipeline	\$65,000,000	2.0%

Primary Statutory Reference: [273.13, subd. 24](#)

## Class 4

### Class 4a – Rental Housing (4 or more units)

Class 4a is residential real estate containing four or more units and used or held for use by the owner or by the tenants or lessees of the owner as a residence for rental periods of 30 days or more, excluding property qualifying for class 4d(1) low-income rental housing.

Class 4a also includes hospitals licensed under Minnesota Statutes, [sections 144.50 to 144.56](#), other than hospitals exempted as public hospitals under Minnesota Statutes, [section 272.02, subdivision 4](#), and contiguous property used for hospital purposes, without regard to whether the property has been platted or subdivided.

The market value of class 4a property has a class rate of 1.25%.

#### Tax Capacity Example:

A 5-unit apartment building has a taxable market value of \$500,000. The tax capacity is calculated as follows:

Class	TMV		Class Rate		Tax Capacity
4a	\$500,000	x	1.25%	=	<u>\$6,250</u>
					\$6,250 Total Tax Capacity

Primary Statutory Reference: [273.13, subd. 25, para. \(a\)](#)

### Class 4b

Class 4b property is non-homestead residential real estate, typically either the primary residence of someone or a vacant dwelling not used for any purpose.

Class 4b property includes:

- **4b(1)** - residential real estate containing less than four units that does not qualify as class 4bb, other than seasonal residential recreational.
  - This also includes property rented as short-term rental property for more than 14 days in the preceding year.
  - "Short-term rental property" is defined as non-homestead residential real estate that is rented for periods of less than 30 consecutive days. Additional information on short-term rental property is discussed below.
- **4b(2)** - manufactured homes not classified under any other provision;
- **4b(3)** - a dwelling, garage, and surrounding one acre of property on a non-homestead farm containing two or three units; and
- **4b(4)** - unimproved property that is classified as residential under Minnesota Statutes, [section 273.13, subdivision 33](#) (i.e. the assessor has determined the most probable use to be residential property).

The market value of class 4b property has a class rate of 1.25%.

### Tax Capacity Example:

A residential vacant lot has a taxable market value of \$50,000. The tax capacity is calculated as follows:

Class	TMV		Class Rate		Tax Capacity
4b(4)	\$50,000	x	1.25%	=	<u>\$625</u>
					<b>\$625 Total Tax Capacity</b>



## Additional Information Regarding the Classification of Short-term Rental Properties

### What documentation should the assessor request or research to help determine the classification?

Assessors should review:

- Permits and licensure from the state or local government entity.
- Booking records or information from the owner or third party accommodation intermediaries.
- Income and expense records of the property.
- Occupancy records for the property showing rental days to verify use.

### What if a homesteaded property is rented out for more than 14 days per year?

Do not change the classification of homestead property if short-term rental occurs but the property remains the owner's or relative's primary place of residence. However, if it appears short-term rental may be the primary use, the assessor should review the homestead status and request a reapplication.

### When the primary use of a property is a cabin, but it was rented for more than 14 days in the previous year can it still be classified 4c(12) based on the primary use?

No, if the property is rented for more than 14 days, the property should be classified as 4b(1).

### What if a property with four or more units is used for short-term rental?

Residential properties containing four or more units used exclusively as short-term rental would be classified as commercial, class 3a, properties. If a property with four or more units has some units rented long-term and some short-term, it would be appropriate to split classify the property as class 4a and 3a based on the primary use of the individual units.

### If a parcel qualifies for homestead and it also has a separate structure that is used as a short-term rental such as a guest house or apartment above the garage, how should it be classified?

The parcel should be split-classified according to the two separate uses on the parcel. The separate structure should be classified according to its use and the requirements in law. If it meets the requirements for short term rental and it is not being used as part of the homestead, then it would be appropriate to be classified as 4b1. This is similar to split classifying a residential parcel that also has commercial use such as a mechanic shop or hair salon.

**How should a duplex/triplex be classified if one of the units qualifies for homestead and the other unit(s) are being used as short-term rentals?**

The entire structure may qualify for a residential homestead when the owner occupies the property. The law (Minnesota Statute, section 273.13, subdivision 22(a)) provides an exception for classifying duplex and triplex structures. This exception also applies to short term rental use of the additional units; therefore, the entire structure would be classified as 1a residential homestead and should not be split-classified due to the short-term rental use. If a structure has more than one unit but is not a duplex/triplex, then the language in subdivision 22 does not apply and the property would be split-classified.

**If a parcel is classified as 4bb, but meets the requirements to be classified as a short-term rental, should the classification be changed to 4b?**

Yes, the law states that if a property is rented out for more than 14 days in the preceding year, it must be classified as 4b1, the law does not exclude 4bb properties from this classification.

**Are individually owned residential non-homestead properties used as short-term rentals by resorts/hotels considered residential real estate and would they qualify for the 4b1 classification?**

Yes, those properties whether part of a larger rental pool (resort, condominium complex), or with multiple owners (timeshares, limited deed interest), are considered residential real estate and should be classified according to use. If the property is rented for more than 14 days in the preceding year, then it should be classified as 4b1.

Primary Statutory Reference: [273.13, subd. 25, para. \(b\)](#)

### Class 4bb

Class 4bb property includes:

- 4bb(1): non-homestead residential real estate containing one unit, other than seasonal residential recreational property;
- 4bb(2): a single-family dwelling, garage, and surrounding one acre of property on a non-homestead farm; and
- 4bb(3): non-commercial garage condominium storage units that have separate parcel identification numbers. Note: the storage unit must be used **by the owner** for storage purposes. If the storage unit is rented out by the owner for someone else's personal use, then it does not qualify for 4bb(3).

Class 4bb property has the same rates as class 1a: 1.00% for the first \$500,000 of market value, and 1.25% for the market value that exceeds \$500,000.

**Property that has been classified as seasonal residential recreational property at any time during which it has been owned by the current owner or spouse of the current owner cannot qualify for class 4bb per Minnesota Statutes, [section 273.13, subdivision 25\(c\)](#).**

### Tax Capacity Example:

Bob owns a single family home in St. Paul that has a taxable market value of \$200,000. He leases the home to an unrelated party who occupies the property. The property has never been classified as class 4c(12) non-commercial SRR. The property should be classified as class 4bb. The tax capacity would be calculated as follows:

Class	TMV		Class Rate		Tax Capacity
4bb	\$200,000	x	1.00%	=	<u>\$2,000</u>
					\$2,000 Total Tax Capacity

Primary Statutory Reference: [273.13, subd. 25, para. \(c\)](#)

## Guidance on Residential Non-homestead Classifications

According to the data collected in 2016 from county assessors, it was evident that most counties are classifying these properties similarly. The scenarios that showed the highest point of inconsistency occurs when there are two, three, and four non-homestead units on one parcel. It appeared the point of confusion was whether to apply one classification to all of the units, split classify the property, or treat these units as duplexes/triplexes/quads. The following scenarios help provide direction on how to classify these properties.

### What is the definition of "a unit/dwelling"?

In 2007, the definition of a unit/dwelling was provided in the [Assessment and Classification Practices Report](#). That definition still stands today: *"A dwelling or unit means a single unit providing complete, independent, living facilities for one or more persons, including permanent provisions for living, sleeping, eating, cooking, and sanitation."*

### Scenarios

#### Parcel 1 –a bare, non-homestead residential parcel



- **Question:** How should this be classified?
- **Answer:** This parcel should be classified as 4b(4), Unimproved Residential Land with a class rate of 1.25%.

#### Parcel 2 – non-homestead residential unit



- **Question:** How should this be classified? What if it was agricultural?
- **Answer:** This parcel should be classified as 4bb(1), Residential Non-Homestead Single Unit with a class rate of 1.00% for the first tier and 1.25% for the second tier. If the property was being used agriculturally, we would recommend the HGA be classified as 4bb(2) with the same class rate.

**Parcel 3 –2 non-homestead residential units**

- **Question:** How should this be classified? What if it was agricultural?
- **Answer:** Each unit should be classified as 4b(1), Residential Non-Homestead with a class rate of 1.25%. We would advise counties to **not** split classify this property. If a county split classifies this property and gives one unit the 4bb(1) classification and the other unit 4b(1), the perception could be that the county is favoring or punishing a property owner depending on which unit receives the lower class rate associated with the 4bb(1) classification. If the property was being used agriculturally, each unit would be classified as 4b(3), Agricultural Non-Homestead.
- **Question:** What if one of the units becomes homestead?
- **Answer:** The homestead unit should be classified as residential homestead and the non-homestead unit be classified as 4b(1), Residential Non-Homestead. If the property is agricultural, the homestead unit would be classified as 2a and the other unit would be classified as 4b(3), Agricultural Non-Homestead.

**Parcel 4 –3 non-homestead residential units**

- **Question:** How should this be classified?
- **Answer:** This would be treated exactly like parcel three, each unit should be classified as 4b(1), Residential Non-Homestead with a class rate of 1.25%. If it was an agricultural parcel, again they would be classified as 4b(3), Agricultural Non-Homestead.
- **Question:** What if one of the units becomes homestead?
- **Answer:** The homestead unit should be classified as residential and the other two non-homestead units be classified as 4b(1), Residential Non-Homestead or 4b(3), Agricultural Non-Homestead.

**Parcel 5 – 4 non-homestead residential units**



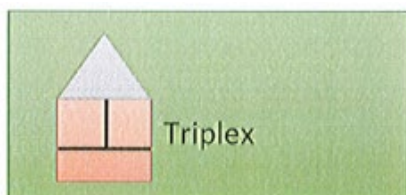
- **Question:** How should this be classified?
- **Answer:** We would recommend that each unit be classified as 4a, Residential Non-Homestead 4+ Units, with a class rate of 1.25%.
- **Question:** What if one unit becomes homestead?
- **Answer:** The homestead unit should be classified as 1a, Residential Homestead and the other three non-homestead units are classified as 4a, Residential Non-Homestead. The number of units on the property hasn't changed, the use of one of those units changed which is why the three non-homestead units would stay at the 4a classification.

**Parcel 6 –a non-homestead duplex (2 units)**



- **Question:** How should this be classified?
- **Answer:** Each unit should be classified as 4b(1), Residential Non-Homestead with a class rate of 1.25%.
- **Question:** What if one unit becomes homestead?
- **Answer:** [MN Statute 273.13, subdivision 22\(a\)](#) addresses this situation. If one of the units of a duplex becomes homestead, the entire duplex should be classified as 1a, Residential Homestead.

**Parcel 7 –a non-homestead triplex (3 units)**



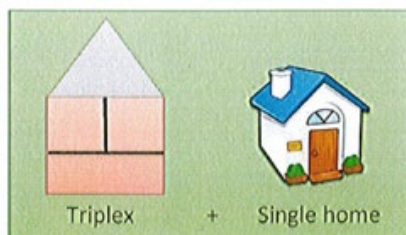
- **Question:** How should this be classified?
- **Answer:** Each unit should be classified as 4b(1), Residential Non-Homestead with a class rate of 1.25%.
- **Question:** What if one unit becomes homestead?
- **Answer:** [MN Statute 273.13, subdivision 22\(a\)](#) addresses this situation. If one of the units of a triplex becomes homestead, the entire triplex should be classified as 1a, Residential Homestead.

**Parcel 8** –a non-homestead duplex and a separate non-homestead unit (3 total units)



- **Question:** How should this be classified?
- **Answer:** Each unit should be classified as 4b(1), Residential Non-Homestead with a class rate of 1.25%. Again, we would advise that the county to not split classify this property by granting one unit the 4bb(1) classification and the other two the 4b(1) classification or vice versa.
- **Question:** What if one unit becomes homestead?
- **Answer:** That depends on what unit goes homestead. If the single unit becomes homestead, that unit would be classified as a 1a, Residential Homestead and the duplex would remain classified as 4b(1), Residential Non-Homestead. If one of the units located within the duplex goes homestead, the entire duplex should be classified as 1a Residential Homestead and the single unit would remain classified as 4b(1), Residential Non-Homestead. Again, the number of units on the property hasn't changed, just the use, therefore that single unit is still one of three units and would retain the 4b(1), Residential Non-Homestead classification.

**Parcel 9** –a non-homestead triplex and a separate non-homestead unit (4 total units)

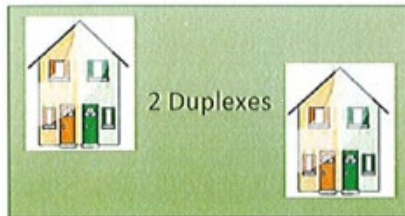


- **Question:** How should this be classified?
- **Answer:** Each unit should be classified as 4a, Residential Non-Homestead 4+ Units, with a class rate of 1.25%.
- **Question:** What if one unit becomes homestead?
- **Answer:** That depends on what unit goes homestead. If the single unit becomes homestead, that unit would be classified as a 1a, residential homestead and the triplex would remain classified as 4a, Residential Non-Homestead. If one of the units located within the triplex goes homestead, the entire triplex should be classified as 1a residential homestead and the single unit would remain classified as 4a, Residential Non-Homestead. Again the number of units on the property hasn't changed, just the use, therefore that single unit is still one of four units and would retain the 4a, Residential Non-Homestead classification.



**Parcel 10** –a non-homestead fourplex/quad


- **Question:** How should this be classified?
- **Answer:** Each unit should be classified as 4a, Residential Non-Homestead 4+ Units, with a class rate of 1.25%.
- **Question:** What if one unit becomes homestead?
- **Answer:** The unit that is homesteaded would be classified as a 1a residential homestead. The other three non-homestead units would retain the 4a, Residential Non-Homestead classification.

**Parcel 11** –2 separate non-homestead duplexes (4 units total)


- **Question:** How should this be classified?
- **Answer:** Each unit should be classified as 4a, Residential Non-Homestead 4+ Units, with a class rate of 1.25%.
- **Question:** What if one unit becomes homestead?
- **Answer:** [MN Statute 273.13, subdivision 22\(a\)](#) addresses this situation. If one of the units of a duplex becomes homestead, the entire duplex should be classified as 1a, Residential Homestead. The other duplex on the property would retain the 4a, Residential Non-Homestead classification.



**Class 4c**

Class 4c property includes classes 4c(1), 4c(2), 4c(3)(i), 4c(3)(ii), 4c(4), 4c(5)(i), 4c(5)(ii), 4c(6), 4c(7), 4c(8), 4c(9), 4c(10), 4c(11), and 4c(12).

**Class 4c(1) Seasonal Residential Recreational – commercial (resorts)**

4c(1) property is real property devoted to commercial temporary and seasonal residential occupancy for recreation purposes (resorts) for no more than 250 days in the year preceding the year of assessment. The classification is typically referred to as Seasonal Residential Recreational, commercial SRR, or simply “resorts”.

To qualify for the 4c commercial resort classification the following requirements are listed in MN Statutes, [section 273.13](#), [subdivision 25](#):

- The property must be devoted to temporary and seasonal residential occupancy for recreation purposes, and not devoted to commercial purposes for more than 250 days in the year preceding the year of assessment.
- The property must contain three or more rental units. A "rental unit" includes a cabin, condominium, townhouse, sleeping room, or individual camping site.

For most properties, the following requirements must be met in addition to the requirements listed above:

- i. The property must provide recreational activities such as renting ice fishing houses, boats and motors, snowmobiles, downhill or cross-country ski equipment; provide marina services, launch services, or guide services; or sell bait and fishing tackle.
- ii. At least 40% of the property's annual gross lodging receipts must be from business conducted during 90 consecutive days.
- iii. Additionally, one of the following must be met:
  - At least 60% of all paid bookings during the year must be for at least two consecutive nights; or
  - At least 20% of the annual gross receipts must be from charges for rental of fish houses, boats and motors, snowmobiles, downhill or cross-country ski equipment, or charges for marina services, launch services, and guide services, or the sale of bait and fishing tackle.

In 2011, a provision was added which allows the 4c(1) classification to properties in cities or townships with a populations of 2,500 or less, located outside of the metropolitan area, and where the city or township contains a portion of a state trail managed by the Department of Natural Resources. The property must not be devoted to commercial purposes for more than 250 days in the year preceding the year of the assessment; and the property must contain at least three rental units, but less than 20 rental units.

The owner has to designate which units meet the maximum 250 day use requirement and all other units are class 3a commercial. In other words, the property can be split classified. As provided in Minnesota Statutes, [section 273.13, subdivision 25](#):

*“In order for a property to qualify for classification under this clause, the owner must submit a declaration to the assessor designating the cabins or units occupied for 250 days or less in the year preceding the year of assessment by January 15 of the assessment year. Those cabins or units and a proportionate share of the land on which they are located must be designated class 4c under this clause as otherwise provided. The remainder of the cabins or units and a proportionate share of the land on which they are located will be designated as class 3a. The owner of property desiring designation as class 4c property under this clause must provide guest registers or other records demonstrating that the units for which class 4c designation is sought were not occupied for more than 250 days in the year preceding the assessment if so requested.”*

The following portions of the property are not eligible for 4c(1) classification and should instead be classified as 3a:

- Restaurants
- Bars
- Gift shops
- Conference centers or meetings rooms not directly related to SRR purposes

Commercial-use seasonal residential recreational property not used for commercial purposes has a class rate of 1.00% for the first \$500,000 of market value, and 1.25% for market value exceeding \$500,000. Class 4c(1) property is also subject to the state general levy at the same tiers and tax rates.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### Class 4c(2) - Qualifying Golf Course

A golf course may qualify for this classification if:

- it is open to the public on a daily fee basis. It may charge membership fees or dues, but a membership fee may not be required in order to use the property for golfing, and its green fees for golfing must be comparable for green fees typically charged by municipal courses; and
- it does not discriminate on the basis of gender, per Minnesota Statutes, [section 273.112, subdivision 3, paragraph \(d\)](#).

The market value of public golf courses and indoor recreational property has a class rate of 1.25%.

A structure used as a clubhouse, restaurant, or place of refreshment in conjunction with the golf course must be classified as class 3a commercial property.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### Class 4c(3)(i) - Non-Profit Community Service Oriented Organization (Non-Revenue)

Class 4c(3)(i) is real property up to a maximum of three acres of land owned by a non-profit community service oriented organization. The property cannot be used for a revenue-producing activity for more than six days in the calendar year preceding the year of assessment and cannot be used for residential purposes on a temporary or permanent basis.

For purposes of this classification, a “non-profit community service oriented organization” means any corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, fraternal, civic, or educational purposes, and which is exempt from federal income taxation pursuant to Section 501(c)(3), (8), (10), or (19) of the Internal Revenue Code.

“Revenue-producing activities” include but are not limited to, property or that portion of the property that is used as:

- an on-sale intoxicating liquor or 3.2% malt liquor establishment licensed under Chapter 340A;
- a restaurant open to the public, bowling alley, or retail store; gambling conducted by organizations licensed under Chapter 349;
- an insurance business, office or other space leased or rented to a lessee or conducts a for-profit enterprise on the premises.

Any portion of the property which is used for revenue-producing activities for more than six days in the calendar year preceding the year of assessment shall be assessed as class 3a commercial property, unless it meets the requirements for 4c(3)(ii) classification outlined below. The use of property for social events open exclusively to members and their guests for periods of less than 24 hours, when an admission is not charged nor any revenues are received by the organization shall not be considered a revenue-producing activity. Class 4c(3)(i) property has a class rate of 1.50%. This class of property does not pay state general tax.

### **Class 4c(3)(ii) - Non-Profit Community Service Oriented Organization (Donations)**

To qualify for this 4c(3)(ii) classification, a non-profit community service oriented organization which has revenue-producing activities for more than six days in a calendar year must meet both of the following criteria:

- the organization must make annual charitable contributions and donations that are at least equal to the property's previous year's property taxes paid (excluding state general taxes)
- the property must be available to be used for public and community meetings or events for no charge, as appropriate to the size of the facility

As with class 4c(3)(i) property, a maximum of three acres is eligible for 4c(3)(ii) classification. The organization must be able to provide proof that they are meeting the above requirements at the request of the assessor.

The application deadline for 4c(3)(ii) classification is May 1 of the assessment year to be effective for taxes payable in the following year.

Statute does not limit how an organization raises money (charitable gambling, potluck, concerts, etc.), but it does place limitations on what charitable contributions or donations can be used for. Charitable contributions or donations must go to one or more of the approved sources identified for "lawful gambling purposes" which are found in [349.12, subdivision 25](#). However, according to statute, only certain of those expenditures qualify as charitable contributions for the 4c(3)(ii) classification.

Applicants are required to provide documentation of the organization's charitable contributions and donations to qualify for 4c(3)(ii). To do so, they must provide copies of the Gambling Control Board's *Schedule C* (formerly known as Form LG1010), *DOR Form CR-DR Record of Charitable Contributions and Donations: Lawful Purpose Expenditures*, or both, to show they have met the qualification.

These forms use "A-codes" to report an organization's expenditures which correspond to the "lawful gambling purpose" found in [349.12, subdivision 25](#). Since only certain "A-code" expenditures will qualify towards an organizations total amount of charitable contributions, assessors will need to look at the forms and identify the "A-code" expenditures that qualify as charitable contributions to determine if the organization has contributed/donated an amount equal to their previous year's property taxes.

Organizations participating in charitable gambling complete the Schedule C monthly for the Gambling Control Board. In some situations, charitable contributions equal to their previous year's property taxes may be made in the span of a few months, or even a single month. Therefore, applicants are only required to provide the copies of their Schedule C that bring them to an amount equal to their previous year's property taxes. For example, if an organization made charitable contributions equal to their previous year's property taxes in the

span of three months (January, February, March), they would only need to attach a copy of the Schedule c for those three months.

According to statute, only 501(c)(3), (8), (10), or (19) organizations (as defined by the Internal Revenue Code) can qualify. Because this is explicitly stated in statute, if an organization is not considered one of the aforementioned designations, they are not eligible for this classification.

These types of properties would otherwise be classified as class 3a commercial property instead of 4c(3)(ii) due to the fact that their facilities are used for revenue-producing activities for more than six days per year.

Class 4c(3)(ii) property has a classification rate of 1.50%. These properties continue to pay the state general tax. However, they will pay at the SRR rate rather than the class 3a commercial/industrial rate, pursuant to Minnesota Statutes, [section 275.025, subdivision 3](#).

For class 4c(3)(i) and 4c(3)(ii) property, it may be possible to split-classify a property owned by a qualifying non-profit organization in certain cases. The following examples are the only types of classification possible on these properties:

- 4c(3)(i) only
- 4c(3)(ii) only
- 4c(3)(i) and 3a split-class
- 4c(3)(i) and 4c(3)(ii) split-class

An equal proportion of land and buildings should be split-classed as appropriate. As you will note, it is never an option to split-classify a property as 4c(3)(ii) and 3a.

Please also note that these split-classification guidelines apply only to the three acres including the 4c(3)(ii) classification. On a parcel larger than 3 acres in size, it may be appropriate to have additional classifications, including 3a, but not for the three acres containing the 4c(3)(ii) property.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### **Class 4c(3)(i) and 4c(3)(ii) - Congressionally Chartered Veteran Organizations**

Congressionally chartered veterans' service organizations that qualify as class either 4c(3)(i) or 4c(3)(ii) non-profit community service-oriented organizations have a reduced class rate of 1.00% (from 1.50%).

The Commissioner of Veterans Affairs is required to provide a list of congressionally chartered veterans' service organizations to the Department of Revenue each year by January 1.

### **Veterans & Military Service Organizations**

#### **Congressionally-Chartered Veterans Service Organizations (by date of Charter)**

1. Navy Mutual Aid Association (Jul. 28, 1879)
2. The American Red Cross (Jan. 5, 1905)
3. The American Legion (Sept. 16, 1919)
4. National Amputation Foundation, Inc. (1919)
5. American War Mothers (Feb. 24, 1925)
6. Disabled American Veterans (June 17, 1932)
7. Veterans of Foreign Wars (May 28, 1936)
8. Marine Corps League (July 4, 1937)
9. United Spanish War Veterans (April 22, 1940)
10. Navy Club of the United States of America (June 6, 1940)
11. American Veterans Committee (1944)
12. American Defenders of Bataan and Corregidor (Mar. 21, 1946)
13. AMVETS (American Veterans) (July 23, 1947)
14. American G.I. Forum (March 1948)
15. Military Chaplains Association of the USA (Sept. 20, 1950)
16. Reserve Officers Association (June 30, 1950)
17. Legion of Valor of the USA, Inc. (July 4, 1955)
18. Congressional Medal of Honor Society (July 14, 1958)
19. Veterans of World War I (July 18, 1958)
20. Military Order of the Purple Heart of the U.S.A., Inc. (Aug. 26, 1958)
21. Blinded Veterans Association (Aug. 27, 1958)
22. Blue Star Mothers of America, Inc. (June 1960)
23. National Association for Black Veterans, Inc. (July 1969)
24. Paralyzed Veterans of America (Aug. 11, 1971)
25. Swords to Plowshares: Veterans Rights Organization (Dec. 23, 1974)
26. Veterans of the Vietnam War, Inc. (May 5, 1980)
27. Gold Star Wives of America, Inc. (Dec. 4, 1980)
28. Italian American War Veterans (Nov. 20, 1981)
29. American Ex-Prisoners of War (Aug. 10, 1982)
30. Women's Army Corps Veterans Association-Army Women United (Oct. 30, 1984)
31. American Gold Star Mothers, Inc. (June 12, 1984)
32. Polish Legion of American Veterans (June 23, 1984)
33. Catholic War Veterans (Aug. 17, 1984)

34. Jewish War Veterans (Aug. 21, 1984)
35. Pearl Harbor Survivors (Oct. 7, 1985)
36. Vietnam Veterans of America (May 23, 1986)
37. Army and Navy Union (Nov. 6, 1986)
38. Non-Commissioned Officers Association of America (Apr. 6, 1988)
39. Military Order of the World Wars (Oct. 23, 1992)
40. The Retired Enlisted Association (Oct. 23, 1992)
41. Fleet Reserve Association (Oct. 23, 1996)
42. Air Force Sergeants Association (Nov. 18, 1997)
43. National Association for Black Veterans, Inc. (Apr. 2, 1998)
44. African American Post Traumatic Stress Disorder Association (Mar. 12, 2002)
45. Korean War Veterans Association, Inc. (Jun. 30, 2008)
46. Military Officers Association of America (Nov. 6, 2009)

#### SOURCES

1. <https://www.va.gov/vso/VSO-Directory.pdf>

For more details regarding these organizations, a list is available on the Department of Veterans Affairs [website](#).

To qualify for the reduced class rate, assessors must verify the organization is on the Department of Veterans Affairs' list and meets requirements for class 4c(3)(i) or 4c(3)(ii) non-profit community service-oriented organizations.

#### **Class 4c(4) - Post-Secondary Student Housing**

Class 4c(4) is post-secondary student housing of not more than one acre of land that is owned by a non-profit corporation organized under Chapter 317A and used exclusively by a student cooperative, sorority, or fraternity for on-campus housing or housing located within two miles of the border of a college campus.

The class rate for 4c(4) property is 1.00%

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### **Class 4c(5)(i) - Manufactured Home Park**

Class 4c(5)(i) properties are manufactured home parks as defined in Minnesota Statutes, [section 327.14, subdivision 3](#), not including manufactured home park cooperatives.

The class rate for 4c(5) property is 1.25%.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### **Class 4c(5)(ii) – Manufactured Home Park Cooperatives**

Class 4c(5)(ii) properties are manufactured home park cooperatives which are owned by a corporation or association organized under [chapter 308A](#) (cooperatives) or [308B](#) (cooperative associations) and each person who owns a share or shares in the corporation or association is entitled to occupy a lot within the park.

The park as a whole may be eligible for “homestead treatment” in the form of a reduced class rate. If more than 50% of the lots in the park are occupied by shareholders in the cooperative corporation or association, the classification rate is 0.75%; if 50% or less are so occupied the class rate is 1.00%. If the park meets the requirements for homestead treatment, the residential homestead market value exclusion under [section 273.13](#) does not apply.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### **Class 4c(5)(iii) – Class I Manufactured Home Park**

Class I Manufactured Home Park was effective starting in assessment year 2018 for parks in which an owner or on-site attendant completes 12 hours of qualifying education courses every three years. Upon qualification, the manufactured home park will qualify for a reduced class rate of 1.00%.

The courses must be approved by the Department of Labor and Industry or the Department of Commerce for continuing education in real estate or continuing education for residential contractors and manufactured home installers.

The 12 hours that are required are broken down to specific courses in the following areas:

- 2 hours on fair housing and one hour on the Americans with Disabilities Act, both approved for real estate licensure or residential contractor license.
- 4 hours on legal compliance related to any of the following: landlord/tenant, licensing requirements or home financing.
- 3 hours of general education which again must be approved for real estate, residential contractors, or manufacture home installers.
- 2 hours of HUD-specific manufactured home installer courses.

In order to qualify the owner must provide an application to the county assessor affirming that the required course work has been completed. The owner must maintain original course completion certificates and provide them to the county assessor within 30 days upon written



request. It is the property owner's responsibility to demonstrate that the course certificates provided meet the educational requirements of this statute. Assessors must verify the courses are approved by the Department of Labor and Industry or the Department of Commerce when reviewing the certificates.

### **What happens if the trained representative moves/no longer works at the park?**

As long as the park qualified during the assessment year, even though the on-site attendant no longer works for the park, according to statute, the park should continue to receive the Class I Manufactured Home Park Class rate of 1.00% for the current assessment year. They must have another qualified (trained) individual to receive the classification for the next assessment year.

### **What happens when the three-year continuing education cycle expires?**

The three-year educational requirement is based on the assessment year in which the application was made and approved by the county assessor. Approved applications qualify a property for the current assessment year and the next two if requirements continue to be met. Park owners/on-site attendants will need to renew their continuing education, provide updated completion certificates and file a new application by December 15 following the third assessment year to qualify for the 4c(5)(iii) classification for the following three assessment years.

For example, if the park owner applied for the 4c(5)(iii) classification in assessment year 2018, their continuing education would qualify them for assessment years 2018, 2019, and 2020. The park owner would need to provide a new application, including new completion certificates, by December 15, 2021 to qualify for the classification for the 2021, 2022, and 2023 assessment years.

Note: Park owners are required to notify the assessor by December 15 of the assessment year of **any change in compliance**, including any change of the individual complying with the education requirements, or failure of the qualifying individual to complete the required training for the next three-year cycle.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#), [327C.01](#), [327C.16](#)

### Class 4c(6) - Metro Non-Profit Recreational Property

Class 4c(6) is real property that is actively and exclusively donated to indoor fitness, health, social, recreational and related uses, is owned and operated by a not-for-profit corporation, and is located within the seven-county metropolitan area (counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington excluding the cities of Northfield, Hanover, Rockford, and New Prague).

Class 4c(6) indoor recreational property has a class rate of 1.25%.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### Class 4c(7) - Certain Non-Commercial Aircraft Hangars (and land) Located on Leased Land

Class 4c(7) is leased or privately-owned non-commercial aircraft storage hangars that are exempt as public property used for a public purpose under Minnesota Statutes, [section 272.02, subdivision 8](#) but taxed under [section 272.01, subd. 2](#) as property leased, loaned, or otherwise made available in connection with a business conducted for profit. The property must also meet the following conditions to qualify for this classification:

- the land is on an airport owned or operated by a city, town, county, metropolitan airports commission, or group thereof; and
- the land lease, or any ordinance or signed agreement restricting the use of the land premise, prohibits commercial activity performed at the hangar.

Note: If the property is leased by an aviation-related business located on an airport owned or operated by a town or a city with a population under 50,000, it is exempt under [section 272.01](#), even if that business is conducted for profit. Please see the chart in [Module 5 \(Exempt Property\)](#) for a full array of tax statuses.

**Examples:** Bernie owns an airplane hangar located on land that is owned by the airport. Ordinarily, both the land and building would be taxable to Bernie as personal property.

- If it is for Bernie's private use of his jet, it is class 4c(7).
- If it is to store carpet for Bernie's imported rug business, it is class 3a.
- If it is to repair planes, it is for an aviation-related business, and it is exempt under [section 272.01, subdivision 2, paragraph \(b\)\(2\)](#) if it is a small city airport.

If a hangar classified under this clause is sold, a bill of sale must be filed by the new owner with the assessor of the county where the property is located within 60 days of the sale.

The class rate for 4c(7) property is 1.50%.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### **Class 4c(8) - Certain Non-Commercial Aircraft Hangars (and land) Located on Private Land**

Class 4c(8) is privately-owned non-commercial aircraft storage hangars and the land on which they are located, provided that:

- the land abuts a public airport; and
- the owner of the aircraft storage hangar provides the assessor with a signed agreement restricting the use of the premises prohibiting commercial use or activity from being performed at the hangar.

Note: The exemption provided in [section 272.01, subdivision 2, paragraph \(b\)\(2\)](#) for aviation-related businesses in towns and small cities DOES NOT apply to property leased from a private individual to conduct aviation-related business.

If a private individual owns a hangar on their private land that abuts an airport and they lease the property to someone who repairs planes, it is still taxable to the owner of the property as class 3a commercial property.

If the private individual uses the same hangar for their own use for storage of their personal aircraft, the appropriate classification is class 4c(8).

If the owner uses the hangar to conduct a commercial business, the proper classification would be class 3a commercial.

The class rate for 4c(8) property is 1.50%.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### **Class 4c(9) - Bed and Breakfast (up to 5 units)**

Class 4c(9) is residential real estate that is also a place of lodging, if all of the following criteria are met:

1. rooms are provided for rent to transient guests that generally stay for periods of 14 or fewer days;
2. meals are provided to persons who rent rooms, the cost of which is incorporated in the basic room rate;
3. meals are not provided to the general public except for special events on fewer than seven days in the calendar year preceding the year of assessment; and
4. the owner is the operator of the property.
5. a portion of the property is used by the owner for homestead purposes

The market value subject to 4c classification under this definition is limited to five rental units. Any additional rental units must be classified as 3a commercial. The portion of the property used for homestead purposes by the owner must should be classified as 1a residential homestead.

The class rate for 4c(9) property has a class rate of 1.25% for up to five units.

Some bed and breakfast properties will have common areas that are used for both homestead purposes and as part of the bed and breakfast. The following steps should be taken to calculate the value of these common areas:

1. Determine the total estimated market value of the parcel (land and buildings).
2. Determine the total estimated market value of the portion of the structure **exclusively** used for homestead purposes.
3. Determine the total estimated market value of the portion of the structure **exclusively** used for Bed and Breakfast purposes.
4. Add the value of the exclusively used homestead portion to the value of the exclusively used Bed and Breakfast portion.
5. Divide the portion of the residence used exclusively for homestead purposes by the sum of step (4). The result is the percentage of exclusively used portion of the house used for homestead purposes.
6. Divide the portion of the residence used exclusively for Bed and Breakfast purposes by the sum of step (4). The result is the percentage of exclusively used portion of the house used for Bed and Breakfast purposes.  
(The percentages of use identified by steps (5) and (6), when properly rounded, should equal 100%.)
7. Multiply the percentage determined in step (5) by the total estimated market value of the common area. The result is the amount of common area value to be attributed to the homestead. This same calculation should be applied against the land value to determine the value of the land attributable to the homestead.
8. Multiply the percentage determined in step (6) by the total estimated market value of the common area. The result is the amount of common area value to be attributed to the Bed and Breakfast. This same calculation should be applied against the land value to determine the value of the land attributable to the Bed and Breakfast. The values (the exclusively used Bed and Breakfast portion, the exclusively used homestead portion and the common area) should add up to the total estimated market value identified in step one.

The following example illustrates how this formula works:

Total Bed and Breakfast estimated market value.....	\$600,000
Land estimated market value .....	\$100,000
Structure estimated market value .....	\$500,000
Value of structure used exclusively for homestead purposes .....	\$75,000
Value of structure used exclusively for B&B purposes .....	<u>\$160,000</u>
Total estimated market value (of exclusively used portions) .....	\$235,000

Exclusive homestead value, divided by total value of exclusive portions:

$$\$75,000 / \$235,000 = .3191489 \text{ or } 32\%$$

Exclusive B&B value, divided by total value of exclusive portions:

$$\$160,000 / \$235,000 = .680851 \text{ or } 68\%$$

Total structure value	\$500,000	
	<u>- 235,000</u>	Value of exclusively used B&B and homestead portion
	\$265,000	Value of common area

$$\$265,000 \text{ (common area value)} \times 32\% \text{ (homestead percentage)} = \$84,800$$

$$\$265,000 \text{ (common area value)} \times 68\% \text{ (B\&B percentage)} = \$180,200$$

$$\$100,000 \text{ (land value)} \times 32\% \text{ (homestead percentage)} = \$32,000 \text{ homestead land value}$$

$$\$100,000 \text{ (land value)} \times 68\% \text{ (B\&B percentage)} = \$68,000 \text{ B\&B land value}$$

### RECAP

Structure value used exclusively for homestead purposes .....	\$75,000
Common area value used for homestead purposes.....	\$84,800
Land value used for homestead purposes.....	<u>\$32,000</u>
Value of homestead portion to be classed at 1% .....	\$191,800
Structure value used exclusively for B&B purposes .....	\$160,000
Common area value used for B&B purposes.....	\$180,200
Land value used for B&B purposes.....	<u>\$ 68,000</u>
Value of B&B portion homestead to be classed at 1.25% .....	\$408,200
Total property value .....	\$600,000

### Tax Capacity Calculation:

$$\$191,800 \times 1.00\% = \$1,918.00$$

$$\$408,200 \times 1.25\% = \underline{\$5,102.50}$$

$$\text{Total Tax Capacity } \$7,020.50$$

### Important Notes:

1. New Construction – New construction items added should be included in the applicable class. For example, an addition added to the owner-occupied portion of the property to be

used exclusively by the owner, should be added to the value of the owner-occupied homestead portion of the value. If items are added to the common area (e.g. a kitchen upgrade) these items should be apportioned using the method outlined in this bulletin.

2. Market Value Referendum – Class 4c(9) Bed and Breakfast up to five units is subject to market value based referendums as well as any bonding (tax-capacity based) referendums.
3. State General Levy – Only the portion of the property that exceeds five Bed and Breakfast units, and is thereby classified as 3a Commercial, is subject to the state general levy.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

### **Class 4c(10) - Seasonal Restaurant on a Lake**

Class 4c(10) is defined as real property that is a seasonal restaurant and up to three acres of surrounding land located on a meandered lake. To qualify for 4c(10) classification, a property must have the following characteristics:

- it must **not** be devoted to commercial purposes for more than 250 days **or** at least 60 percent of its gross annual receipts (including alcohol sales but excluding gift shop sales) must be from business conducted during four consecutive months;
- the property owner must submit a declaration (proscribed by the Department of Revenue) annually to the assessor by February 1 to be eligible for the same assessment year; and
- the declaration information must be based on sales from the previous year (in other words, declarations received by February 1, 2019 will contain sales information from the 2018 calendar year).

Restaurants may also receive this classification if they meet the above requirements and is located on a parcel which abuts and is within the 3-acre “footprint” of the lakeshore. Seasonal restaurants on a lake that qualify for the 4c(10) classification are not subject to the state general tax.

The class rate for 4c(10) property is 1.25%.

Primary Statutory Reference: [273.13, subd. 25, para. \(d\)](#)

**Class 4c(11) – Marinas**

Class 4c(11) property refers to lakeshore and riparian property and adjacent land up to six acres that is used as a marina. The property must also meet the following criteria:

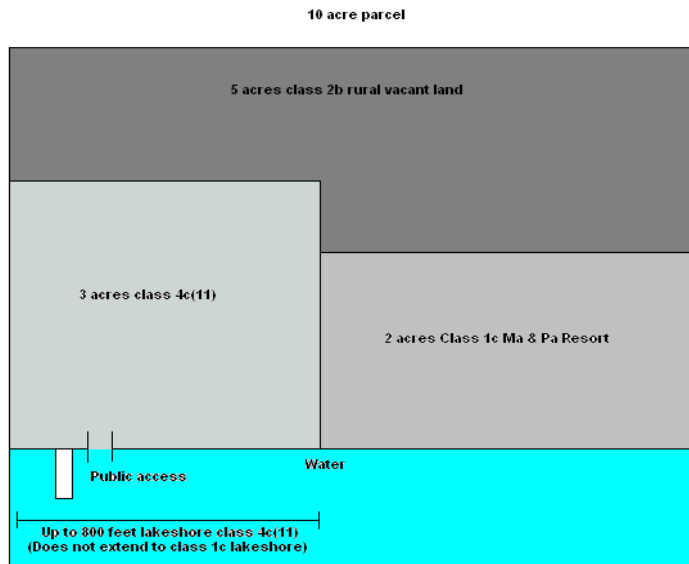
- must include public water-access by means of an access ramp or other facility (such as a boat crane) that is either located on the property of the marina or at a publicly owned site that **directly** abuts the property of the marina;
- the owner must make annual application and declaration to the assessor;
- the classification is limited to no more than 800 feet of lakeshore; and
- buildings that are used in conjunction with the marina for marina services such as food and beverage services, fuel, boat repairs, or the sale of bait or fishing tackle must be classified as class 3a commercial property.

A reasonable, non-restrictive fee may be charged for launch services. The fee is charged to launch a boat and provide upkeep of the launch/landing area; the fee does not make the person a member of a club or group with access to services unavailable to the general public. The law only requires that the marina be made accessible to the public, however most marinas charge a fee for boat launch services. As long as the fee charged is not prohibitive for the market, it would not preclude a marina from qualifying for this classification. For example, a launch fee in Lake of the Woods County may be prohibitive to public access, while the same launch fee for Lake Minnetonka may be appropriate for that market. It is the department's opinion that assessors are in the best position to determine whether the launch fees are excessive for their local markets.

If the marina meets the above criteria, the 4c(11) classification may be applied to up to 800 feet of lakeshore and up to 6 acres of property that are used for marina purposes, which would include property used for leased boat slips, boat rentals, etc. The classification cannot be applied to property that is not being used for marina purposes, such as vacant land, woods, cabins, etc. For example, 3 acres of woods, with no discernible use, but adjacent to the marina, should not receive class 4c(11). The 4c(11) classification is applicable to land only and cannot be applied to any structures. The class rate for class 4c(11) property is 1.00% for the first \$500,000 of market value and 1.25% for the remainder.

### Example 1:

A ten-acre parcel contains a marina with public access, resort property, and five acres of woods that are vacant. The portion of the property used for marina purposes takes up 3 acres. Only the land used for marina purposes can receive the 4c(11) classification.

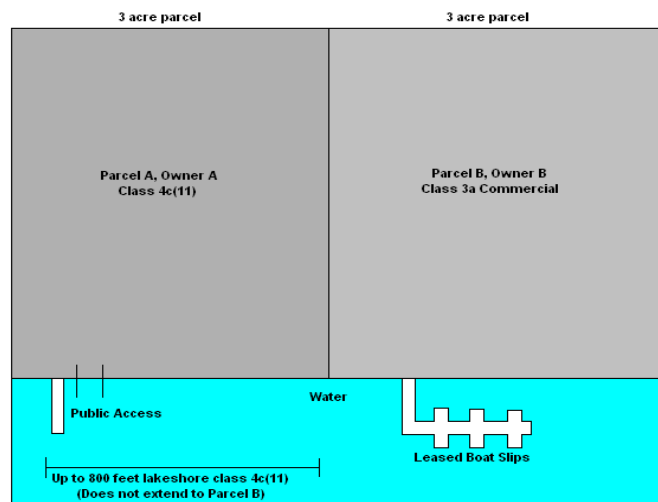


### Example 2:

Two separate 3-acre parcels are owned by different entities. Parcel A contains a marina that has a public access boat ramp. Parcel B contains a marina that is used for privately leased boat slips and does not offer public access.

Parcel A would qualify for class 4c(11) on up to 6 acres of land that is used for marina purposes.

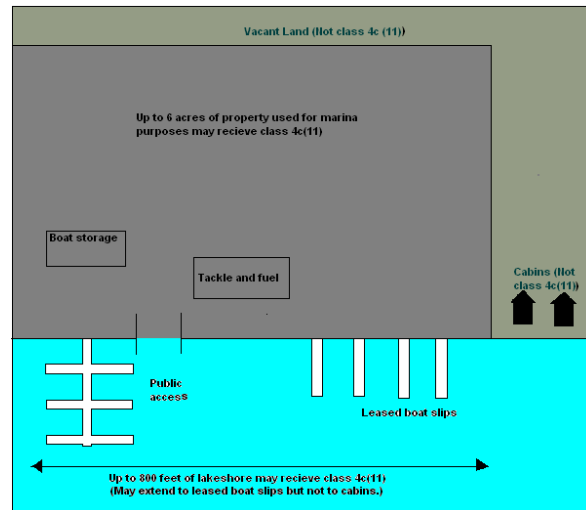
Parcel B would not qualify for class 4c(11) because it does not offer public access



### Example 3:

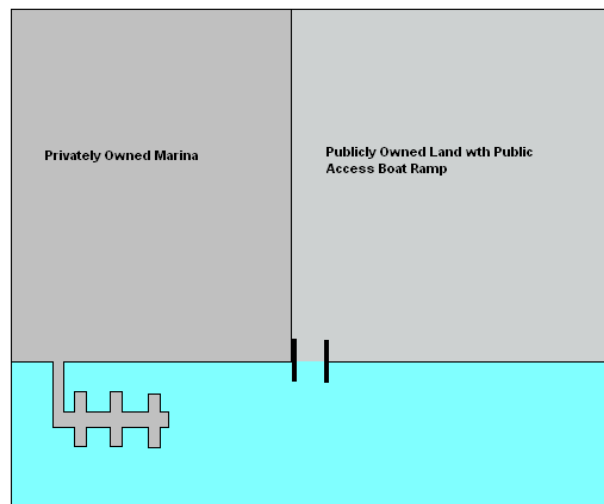


The parcel contains a marina with public access and leased boat slips, a resort with rentable cabins, and some rural vacant land. Because the marina offers public access, the 4c(11) classification can be applied to up to 6 acres of land being used for marina purposes, which would include the area and lakeshore used for leased boat slips.



#### Example 4:

This marina could receive the 4c(11) classification because the property directly abuts publicly owned land that contains a public access boat ramp. The 4c(11) classification can be applied to up to 6 acres of land being used for marina purposes, which would include the area and lakeshore used for leased boat slips.



### Class 4c(12) Non-Commercial Seasonal Residential Recreational

Non-commercial seasonal residential recreational property is real and personal property devoted to non-commercial temporary and seasonal residential occupancy for recreation purposes.

Non-commercial seasonal residential recreation property has a class rate of 1.00% for the first \$76,000 of market value, 1.00% for market value exceeding \$76,000 up to \$500,000, and 1.25% for market value exceeding \$500,000. Non-commercial SRR property is also subject to the state general levy at 0.40% for the first \$76,000 of market value, 1.00% on market value exceeding \$76,000 up to \$500,000, and 1.25% on market value exceeding \$500,000.

Primary Statutory References: [273.13](#), [subdivision 25](#)

### Class 4d(1) – Qualifying Low Income Rental Property

Class 4d(1) is low-income rental housing that has been certified to the assessor by the Minnesota Housing Finance Agency (MHFA). Low-income rental property owners must first qualify as low-income housing and apply with the MHFA by March 31 of the current assessment year. [Minnesota Statute 273.128](#) provides the requirements for properties to certify as low-income rental property.

#### Classification

By June 1 of each assessment year, the MHFA must certify to the appropriate county or city assessors the specific properties that qualify as low-income properties and report the number of units in each building that qualify.

In the 2023 legislative session, additional reporting requirements for owners of 4d(1) properties were introduced as part of the reduction in classification rate to .25%. These requirements are reviewed and approved by MHFA prior to reports being sent to assessors in June and are not a requirement assessors will need to consider when classifying units that qualify for 4d(1). An overview of those reporting requirements is located at the end of this section.

At that time, assessors must use the information provided by MHFA to appropriately classify **each qualifying unit** as 4d(1) as soon as possible. If only a portion of the units located in a building qualify for the 4d(1) classification, then only that number of qualifying units should be classified as 4d(1). The remaining portion of the building should be classified by the assessor based on use (typically class 4a apartments). Class 4d(1) also includes the same proportion of land as the qualifying low-income rental housing units are to the total units of the building.

If assessors do not receive the information needed to appropriately classify each qualifying low-income unit, then assessors cannot classify the units as 4d(1). Assessors should contact the property owner and notify them that without the information needed for each qualifying unit, they will not qualify for the 4d(1) classification.

## Valuation

Low-income rental housing should **not be valued differently** than any other rental housing property. While the rents are restricted to a portion of, or all of the property, depending on how many units qualify for 4d(1) in the building, assessors are required by statute to base the market value on "normal unrestricted rents." All things being equal, a property with qualifying 4d(1) units and a property without any 4d(1) units would have the same value.

Because the classification is applied to an individual housing unit, the value of individual units must be determined. It will not be possible to apportion the value by unit factors for mixed unit properties with less than 100% 4d(1) qualification without a breakdown of qualifying units. Assessors are encouraged to contact the property owners early in the process to ensure the 4d(1) classification and its associated reduced classification rate can be assigned to the qualifying units.

When valuing rental housing, the assessor may consider the three approaches to value and give weight to the approach that yields the most reliable estimate of market value. For each approach, a final factor can be used to apportion the value to units. For example, the following are suggestions of applicable factors that can be used to apply a market value to the qualifying units:

- Price per square foot
- Value per bedroom
- Percentage of potential gross income
- Gross income multiplier

For those items which may add to the overall value but are attributable to the property and are shared by all units such as lobbies, hallways, stairwells, elevators, laundry areas and such, the value is inherent within in each unit. For those items which are individual to a unit and not shared with other units, such as a garage space, the value associated with that should be apportioned to the individual unit.

The department can provide a sample spreadsheet for the income approach which can be used to assist in apportioning the value for 4d(1).

In the very limited cases where a single-family house is used as a low-income rental house, the number of qualifying occupants should be treated as a qualifying "unit". This will require additional communication with the property owner and/or MHFA to determine the number of qualifying "units" for those properties. For example, if a single-family house with a property value of \$320,000 has four qualifying occupants and that number has been verified, the value apportionable to each "unit" is \$80,000.

The class rate for 4d(1) property is .25%.

Beginning in assessment year 2024, a property classified as 4d(1) in the prior year must demonstrate to MHFA that the property tax savings received with the reduced classification rate was used for the following purposes:

- Property maintenance
- Property security
- Improvements to the property
- Rent stabilization
- To increase the property's replacement reserve account

Additionally, for any new applications for 4d(1) received in assessment year 2024 and thereafter, if the city or town where the property is located has 4d(1) property that represents more than 2% of the total net tax capacity, the property owner must receive approval by resolution of the city or township prior to applying to MHFA. The commissioner of revenue must provide to MHFA a list of all cities and towns where 4d(1) properties exceed 2% of the net tax capacity.

### **Class 4d(2) – Homestead Community Land Trust (CLT)**

Class 4d(2) is owner-occupied housing that is part of a qualifying community land trust. In order to qualify for 4d(2), an owner occupant must first apply for and be eligible for homestead. In order to qualify for 4d(2), the requirements of M.S. 273.13, Subdivision 25, paragraph (e), clause (2) must be met and the CLT must certify to the assessor by December 31 that it continues to own the land where the unit is located and that the owner/occupant is a member in good standing with the CLT. The classification rate for 4d(2) is .75%.

The valuation for 4d(2) must be done without regard to any restrictions that apply because the unit is part of a community land trust property. The land upon which the unit is located is assessed proportionate to the classifications of the units in the building.

Properties classified as 4d(2) are eligible for the Homestead Market Value Exclusion as well as Property Tax Refund.

Primary Statutory References: [273.13, subdivision 25](#), [272.01](#), [202.02](#), [273.124, subd. 3a](#), [273.128](#); [275.025](#); [327.14](#); [Chapter 349](#); [273.11](#); [273.128](#); [273.128, subdivision 1](#)

## **Class 5**

### **Class 5(1) – Unmined Iron Ore**

Class 5(1) property is unmined iron ore and low-grade iron-bearing formations as defined in Minnesota Statutes, [section 273.14](#). The class rate for 5(1) property is 2.00%, and class 5(1) properties are subject to the state general levy at a rate of 2.00%.

**Class 5(2) – All Other**

Class 5(2) property is all other property not otherwise classified and not meeting the requirements for class 2b, rural vacant land. Class 5(2) property has a class rate of 2.00%.

Primary Statutory References: Minnesota Statutes, [section 273.13](#); [M.S. 273.14](#)

## Split Classification

### Split-Classification

In some instances, there may be more than one identifiable use of a property. For example, a residential parcel may also contain a commercial establishment, such as a hair salon. In a case such as this, split-classification of the parcel may be appropriate (residential/commercial split-class proportionate to the residential and commercial use of the property and surrounding land).

In some cases a homestead property may have a split-classification with commercial, managed forest land, or other type of classification for which homestead benefits are not applicable. In such cases, it is never appropriate to extend the homestead benefits to any portion(s) of the property which are not used for residential homestead purposes. Please see the Homestead Module (Module 4) for further information.

### Examples of split-classifications:

- A 30 acre parcel enrolled in a forest management plan with a cabin on the parcel:
  - 10 acres with the structure would be classified according to use (residential homestead or seasonal residential recreational); 20 acres would be classified as 2c managed forest land.
- An improved property where the second floor of a structure is rented for fee and the first floor is occupied as a residence by the owners:
  - 50% of the structure would be classified as residential homestead and 50% as 3a commercial.
- A 157-acre parcel with two acres leased to the United States Department of Transportation as an airfield and the remainder agriculturally productive:
  - two acres would be classified as 3a commercial and the remaining 155 acres would be classified as 2a agricultural.

Primary Statutory References: Minnesota Statutes, [section 273.13](#)

**Mid-Year Classification Changes:** Under normal circumstances, the classification of a property cannot be changed during the course of the assessment year. However, there are some exceptions to this rule.

- If a portion of a parcel is sold to a separate party who applies for a mid-year homestead, the classification should be changed if homestead treatment is granted.
- A property is classified as 3a commercial/industrial or any other classifications that does not allow homestead treatment on January 2<sup>nd</sup>. During the year, the property becomes eligible and submits an application for a mid-year homestead. If homestead treatment is granted, the classification should be changed.

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### Split Classification

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- Some classifications require special applications that have deadlines other than January 2<sup>nd</sup>, such as 1b blind/disabled homestead, 1d housing for seasonal workers, 2c managed forest land, and others. These classifications should be granted upon receiving a timely application for an eligible property.

More information regarding specific classifications and their rules are found in the appropriate sections of this module, while information on Homesteads may be found in Module 4.

## Classification Rates for Assessment Year 2025

Class	Description	Tiers	Class Rate	State General Rate
1a	Residential Homestead	First \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
1b	Homestead of Persons who are Blind/Disabled [classified as 1a or 2a]	First \$50,000	0.45%	N/A
	[classified as 1a or 2a]	\$50,000 - \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
1c	Homestead Resort	First \$600,000	0.50%	N/A
		\$600,000 - \$2,300,000	1.00%	N/A
		Over \$2,300,000	1.25%	1.25%
1d	Housing for Seasonal Workers	First \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
2a	Agricultural Homestead - House, Garage, 1 Acre (HGA)	First \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
2a/2b	Agricultural Homestead - First Tier	\$3,800,000	0.50%	N/A
2a/2b	Farm Entities Remaining First Tier	Unused First Tier	0.50%	N/A
2a	Agricultural - Non-Homestead or Excess First Tier		1.00%	N/A
2b	Rural Vacant Land		1.00%	N/A
2c	Managed Forest Land		0.65%	N/A
2d	Private Airport		1.00%	N/A
2e	Commercial Aggregate Deposit		1.00%	N/A
3a	Commercial/Industrial/Utility ( <i>not including utility machinery</i> )	First \$150,000	1.50%	N/A
		Over \$150,000	2.00%	2.00%
	Electric Generation Public Utility Machinery		2.00%	N/A
	All Other Public Utility Machinery		2.00%	2.00%
	Transmission Line Right-of-Way		2.00%	2.00%
4a	Residential Non-Homestead 4+ Units		1.25%	N/A
4b(1)	Residential Non-Homestead 1-3 Units		1.25%	N/A
4b(2)	Unclassified Manufactured Home		1.25%	N/A
4b(3)	Agricultural Non-Homestead Residence (2-3 units)		1.25%	N/A
4b(4)	Unimproved Residential Land		1.25%	N/A
4bb(1)	Residential Non-Homestead Single Unit	First \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
4bb(2)	Agricultural Non-Homestead Single Unit - (HGA)	First \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
4bb(3)	Condominium Storage Unit	First \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
4c(1)	Seasonal Residential Recreational Commercial (resort)	First \$500,000	1.00%	1.00%
		Over \$500,000	1.25%	1.25%
4c(2)	Qualifying Golf Course		1.25%	N/A
4c(3)(i)	Non-Profit Community Service Org. (non-revenue)		1.50%	N/A
	Congressionally Chartered Veterans Organization (non-revenue)		1.00%	N/A
4c(3)(ii)	Non-Profit Community Service Org. (donations)		1.50%	1.50%
	Congressionally Chartered Veterans Organization (donations)		1.00%	1.00%
4c(4)	Post-Secondary Student Housing		1.00%	N/A
4c(5)(i)	Manufactured Home Park		1.25%	N/A
4c(5)(ii)	Manufactured Home Park (>50% owner-occupied)		0.75%	N/A
4c(5)(ii)	Manufactured Home Park (50% or less owner-occupied)		1.00%	N/A
4c(5)(iii)	Class I Manufactured Home Park		1.00%	N/A
4c(6)	Metro Non-Profit Recreational Property		1.25%	N/A
4c(7)	Certain Non-Comm. Aircraft Hangars and Land (leased land)		1.50%	N/A
4c(8)	Certain Non-Comm. Aircraft Hangars and Land (private land)		1.50%	N/A
4c(9)	Bed & Breakfast		1.25%	N/A
4c(10)	Seasonal Restaurant on a Lake		1.25%	N/A
4c(11)	Marina	First \$500,000	1.00%	N/A
		Over \$500,000	1.25%	N/A
4c(12)	Seasonal Residential Recreational Non-Commercial	First \$76,000	1.00%	0.40%
		\$76,000 - \$500,000	1.00%	1.00%
		Over \$500,000	1.25%	1.25%
4d(1)	Low Income Rental Housing (Per Unit)		0.25%	N/A
4d(2)	Homestead Community Land Trust (Per Unit)		0.75%	N/A
5(1)	Unmined Iron Ore and Low-Grade Iron-Bearing Formations		2.00%	2.00%
5(2)	All Other Property		2.00%	N/A