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AGRICULTURAL EXTENSION DIVISION  
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THE FARM TAX SITUATION IN MINNESOTA

The general property tax is the source of 80 per cent of our total taxes. Of this 80 per cent the tax on real estate usually provides about 67 per cent and that on personal property about 13 per cent. Thus 67 per cent of some 140 millions of dollars must be raised each year from the tax on real estate. Comparing assessed values of platted and unplatted property for 1928, we find that the assessed value of farm real estate is \$751,536,940 and that of cities and villages is \$714,148,687. Over half the tax raised from real estate for state purposes comes from the rural sources and at the same time farm real estate bears a large part of local taxation. This being the case, it is important that all assessments of farm and city property be as accurate as possible in order that no one or no group will have to bear an unjust part of the burden of taxation.

The Assessment Situation

A close examination of assessments in Minnesota reveals three types of inequality of assessment.

1. High value farms tend to be assessed at a smaller percentage of their sale value than low value farms. According to Minnesota law, farm real estate must be assessed at one-third of its estimated sale value. To determine the accuracy of assessment, the sale values of farms taken from the records of the Minnesota Tax Commission were compared with the full and true assessed values of those farms. Full and true assessed value is obtained by multiplying the assessed value by three. Nobody supposes that the sale value of any piece of real estate can be estimated exactly in advance. But the errors on the average should not be great and there should not be a distinct tendency to favor one group at the expense of another. The following comparisons of full and true assessed values (assessed value x 3 with sale values have been made for representative areas of the southern half of Minnesota where the settlements are older and the value of farm real estate have been established by sale and resale and where the market for farms has been fairly active. Sales of 220 farms in 1926 and 1927 in the five counties of Nicollet, Faribault, Chippewa, Fillmore and Cottonwood may be taken as examples of this tendency to underassess high value properties as compared to those of low sale value. The results are shown in the following table.

Farms classified according to sale value	No. of farms in each group	Per cent full and true assessed value was of sale value
Group I - \$15000 to 30000	67	78.9%
Group II - 7500 to 15000	92	83.6
Group III - 500 to 7500	61	95.5
	<u>220</u>	

This tendency evidently puts an undue share of the tax burden on the low value farm and discourages farm ownership because the beginner is usually the one with the smallest investment in farm property.

2. There is a very wide range between assessed valuations of properties of the same sale value in the same section of the state. Every property owner has the right to expect that he will not be unduly discriminated against in assessment. As stated above, perfect accuracy in assessment is not attainable. In some parts of the state, land values are uncertain because sales are few. However, if the general property tax is not to be discarded altogether, everything possible should be done to make the assessment system better. Taking again examples from those parts of the state where assessments seem to be most accurate, decided inequalities are nevertheless found.

In the five counties above mentioned, full and true assessed valuations vary from 45 per cent to 145 per cent of their respective sale values. In the three counties of Grant, Douglas and Ottertail full and true assessed valuations were from 35 per cent to 185 per cent of the sale values of farm properties. In fifteen other counties taken from the southern half of the state, 457 sales in 1926 and 1927 showed variations of full and true assessed valuations from sale values of 25 to 175 per cent. There is thus the possibility in any county of a farmer having his property of the same sale value as that of a farmer in some nearby township assessed five times as high. And it should be remembered that these results appear after the worst inequalities have been removed by the township and county boards of equalization and by the State Tax Commission.

3. There is a tendency for platted real estate in cities and villages to be assessed at a lower percentage of the sale value than farm real estate. The records of all bona fide sales in 1926 and 1927 of platted and unplatted real estate kept by the Minnesota Tax Commission show this very clearly.

Per cent that Full and True assessed  
Value is of Sale Value

	Unplatted	Platted	Difference
44 Southern Minnesota counties	85.18%	75.58%	9.69%
12 Southeastern Minnesota counties	89.72	73.47	16.25
The entire state	81.93	74.09	7.84

This undervaluation of city, town and village property has the effect of increasing the share of state and county taxes that must be borne by farm real estate.

How Can These Conditions be Remedied

When the general property tax was originally established as the principal form of taxation in Minnesota the great bulk of property in the state was farm real estate and easily ascertained. Besides, the state and its subdivisions had comparatively few functions to perform and so taxes were very much lighter than today. When taxes are light inaccuracies of assessment are not so very important. When taxes become very heavy because the government is called upon to extend its services and duties enormously, then the weight of taxation must be carefully distributed. Two types of remedy suggest themselves and are given in the following paragraphs.

1. A better system of assessment should be established than the present one. There should be a central office where are kept plats of every farm showing crop land, meadow, pasture, timber and waste. Improvements should be noted and should be depreciated with age according to some recognized system. Records should be carefully kept in the same way on all urban property. Every bona fide sale of real estate in the county should be compared with the assessed value of the same property in order to determine the trend of property values. This work should be in charge of trained men who devote their entire time to it. The assessment unit should be larger than at present, perhaps a county or even several counties. The most important thing to be borne in mind is that assessment is properly a task for experts and should be done by experts, men carefully trained and chosen.

2. The general property tax should be supplemented by revenues raised from other sources. Real estate and personal property, as it is classified in Minnesota, no longer serves as an adequate base for the bulk of the tax revenue. Much can be done to better the assessment of real estate, but no system has been devised to assess personal property with any degree of accuracy. Lack of a standard of value, ease of concealment, and expense of assessment make the personal property tax very unsatisfactory. There is also the fact that the general property tax bears more heavily on the agricultural classes than on other classes. The farmer cannot carry on his business without a comparatively large property investment. He tends to invest surplus funds in improvements and in real estate subject to a high rate of taxation. In towns and cities many business and professional men receive fairly large incomes without the necessity of much investment in property. Furthermore, city people to a much greater extent than the farmers tend to invest their savings in stocks, bonds and other securities subject to the low three mill money and credits tax rather than in real estate in which taxation rates are very much higher. The state has already made considerable progress in the direction of diversifying its tax system. It has such taxes as the inheritance tax, the gasoline tax, and the occupation tax. All these help to relieve real estate. Consideration is now being given to the income tax and other forms of taxation as means of obtaining a still more equitable distribution of the tax burden.

The part of Minnesota where the tax situation is most serious is in the sixteen cut over counties of northeastern Minnesota. The above discussion has not dealt directly with that area because the solution of the problem there involves land policies as well as taxation policies.

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