Minnesota Tax Expenditure Evaluation of Mortgage Registry Tax Government Housing Exemption

Prepared for the Tax Expenditure Review Commission

By the Legislative Budget Office

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Prepared by the Legislative Budget Office (LBO) on behalf of the Tax Expenditure Review Commission.

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Executive Summary

The Tax Expenditure Review Commission (TERC) is responsible for reviewing the effectiveness and efficiency of Minnesota's tax expenditure policies. The TERC has elected to review and evaluate Minnesota's Government Housing Program Mortgage Registry Tax (MRT) exemption. The MRT of .23% of principal debt is due from the borrower when a mortgage on Minnesota real property is recorded. The MRT is collected by counties that keep 3% and remit 97% to the state General Fund. This report provides an assessment of this exemption with consideration to the first eight components of tax expenditure review required under Minnesota Statutes 2025, chapter 3, section 3.8855, subdivision 5. The Commission may consider the findings of this report to recommend whether the expenditure be continued, repealed, or modified.

Enacted in 2001, the objective of the MRT housing exemption is to promote and incentivize affordable housing in Minnesota. Due to data limitations, it is difficult to empirically determine the degree to which increases in affordable housing can be attributed to utilization of the exemption. Without a comprehensive understanding of government housing exemption utilization by county, it is difficult to isolate the possible effect of the MRT exemption from the broader housing policy area.

To overcome some of these data limitations, recommendations for future evaluations of this MRT exemption include considering requiring the MRT1 form to establish a uniform way of tracking mortgage registry tax by exemption type. Currently, MRT1 forms that would uniformly indicate the type of claimed exemption are not required. Requiring the MRT1 form could allow both counties and DOR to more efficiently track exemption claims.

The Tax Expenditure Review Commission may choose to consider these findings in preparing a recommendation to the legislature to continue, repeal, or modify the tax expenditures, as is required of the Commission under Laws of Minnesota 2025, 1st Special Session, chapter 13, article 8, section 5.

Introduction

When Minnesotans secure a mortgage (loan) and present it for recording, they must pay a mortgage registry tax (MRT). The MRT is a tax on principal debt secured by a mortgage for real property within the state.[1] To lower overall housing purchase costs and promote affordable housing in Minnesota, the Legislature enacted the Government Housing Programs exemption in 2001, exempting mortgage loans made under a low and moderate income or other affordable housing programs if the mortgagee is a federal, state, or local government agency.[2] Unfortunately, due to data limitations, the LBO is unable to examine whether this government housing exemption increased affordable housing in Minnesota. A survey administered by the LBO provides context on county enforcement and filing processes, administrative burden, and frequency of claims. Recommendations for future evaluations suggest systematically tracking MRT exemptions by exemption type. While the statute outlining the MRT exemption includes several exemptions, this evaluation is limited to the Government Housing Programs exemption.[3] The fiscal year 2026 estimated fiscal impact was $3.3 million.[4]

The 2024 Minnesota Department of Revenue (DOR) tax expenditure budget and the DOR MRT webpage refer to the exemption on Government Housing Programs as both the "Affordable Housing Exemption" and "Government Housing Programs Exemption". This evaluation herein refers to the tax exemption as the "Government Housing Programs Exemption" or "MRT housing exemption". Additionally, the 2024 Tax Expenditure Budget (TEB) does not include some MRT exemptions in Minnesota Statutes, section 287.04. According to DOR, exemptions not included in the TEB do not meet the definition of a tax expenditure and are thus excluded from this analysis.

Background on the Mortgage Registry Tax

Minnesota enacted a mortgage registry tax in 1907 at a rate of 50 cents for each $100 of principal debt secured by a mortgage of real property.[5] In 1945, the rate was changed to 15 cents for each $100 of such debt.[6] Since 1987, the tax has been 23 cents for each $100 of principal debt, although the rate is now restated as 0.23%.[7] In 2001, the liability for the tax was changed from the mortgagee (lender) to the mortgagor (borrower).[8] If the legal description for a mortgage has parcels of real property located in two or more

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[1] Minnesota Department of Revenue Tax Research Division, *Minnesota Tax Handbook*, (Minnesota Department of Revenue, 2025), 36.
[2] Minnesota Statutes 2025, Section 287.04, Subdivision 6.
[3] The Department of Revenue (DOR) explains that a tax exemption, deduction, credit, or lower tax rate must meet a set of 7 criteria to be considered a tax expenditure. The mortgage registry tax exemptions evaluated in this report are included in the tax expenditure budget and are therefore considered tax expenditures.
[4] Minnesota Department of Revenue Tax Research, 2024 Tax Expenditure Budget.
[5] Minnesota Department of Revenue Tax Research Division, *Minnesota Tax Handbook*, 36.
[6] Minnesota Department of Revenue Tax Research Division, *Minnesota Tax Handbook*, 36.
[7] Minnesota Department of Revenue Tax Research Division, *Minnesota Tax Handbook*, 36.
[8] "Mortgage Registry Tax Rate," Minnesota Department of Revenue, https://www.revenue.state.mn.us/mortgage-tax-rate.

counties, the mortgage registry tax is paid to the treasurer of the county where the mortgage document was first presented for recording.[9]

The MRT is based on the amount of debt secured through a mortgage on a real estate purchase and imposed when the mortgage is recorded. The MRT rate is 0.23% of the total debt (principal debt x 0.23% = mortgage registry tax liability). The mortgagor (borrower) is liable for the MRT. The lender typically collects the tax at closing and remits the proceeds to the county where the mortgage and deed are recorded. Each county remits 97% of the revenues to the state General Fund and the county retains the other 3% for its administrative expenses. Additionally, state law authorizes Ramsey and Hennepin counties to impose an additional local environmental response fund tax at a rate of .01%.[10] This additional local tax will expire on January 1, 2028, unless extended.[11]

Background on the Government Housing Program Exemption

Beneficiaries of the MRT government housing exemption include borrowers receiving loans under low and moderate-income housing programs or other affordable housing programs.[12] This exemption was enacted in 2001.[13] To be eligible, a mortgage loan must be authorized under a low- or moderate-income or other affordable housing program. A government entity must either be a lender at the time of recording or the grantee of an assignment of the affordable housing mortgage. The assignment does not need to be presented at the same time as the mortgage for the exemption to be claimed.[14] Qualifying exemption claims generally include a mortgage loan for income-restricted housing where the borrower is a current or prospective owner or developer of the qualifying property.[15] The mortgage loan must be given by the qualifying

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[9] "Mortgage Registry Tax Multi-County Mortgage," Minnesota Department of Revenue, https://www.revenue.state.mn.us/mortgage-registry-tax-multi-county-mortgage

[10] Minnesota Statute 2025, Section 383A.80, Subdivision 1.; Minnesota Statute 2025, Section 383B.80, Subdivision 1.

[11] Minnesota Department of Revenue, "Mortgage Registry Tax Rate."; 2025 Minnesota Statutes Section 383A.80, subdivision four.

[12] Because this exemption is processed at the county level, DOR tax research did not have programmatic examples of exemption utilization. The LBO followed up with Minnesota Housing, who was listed as an example on the DOR MRT exemption webpage. Minnesota Housing was not aware of instances with which they utilize this exemption. The LBO then reached out the Minnesota Association for County Officers (MACO) to understand examples of claims at the county level. MACO directed the LBO to reach out to counties identified through a survey to have access to specific MRT claims data. The LBO then reached out to the individual county that indicated within a survey that they were able to identify government housing MRT claims. Examples provided are taken from that correspondence and are not reflective of all qualifying claims.

[13] Laws of Minnesota 2001, 1st Special Session, Chapter 5, Section 25, Subdivision 287.04.

[14] Minnesota Department of Revenue, "Mortgage Registry Tax."

[15] "Modification of Revenue Notice #01-05 Exemption for Mortgages that Secure Loans Made Under Qualifying Government Affordable Housing Programs," Minnesota Department of Revenue, Modified March 5, 2012. https://www.revenue.state.mn.us/sites/default/files/2011-11/RN_01-05.pdf

government entity, and the property must be located within Minnesota.[16] Mortgages given or assigned to federal agencies are excluded from the exemption because federal law prohibits taxation by the state.[17]

This exemption reduces the amount of MRT revenue that would otherwise be generated. An amendment to the exemption was made in 2021 to include assignees of the mortgage if they are a federal, state, or local government agency.[18] To claim this exemption, you must either add a statement on the face of the mortgage claiming the exemption under Minnesota Statutes, section 287.04 (6), or attach and record a Mortgage Registry Tax Form MRT1.[19] While the vast majority of counties are unable to track detailed exemption claims, examples of qualifying entities leveraging this exemption likely include mortgages secured through various qualifying affordable housing and rehabilitation programs. Such programs include the Minnesota Housing Finance Agency and the Northwest Minnesota Multi-County Housing and Redevelopment Agency.[20]

A statement on the mortgage registry form indicating the specific exemption to be applied is sufficient to claim the exemption. The MRT1 tax form is an alternative way to claim an MRT exemption and serves as certification that the MRT has the tax impact indicated on the form.[21] This form is not required to claim an MRT exemption.

Review of Other State and Federal Taxes

This review is limited to relevant federal and surrounding midwestern state tax expenditures specific to mortgage registry and property recording taxes. Many states have exemptions on general real estate transfer taxes and fees. Twelve states do not impose a document recording tax or a real property transfer tax. There is no federal excise tax regarding the recordation of real property transfers. Of Minnesota's surrounding states, Iowa does not provide exemptions on the MRT but does provide refunds for overpayments on real estate transfer tax. North Dakota does not impose taxes on either real property transfers or relevant documents. South Dakota has a real property transfer fee but does not provide credits, exemptions, or refunds. Wisconsin provides exemptions for a wide variety of real estate transfer fees based on the individuals involved in the transfer and value of real estate.[22]

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[16] For more examples of qualifying governmental entities, see Appendix A. Appendix A lists examples from the DOR Modification of Revenue Notice #01-05.
[17] "Mortgage Registry Tax and Federal Government Agencies." Minnesota Department of Revenue, https://www.revenue.state.mn.us/mortgage-registry-tax-federal-government-and-agencies
[18] Laws of Minnesota 2021, 1st Special Session, chapter 14, article 13, section 10.
[19] Minnesota Department of Revenue, "Mortgage Registry Tax."
[20] Follow up information was requested from the Minnesota Association of County Officers as well as an individual county that indicated available government housing exemption claims data.
[21] See Appendix B for the MRT1 Form.
[22] "Real estate transfer taxes and fees by state," Bloomberg Tax Database Query, Accessed January 21,2026.

Evaluation

Effectiveness and Efficiency

The objective of the MRT government housing exemption is to promote and incentivize affordable housing in Minnesota. Linking this exemption to affordable housing is a challenge for a few reasons. First, data on beneficiaries of this exemption is practically nonexistent, as MRT housing exemption collections take place at the county level. Secondly, there is no way to track under which specific low-income government housing programs Minnesotans claim this exemption. To measure the effectiveness and efficiency of the exemption, a necessary first step would be to analyze housing purchase patterns of beneficiaries of this tax expenditure over time (before and after enactment of the exemption) and examine the various low-income government housing programs that are frequently used with this exemption. Due to such data constraints, the LBO is unable to conduct a thorough evaluation of the effectiveness and efficiency of the exemption with respect to its objective. Should claims data become available for analysis in the future, a more thorough evaluation of the exemption's ability to address housing affordability through the tax code could take place. The LBO did administer a survey of Minnesota counties to add to our understanding of the MRT exemption.[23]

Survey

The DOR does not have available data on MRT collections and exemption types because the exemption is administered at the county level.[24] The exemption tracking process can vary across Minnesota counties. To help fill this gap and improve our understanding of MRT for future evaluations, the LBO collaborated with the Minnesota Association of County Officers (MACO) to administer a survey to all 87 Minnesota counties.[25] Future evaluations might attempt to electronically collect complete MRT data from all Minnesota counties. An alternative for future evaluations might be to analyze MRT data from a few representative counties and extrapolate the findings to as many other counties as possible. The aim of the survey the LBO administered with MACO

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[23] The LBO requested data from DOR tax research and county officials. Specifically, the LBO sought to understand the scope and frequency of exemption claims, administrative burden, enforcement practices and other challenges associated with administering the exemption. The LBO requested summary filing data from DOR tax research documenting approximate claims for all exemptions dating as far back as data was available. No summary or claims specific data was available from DOR tax research as exemption claims are processed at the county level.

[24] For a list of available data request answers from the Department of Revenue, see Appendix C.

[25] Questions were intended to understand the enforcement and filing process, administrative burden, and frequency of claims. MACO offered feedback on question scope and formatting based on knowledge of available mortgage registry tax county level data. Survey questions for county officers were distributed by MACO. See Appendix D for a full list of survey questions to county administrators. While survey methodology and response rate is discussed in tandem to an evaluation of deed transfer tax exemptions, results are reported specifically for responses pertaining to the evaluation of mortgage registry tax expenditures. For results pertaining to questions regarding the deed transfer tax, see the deed transfer tax evaluation. While a survey was administered to collect existing available claims data from each county, the survey was voluntary, and not all counties were able to provide specific claims data due to technology or data limitations.

was to have some idea of basic MRT claims and utilization of each exemption type from a few subsets of Minnesota counties.

The survey was administered using SurveyMonkey software via email that resulted in a response rate of 31 out of 87 counties, or 36%. MACO provided input on survey questions and sent the survey on behalf of the LBO directly to the relevant contact within each county. Of the 31 responses, 13 respondents held county recorder roles, five held auditor-treasurer roles, four held property recorder roles, and the remaining nine respondents held a variety of positions within the land records and property sphere. This might be one explanation for why the collection process is not uniform across counties. Further, respondents used a variety of land records software systems to process land transfers. The two most common vendors reported were Trimin and Tyler Technologies.[26]

As mentioned, there is limited data on the number of MRT claims that counties process and a dollar amount for each claim or exemption type.[27] To get some idea of what those numbers might be for a limited number of counties, survey questions asked for a count of all mortgages recorded, a count of mortgages with mortgage registry tax paid, a count of mortgages with an exemption, and an actual or estimated total mortgage tax dollar amount exempted by year for 2024. Figure 1 provides a summary of available MRT data categorized by Metropolitan Statistical Area (MSA) counties and non-MSA counties. MSA versus non-MSA counties were chosen as a comparison over the seven-county metro versus greater Minnesota as not every survey question had metro county responses.[28] All respondents were unable to provide data for all questions so a response rate by question is provided. Figure 1 provides the median values for all responding counties. The median is provided for all responding counties to give a general sense of available claims data across counties. From the median count of mortgages reported in Figure 1, counties reported a median of 1,443 mortgages. For the count of mortgages with MRT paid, counties reported a median of 300. For the count of mortgages with an exemption in Figure 1, counties reported a median of 97. On average, fewer than 4% of all mortgages with MRT had an exemption over the same five-year period. Finally, the median actual or estimate of total MRT dollar amount exemption was $146,718.

[26] Four unique software system vendors were listed in survey responses: Tyler Technologies, TriMin, West Central Indexing, and Fidlar.
[27] "Mortgage Registry Tax Debt Subject to Tax," Minnesota Department of Revenue, Updated August 27, 2020. https://www.revenue.state.mn.us/mortgage-registry-tax-debt-subject-tax
[28] For a list of metropolitan statistical areas in the state of Minnesota, see Appendix E. Metropolitan Statistical Areas.

Figure 1. Median County Mortgage Registry Tax Data for All Responding Counties 2024

Year	Median Count of Mortgages Recorded (n=27)	Median Count of Mortgages with MRT Paid (n=13)	Median Count of Mortgages with an Exemption (n=11)	Median Actual or Estimate of Total MRT Dollar Amount Exempted (n=6)
2024	1,443	300	97	$146,718

Data Source: Survey to Minnesota Counties

Note: This table is created from a survey to counties pertaining to all MRT exemptions and does not isolate the impact of the government housing loan MRT exemption.

Figure 2 provides the minimum and maximum value designated by MSA and non-MSA counties. These values are provided to understand the scale and difference in mortgages processed in each type of county. MSA counties reported a minimum of 875 mortgages recorded, while non MSA counties reported a minimum of 107. With respect to the maximum count of mortgages recorded, MSA counties reported a maximum of 32,980 mortgages, while non MSA counties reported a maximum of 4,068. MSA counties reported a minimum of 1,453 mortgages with MRT paid while non-MSA counties reported a minimum of 57. The minimum MSA count of mortgages with MRT paid is higher than the count of mortgages recorded due to a difference in county response rate for each question. For the number of mortgages with an exemption, MSA counties reported a minimum of 345, while non-MSA counties reported a minimum of 23. Finally, the minimum reported actual or estimate of total MRT dollar amount exemption was $207,436 for MSA counties versus $11,996 for non-MSA counties. The maximum reported actual or estimate of total MRT dollar amount exemption was $384,899 for MSA counties versus $270,236 for non-MSA counties. Overall, there was a wide range in the number of mortgages with and without MRT paid across counties. The survey is not representative of all Minnesota counties, and not all county respondents were able to answer all questions due to data limitations.

Figure 2. Minimum and Maximum Reported Mortgage Data 2024

Summary Statistic	Count of Mortgages Recorded (n=27)	Count of Mortgages with MRT Paid (n=13)	Count of Mortgages with an Exemption (n=11)	Actual or Estimate of Total MRT Dollar Amount Exempted (n=6)
Minimum MSA	875	1,453*	345	$207,436
Minimum Non-MSA	107	57	23	$11,996
Maximum MSA	32,980	27,129	698	$384,899
Maximum Non-MSA	4,068	679	150	$270,236

Data Source: Survey to Minnesota Counties

*Note: The Minimum MSA count of mortgages with MRT paid is higher than the count of mortgages recorded due to a difference in county response rate for each question.

Note: Metropolitan Statistical Areas are defined by the Minnesota Department of Employment and Economic Development which are based on the Bureau of Labor Statistics definition. The Bureau of Labor Statistics currently defines an MSA as an area with at least one urbanized area with a population of 50,000 or more. Additionally, adjacent territory must have a high degree of social and economic integration as measured by commuting ties.

Note: This table is created from a survey to counties pertaining to all MRT exemptions and does not isolate the impact of the government housing loan MRT exemption.

The estimate of forgone revenue for TEB 9.1.02: government housing programs is $3.3 million for fiscal year 2024-2027.[29] This estimate is included to provide available information on exemption magnitude based on estimates by DOR tax research. Ninety seven percent of MRT is remitted to the state general fund with 3% retained by counties.

Administrative Burden

The LBO also relied on the county survey to get a sense of how burdensome it is for counties to collect the MRT. First, the survey addresses how long it takes to process the MRT. Figure 4 provides a summary of respondents reported average processing time per MRT review and collection (excluding closing paperwork). Approximately 96% of respondents reported the processing time being less than ten minutes.

[29] MN Department of Revenue Tax Expenditure Budget 2024

Figure 3. Average Processing Time per Mortgage Registry Tax Review

Process Time	Percent of Respondents (n=31)*
Less than Five Minutes	48%
Between Five and Ten Minutes	48%
Between Ten and 15 Minutes	3%
Greater than 15 Minutes	0%

Data Source: LBO Survey to Minnesota Counties

*Note: Percent of Respondents is rounded to the nearest whole number.

Second, the survey addresses the fraction of MRT transactions that use paper or take place electronically, as that distinction can impact administrative burden. On average, 61% of land transfers were recorded electronically or eRecorded versus recorded on paper. Thus, increasing the fraction of transactions that are eRecorded might reduce administrative burden.

There are two ways to claim the MRT exemption. Either a statement on the mortgage registry form indicating the specific exemption or use of the MRT1 tax form. To the extent that this distinction matters for administrative burden, the survey found that 11% of MRT exemptions claimed utilized the MRT1 form. When asked if counties had any recommendations to improve the processing of MRT exemptions, nine out of 16 responses recommended making the MRT1 form a requirement for claiming the exemption. Finally, though not addressed in the survey, the exemption claims process was deemed to not be administratively burdensome on claimants as compared to other tax expenditures that the LBO evaluated.[30]

Landscape of Housing Affordability in Minnesota

Housing affordability is impacted nationally by rising costs of rent and higher home ownership related expenses including higher home prices, construction costs, and mortgage interest rates.[31] In addition to an increase in home purchase related costs, property taxes, property insurance, and homeowners' association fees have increased in the past five years.[32] Minnesota has a 72% overall homeownership rate as of 2024,

[30] An example of a tax incentive determined to be administratively burdensome by the LBO is the Minnesota Marriage Credit.

[31] Erik Hembre, Ben Horowitz, Libby Starling, Maxine Xu, "Lower-income home shoppers in Twin Cities area saw fewer options, higher costs in 2024," Federal Reserve Bank of Minneapolis, October 23, 2025, https://www.minneapolisfed.org/article/2025/lower-income-home-shoppers-in-twin-cities-area-saw-fewer-options-higher-costs-in-2024

[32] Minnesota Department of Revenue, "2025 Property Values and Assessment Practices Report," March 1, 2025. https://www.revenue.state.mn.us/sites/default/files/2025-05/2025-property-values-and-assessment-practices-report.pdf ; Joy Dumandan, "Homeowners Insurance Rates Rise in 2025," July 8, 2025. https://www.realtor.com/news/trends/home-insurance-rates-rise-by-state/ ; Joel Berner, "Homeowners Associations continue to Grow in Prevalence, Price in 2025," January 27, 2026. https://www.realtor.com/research/homeowners-associations-2025/

the ninth highest in the United States. However, this rate differs by demographic.[33] According to the Minneapolis Federal Reserve Bank, from 2021 through 2024, sales to low and moderate-income buyers decreased by 61%.[34] From 2021 to 2024, the share of affordable cash home purchases increased from 24.1 to 36.7%. Affordable housing is defined by the U.S Department of Housing and Urban Development as housing for which no more than 30% of income is paid for gross housing costs, including utilities.[35] Cash purchasers tend to be high-income individuals or households. While one in five primary residence sales are cash sales, only 7% of home sales are purchased by head of households listed as 42 or younger. [36]

Since 2021, home sales have declined in the Twin Cities area. In 2024 households earning 80% of area median income could afford most homes at $280,000. Rising mortgage rates explain much of the decline in affordability although additional homeownership costs, such as increasing property taxes and property insurance, also contributed to reduced affordability. Of Minnesota's 7.1 million owner-occupied homes in 2023, 36% were considered affordable (home value of $250,000 or less).[37] Further, 15% of owner-occupied homes in Minnesota have a value of $150,000 or less, while 21% have a value between $150,001 and $250,000. From 2012 to 2024, in the Twin Cities area, the median monthly property tax payment increased for homeowners from $172 to $381.[38] The average monthly property insurance payment increased from $177 to $235.[39] Increases in property tax and insurance costs as well as a reduced number of homes on the market, low mortgage rates, and lower rates of housing construction are theorized to contribute to a decrease in available affordable housing.[40]

Minnesota Housing Finance provides a report discussing funding and households assisted by program category for fiscal year 2025. Homebuyer and home refinance programs, as well as single family development programs were chosen as program categories to provide a reference scale for other Minnesota affordable housing initiatives. For homebuyer and home refinance programs, $1.04 billion in assistance was utilized with 5,619 unique households served.[41] Homebuyer and home refinance programs include the start-up and step up home mortgage loan programs that provide downpayment and closing cost assistance. For single-family development programs,

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33 "2025 Program Assessment Report," *Minnesota Housing.* https://mnhousing.gov/documents/53435/2025_program_assessment_report/view

34 Hembre, et. al, "Lower-income home shoppers in Twin Cities area saw fewer options, higher costs in 2024."

35 United States Department of Housing and Urban Development, "Glossary Resources," https://www.huduser.gov/archives/portal/glossary/glossary_a.html#:~:text=AFFORDABILITY:%20the%20extent%20to%20which,thus%20promoting%20a%20project's%20feasibility.

36 Hembre, et. al, "Lower-income home shoppers in Twin Cities area saw fewer options, higher costs in 2024."

37 "Affordable Housing Plan 2024-2025," *Minnesota Housing* , accessed May 7, 2025, https://www.mnhousing.gov/content/published/api/v1.1/assets/CONT9EB42D9934F2407FB05473BC74A93A58/native?cb=_cache_4a38&channelToken=294436b7dd6c4570988cae88f0ee7c90&download=true.

38 Hembre, et. al, "Lower-income home shoppers in Twin Cities area saw fewer options, higher costs in 2024"

39 Hembre, et. al, "Lower-income home shoppers in Twin Cities area saw fewer options, higher costs in 2024"

40 Hembre, et. al, "Lower-income home shoppers in Twin Cities area saw fewer options, higher costs in 2024"

41 "2025 Program Assessment Report," *Minnesota Housing,* https://mnhousing.gov/documents/53435/2025_program_assessment_report/view

$19.2 million in assistance was utilized with 376 units assisted. Programs included in this category are the state housing family tax credit single family program, community homeownership impact fund, and workforce affordable homeownership program.

Available information on the MRT housing exemption shows that the estimated forgone revenue for fiscal year 2025 was $3.3 million. However, direct comparisons cannot be drawn between the MRT exemption utilization and affordable housing in Minnesota. The degree to which behavior is influenced by the MRT exemption is not known due to lack of available data.

Comparing the effectiveness of the tax expenditure and a direct expenditure

Due to data limitations, this evaluation did not address the effectiveness and efficiency of the MRT housing exemption. It is difficult to compare the MRT exemption to other similar housing programs that aim to increase housing affordability in Minnesota. While there are many direct mortgage assistance programs, most programs are aimed at individual homebuyers. However, this particular tax exemption works through governmental entities holding the associated mortgage lien. There are two direct expenditure programs aimed at nonprofits or housing cooperatives that promote the construction of affordable housing to provide a contextual scale:

- The HOME program provides state and local grants intended to partner with local nonprofit groups to fund the development of affordable housing. For 2024-25 $30.6 million was the estimated total of federal HOME funding for Minnesota housing development.[42]
- The Workforce Affordable Homeownership program provides nonprofits, cooperatives, and community land trusts the opportunity to develop homeownership opportunities. One-time grants are issued to develop housing for households up to 115% of the area median income. For 2024-25 the estimated state appropriations for the Workforce Affordable Homeownership program was $60.5 million.[43]

Cumulative Fiscal Impacts of other State and Federal Tax Programs

There are numerous state and federal tax programs designed to encourage affordable housing. This review was limited to three other state and federal tax programs directly providing benefits to taxpayers for similar activities. No property level data is available to understand the magnitude and geography of properties qualifying for the evaluated MRT exemption. As such, a direct comparison of properties qualifying for the affordable

[42] "Biennial Report to the Minnesota Legislature 2023/2024," *Minnesota Housing*, https://www.mnhousing.gov/documents/36661/2023-2024_biennial_report_on_housing_assistance_-_2172025/view
[43] *Minnesota Housing,* "Biennial Report to the Minnesota Legislature 2023/2024."

housing MRT exemption and the outlined programs in this section is not possible. Instead, available information on program utilization in Minnesota is described to understand state utilization.

- The State Housing Tax Credit (SHTC) is a Minnesota-level program for eligible taxpayers to annually contribute at least $1,000 but not more than $2 million to affordable housing development projects.[44] The contributions fund housing developments via a general contribution pool or taxpayers can designate a specific qualified project to receive their contributions. The eligible taxpayer receives a state tax credit certificate equal to 85% of the contribution which may be used to lower state tax liability.[45]
- The Low-Income Rental Classification (LIRC) program provides reduced property tax class rate for qualifying rental housing that meets income and affordability criteria under Minnesota Statutes 2025, section 273.128.[46] This results in an estimated $150 million of tax liability shift from qualified rental housing to all other property in the respective taxing jurisdictions.[47] In Minnesota, in 2025 there were 177,557 qualifying units.[48] Market value is assessed using unrestricted market rents.[49]
- At the federal level, the low- income housing tax credit (LIHTC), facilitated by the U.S. Department of Housing and Urban Development (HUD), gives state and local agencies the equivalent of approximately $10.5 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of low- and moderate-income affordable rental housing.[50] While data is not available to assess the overlap between qualifying MRT housing exemption properties and LIHTC properties, estimates are available for the number of qualifying LIHTC properties in Minnesota from 2013-2023. From 2013-2023 there were a total of 310 qualifying housing projects across Minnesota.[51] Of the 310 qualifying housing projects in Minnesota from 2013-2023, 197 were new construction projects, 90 were acquisitions or rehabilitations, and the rest of the

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[44] "Annual State Housing Tax Credit Program and Contribution Fund Report," *Minnesota Housing*, January 12, 2024, https://acrobat.adobe.com/id/urn:aaid:sc:VA6C2:e0d27253-d351-4772-81e1-9b7a77fe54fc
[45] "*Minnesota Housing,* "Biennial Report to the Minnesota Legislature 2023/2024,"; For more information on contributions by year, see Appendix F.
[46] "Low-Income Rental Classification (LIRC) Program", Minnesota Housing, https://www.mnhousing.gov/home/rental-housing/low-income-rental-classification-lirc
[47] For a shift estimate of 4d(1) Low-Income Rental Housing (per unit) for Taxes Payable 2025 see Appendix G.
[48] Minnesota Housing, "2025 LIRC Assessor Report." The 2025 LIRC Assessor Report Spreadsheet was used to calculate qualifying 2025 units (Total Units X Qualifying Percent) and the sum of qualifying 2025 units.
[49] Minnesota Housing, "Low-Income Rental Classification (LIRC) Program."
[50] "What is the Low-Income Housing Tax Credit and how does it work?" Urban Institute and Brookings Institution Tax Policy Center, January 2024, https://taxpolicycenter.org/briefing-book/what-low-income-housing-tax-credit-and-how-does-it-work
[51] "LIHTC Database," U.S Department of Housing and Urban Development, LIHTC dataset query.

projects were some combination of new construction, acquisitions or rehabilitations.[52]

Potential Modifications to MRT Housing Exemptions for Future Evaluations

Assessing the effectiveness and efficiency of this exemption is challenging due to data constraints. To facilitate future evaluations, the LBO identifies one potential modification to systematically track the MRT exemption by exemption type. Presently, MRT exemption types are not collected in a manner that distinguishes amongst exemption types, thus limiting fiscal oversight and ability to evaluate the policy fully. Therefore, the state cannot properly determine if the exemption aligns with its policy objectives. Implementing structured reporting by exemption type would enable longitudinal analysis, improve accountability, and support evidence-based decisions regarding the continuation or modification of the exemption.

One feasible way to improve upon the reporting and data collection for the MRT exemption is to require the use and submission of the MRT1 form electronically with each claim. This would allow the state to obtain exemption level data with minimal additional administrative burden to the county governments.

Feedback from counties further supports the use of the MRT1 form as the appropriate mechanism for collecting this data. It aligns with existing filing workflows and potentially minimizes the administrative burden.

Conclusion

The goal of this evaluation was to assess how well the MRT housing exemption meets its objective. Due to data limitations, it is difficult to empirically determine the degree to which increases in affordable housing in Minnesota can be attributed to utilization of the government housing MRT exemption. Inherently, the qualifying government housing mortgages have a reduced land transaction cost with the exemption. However, the degree to which this exemption is likely to contribute to the broader affordable housing policy area is unknown. Without a comprehensive understanding of utilization of the exemption, it is difficult to isolate its specific contribution to the broader policy area. Data limitations complicate the LBO's efforts to conduct a proper evaluation of effectiveness and efficiency of the exemption. Even if the LBO did have access to claim data, it would still be a challenge to isolate the housing exemption's independent effect from the broader affordable housing impacts due to many other factors and programs impacting affordable housing outcomes. The survey administered by the LBO provides context on county enforcement and filing processes, administrative burden, and frequency of claims of MRT exemptions.

[52] U.S Department of Housing and Urban Development, "LIHTC Database."

Potential modifications to the government housing MRT exemption include considering requiring the use of the MRT1 form to establish a uniform way of tracking MRT exemption utilization. The Tax Expenditure Review Commission may choose to consider these findings in preparing a recommendation to the legislature to continue, repeal, or modify the tax expenditures, as is required of the Commission under Laws of Minnesota 2025, 1st Special Session, chapter 13, article 8, section 5.

Appendix A. Qualifying Federal, State or Local Government Agencies

The Minnesota Department of Revenue defines the following Federal, State, and Local Government Agencies as qualifying for the Government Housing MRT Exemption. There may be other qualifying agencies outside of this list. [53]

Federal Agencies:

- Arrowhead Economic Opportunity Agency
- Farm Credit Banks
- Farmers Home Administration
- Federal Credit Unions
- Federal Deposit Insurance Corporation
- Federal Financing Bank
- Federal Home Loan Bank
- Federal Home Loan Mortgage Corporation (“Freddie Mac”)
- Federal Land Bank Associations
- Federal National Mortgage Association (“Fannie Mae”)
- Federal Reserve Banks
- Government National Mortgage Association (“Ginnie Mac”)
- National Consumer Cooperative Bank
- Resolution Trust Corporation
- Small Business Administration
- U.S Department of Housing and Urban Development
- U.S Rural Utilities Service (RUS)

State Agencies:

- Minnesota Agricultural Economic Development Board
- Minnesota Department of Employment and Economic Development
- Minnesota Housing Finance Agency
- Minnesota Rural Finance Authority
- Minnesota Valley Action Council
- Iron Range Resources and Rehabilitation Board
- Greater Minnesota Housing Fund

Local Agencies:

- All County Governments
- All City Governments
- All Township Governments

[53] Minnesota Department of Revenue, “Modification of Revenue Notice #01-05 Exemption for Mortgages that Secure Loans Made Under Qualifying Government Affordable Housing Programs.”

- City Housing and Redevelopment Authorities
- Multi-County Housing Authorities
- Minneapolis and St. Paul Family Housing Fund
- Ramsey Action Programs, Inc.
- Neighborhood Housing Service, Inc.
- Northeast Minnesota Housing Consortium
- Intercounty Community Council
- Community Neighborhood Housing Services
- Riverview Economic Development Association
- Northeast Neighborhoods Development

Appendix B. MRT1 Form

DEPARTMENT OF REVENUE

* 2 2 6 4 6 1 *

MRT1, Mortgage Registry Tax

Form MRT1 may be used to document your claim for an exemption from mortgage tax or the basis of your tax. The mortgage registry tax rate is .0023 of the amount of the debt being secured (.0024 for Hennepin and Ramsey counties). Please note, a document or any record of the mortgage may not be received in evidence in any court, and is not valid notice, unless the tax has been paid. *(M.S. 287.10)*

Mortgage Registry Tax

Name of Borrower

Name of Lender

1 New debt being secured with this instrument	2 New Debt Subject to Tax	3 Mortgage Tax Due	4 Reason Code
$	$	$	

Sign Here

Mortgagor or authorized agent, sign below.

I declare that the information on this certificate is correct and complete to the best of my knowledge and belief.

Signature of Mortgagor or Authorized Agent	Title	Date	Daytime Phone

Website: www.revenue.state.mn.us. Email: MortgageDeed.Taxes@state.mn.us
Phone: 651-556-4721.

Reason Codes

1 Supplemental Mortgage
This instrument is modifying an existing mortgage and securing a new debt.

1. **Debt Secured After Supplement** ______
2. **Principle Balance Before Supplement** (______)
3. **New Debt Subject to Tax** *(Subtract Line 2 from Line 1. Enter in boxes 1 and 2 at top)* ______

2 Additional Security
This is a new and separate mortgage that provides additional security for an outstanding debt for which tax has already been paid and whose mortgage remains in place. *M.S. 287.04 (3).*

Tax Paid ______

County ______

Document # ______

3 Limiting Clause
The limiting clause can be used when a lender chooses to secure only a portion of the debt amount recited in the mortgage.

"Notwithstanding anything to the contrary herein, enforcement of this mortgage is limited to a debt amount of $______ under M.S. 287.05, subd. 1a."

4 Mortgage Amendment
This is a mortgage amendment, as defined in *M.S. 287.01, subd. 2*, and does not secure a new or increase an existing debt. *M.S. 287.04 (8).*

5 Decree of marriage dissolution or an instrument made pursuant to it.

6 Mortgage given to correct a misdescription of the mortgaged property.

7 Mortgage executed as part of a plan of reorganization under a Chapter 11 or Chapter 12 bankruptcy case. *(Federal bankruptcy codes 1146[a] and 1231[a])*

8 Mortgage secured by real property subject to the minerals production tax. *(M.S. 298.24 to 298.28)*

9 A mortgage loan made under a low and moderate income housing program, or other affordable housing program, if: (i) the mortgagee is a federal, state, or local government agency; or (ii) the assignee is a federal, state, or local government agency.

10 A mortgage granted by a Fraternal Benefit Society (borrower). *(M.S. 64B)*

11 Reverse Mortgage/Home Equity Conversion Mortgage — tax is due on the expected total disbursements less interest, mortgage insurance premiums, and lender service fees. *(M.S. 287.05, subd. 6)*

12 Agricultural mortgage whose proceeds are being used to acquire or improve Minnesota real property that is or will be used for the production of agricultural products. Includes prior qualifying loans that are being re-financed. Note: The exemption does not apply to the portion of the proceeds used for nonexempt purposes (e.g., house, residential-use garage, machinery and seed).

13 Mortgage encumbering real property located within the boundaries of a federally recognized American Indian tribe if the mortgagor (i.e., borrower) is (1) the tribe or a member of the tribe; or (2) purchasing the property from the tribe or a member of the tribe and the mortgage is a purchase-money mortgage.

14 Exempt Federal Agencies— To see a list go to our website at **www.revenue.state.mn.us** and search *Mortgage Registry Tax.*

15 If the above codes do not apply, please provide explanation below.

(Rev. 1/22)

Appendix C. DOR Tax Research Data Request

1. Total claims and total mortgage tax due (box 3) amounts for as many years back available.
   - *DOR Response:* Not available.
2. MRT1 claims counts by reason code for reason code nine and reason code twelve for as many years back available.
   - *DOR Response:* Not available.
3. Is the MRT1 form required?
   - *DOR Response:* The form is voluntary and is used to clarify non-standard transactions and to claim an exemption.
4. If the form is not required, is there a sense of how often people are including this form as a part of their mortgage registry tax exemption process?
   - *DOR Response:* Rough estimate – 5%. Mainly used for the agricultural exemption.
5. When someone claims an exemption without utilizing the MRT1 form, does DOR participate in any alternative certification process?
   - *DOR Response:* No. Any verification would happen prior to the document being recorded. The county would reject the document and ask further information. We rely on county staff who review the documents.
6. Does DOR see any opportunity for improvements in mortgage registry tax exemption form processing?
   - *DOR Response:* No.

Appendix D. Survey Questions

1. What county are you responding on behalf of?
2. What is your role within your county?
3. What is the average processing time per mortgage registry tax review and collection apart from other closing paperwork (such as eCRV, well certificate, and other general recording)?
    a. Less than 5 minutes
    b. Over 5 and up to 10 minutes
    c. Over 10 and up to 15 minutes
    d. Over 15 minutes
4. What is the average processing time per deed transfer tax review and collection apart from other closing paperwork (such as eCRV, well certificate, and other general recording)?
    a. Less than 5 minutes
    b. Over 5 and up to 10 minutes
    c. Over 10 and up to 15 minutes
    d. Over 15 minutes
5. What percentage of your documents are eRecorded vs on paper? (estimate is ok)
6. Of the mortgages and deed transfers processed, can you provide an estimate percentage of how many utilize the MRT1 and DT1 form?
    a. MRT1 Form
    b. DT1 Form

If you are able to provide the following information for deeds recorded, please fill out the following series of questions to the best of your ability.

7. Count of All Deeds Recorded 2019-2024
8. Count of Deeds with Deed Tax Paid 2019-2024
9. Count of Deeds with an Exemption 2019-2024
10. Actual or Estimate of Total Deed Tax Dollar Amount Exempted 2019-2024

If you are able to provide the following information for mortgages recorded, please fill out the following series of questions to the best of your ability.

11. Count of All Mortgages Recorded 2019-2024
12. Count of Mortgages with Mortgage Registry Tax Paid 2019-2024
13. Count of Mortgages with an Exemption 2019-2024
14. Actual or Estimate of Total Mortgage Registry Tax Dollar Amount Exempted 2019-2024
15. Does your county have any verification process when people claim mortgage registry or deed transfer tax exemptions?
    a. No
    b. Not Sure
    c. Yes (Please Specify)
16. Do you capture the type of exemption that is claimed within your county's verification process? See MRT1 and DT1 forms for more information on types of available exemptions.
    a. Yes
    b. No
    c. Other (Please Specify)
17. If you capture the type of deed transfer tax exemption that is claimed within your county's verification process please provide the number of exemptions claimed by reason code in 2024. Reason codes can be found in the DT1 form for your reference.
18. If you capture the type of mortgage registry tax exemption that is claimed within your county's verification process please provide the number of exemptions claimed by reason code in 2024. Reason codes can be found in the MRT1 form for your reference.
19. What vendor provides your land records recording software?
20. Is the 3% of mortgage registry and deed tax retained at the county level adequate for the administrative costs associated with collecting and remitting the tax?
    a. Yes
    b. No
    c. Not Sure
21. Do you have any recommendations for ways to improve processing or logistics related to mortgage or deed transfer tax paperwork?

Appendix E. Metropolitan Statistical Areas

Appendix E provides an overview of the metropolitan statistical areas in Minnesota defined by the Minnesota Department of Employment and Economic Development.

Metropolitan Statistical Area	Counties Included
Minneapolis-St. Paul- Bloomington, MN- MSA	Anoka County Carver County Chisago County Dakota County Hennepin County Isanti County Le Sueur County Mille Lacs County Ramsey County Scott County Sherburne County Sibley County Washington County Wright County Pierce County, WI St. Croix County, WI
Duluth, MN-WI MSA	Carlton County, MN St. Louis County, MN Douglas County, WI
St. Cloud, MN MSA	Benton County Stearns County
Rochester, MN MSA	Dodge County Fillmore County Olmsted County Wabasha County
Mankato-North Mankato, MN MSA	Blue Earth County Nicollet County
LaCrosse-Onalaska WI-MN MSA	La Crosse County, WI Houston County, MN
Grand Forks, ND-MN MSA	Grand Forks County, ND Polk County, MN
Fargo, ND-MN MSA	Cass County, ND Clay County, MN

Appendix F. State Housing Tax Credit Contributions by Year

Figure 4. SHTC Contributions in 2023

Contribution Type	Number of Contributions	Total Contribution Amount
General Contribution Pool	220	$1,789,441
Designated Contributions	162	$5,129,940
Total	382	$6,919,381

Figure 5. SHTC Contributions in 2024

Contribution Type	Number of Contributions	Total Contribution Amount
General Contribution Pool	213	$987,213
Designated Contributions	319	$10,659,845
Total	532	$11,647,058

Figure 6. SHTC Contributions in 2025

Contribution Type	Number of Contributions	Total Contribution Amount
General Contribution Pool	59	$227,000
Designated Contributions	189	$11,420,058
Total	248	$11,647,058

Appendix G. Shift Estimate of 4d(1) Low-Income Rental Housing

This appendix provides an illustrative tax liability estimate to show what the statewide low-income rental housing tax liability would be but for the existence of the 4d(1) Low-Income Rental Housing classification that provides preferential classification to such property.

Eligible units that qualify for the 4d(1) classification are preferentially classified with a lower net tax capacity (NTC) tax rate than regular rental units. The 4d(1) classification is subject to an NTC class rate of 0.25% where regular units are subject to an NTC class rate of 1.25%. Additionally, when a class rate is less than 1%, the referendum market value (RMV) is equal to its net tax capacity multiplied by 100. This results in only a portion of a property's taxable market value (TMV) being subject to RMV rates. In the case of 4d(1), only 25% of TMV is subject to RMV rates. The entirety of a regular rental unit's TMV would be subject to RMV rates.

Figure 5. provides the statewide taxable market value of low-income rental housing, NTC class rates, NTC, and the proportion of TMV that is subject to referendum market value tax rates. The tax liability estimate under the 4d(1) column is an estimate of actual tax liability for taxes payable 2025. The tax liability estimate under the 4a or 4a(1) column is what these units would have owed if the 4d(1) classification did not exist, holding all other aspects of the property tax system constant. The shift estimate is the difference between the two, or the amount of tax liability that was shifted onto other properties due to the preferential classification. These estimates were calculated at the city-township level using average NTC and RMV rates for taxes payable year 2025.

Figure 7. Shift estimate of 4d(1) Low-Income Rental Housing (per unit), Taxes Payable 2025

	4d(1) Low-Income Rental Housing	4a or 4a(1) Residential Nonhomestead	Shift
TMV	$10,820,413,000	$10,820,413,000	-
NTC Class Rate	0.25%	1.25%	-
Net Tax Capacity	$27,051,000	135,255,000	-
Proportion of TMV subject to RMV rate	25%	100%	-
NTC Tax Liability	$33,266,000	$166,328,000	-
RMV Tax Liability	$1,737,000	$17,666,000	-
Net Tax Liability	$35,003,000	$183,994,000	$148,991,000

Data Source: Property Taxes Payable Tax Year 2025

Note: These estimates were calculated at the city/township level. Average NTC and RMV rates at the city/township level were used to estimate tax liability.

Appendix H. Key Terms

Borrower: Individual or entity receiving loan to purchase or refinance real estate.

Class Rate: Classification rates, or class rates, are the percent of taxable market value (TMV) used to determine the tax base (net tax capacity) of properties. The property's taxable market value is multiplied by the class rates to determine the property's net tax capacity.[54]

Debt: ""Debt" means the principal amount of an obligation to pay money that is secured in whole or in part by a mortgage of an interest in real property. See Minnesota Statute 2025, section 287.01, subdivision 3."[55]

eRecorded: an electronically recorded document means a document is received by the county recorder in an electronic form and digitally processed.

Imposition of Tax: "A tax is imposed on the privilege of recording a mortgage. The tax rate is .0023 (or .0024 in Hennepin and Ramsey Counties) of the debt or portion of the debt that is secured by any recorded mortgage of real property located in this state. The person liable for the tax is the mortgagor. See Minnesota Statute 2025, section 287.035."[56]

Incidence: Indicates who pays Minnesota's household and business taxes.[57]

Land records software systems: Software system used by a county to process mortgage transfer paperwork and other associated land records.

Lender: Entity or financial institution funding, originating or managing the initial process associated with a home loan.

Mortgage: "A "mortgage" means any instrument, including a decree of marriage dissolution or an instrument made under it, creating or evidencing a lien of any kind on real property, given by an owner of real property as security for a debt. See Minnesota Statute 287.01, subd.6."[58]

Taxable Net Tax Capacity: "The total net tax capacity (NTC) is computed for each parcel of property according to the classification rates and the property's taxable market value. The total net tax capacity is adjusted for property tax programs that have tax bases different than total net tax capacity, such as fiscal disparities and tax increment

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[54] "Glossary: C", Minnesota Department of Revenue, Accessed 4/13/2026, https://www.revenue.state.mn.us/glossary-c.
[55] "Glossary of Terms Specific to Mortgage Registry Tax," Minnesota Department of Revenue, https://www.revenue.state.mn.us/mortgage-registry-tax-glossary
[56] Minnesota Department of Revenue, Glossary of Terms Specific to Mortgage Registry Tax.
[57] Minnesota Department of Revenue Tax Research, 2024 Tax Expenditure Budget
[58] Minnesota Department of Revenue, Glossary of Terms Specific to Mortgage Registry Tax.

financing. The result is the taxable net tax capacity, which is the tax base for local net tax capacity levies."[59]

Referendum Market Value: Referendum market value (RMV) is the tax base for referendum levies.[60]

Revenue Neutral Rate: Refers to changes in tax law that result in no net change to the total amount of tax revenue collected by the state or a specific taxing entity.[61]

Tax Shift: An exemption, class rate, or other preferential provision lowers the total tax capacity and results in a higher tax rate applicable to all taxable property. Although the total yield from the tax is not affected, the tax is shifted from preferential to non-preferential property.[62]

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[59] "Glossary: T," Minnesota Department of Revenue, Accessed 05/04/2026, https://www.revenue.state.mn.us/glossary-t

[60] "Glossary: R", Minnesota Department of Revenue, Accessed 4/13/2026, https://www.revenue.state.mn.us/glossary-r.

[61] Minnesota Department of Revenue Tax Research, 2024 Tax Expenditure Budget

[62] State of Minnesota Tax Expenditure Budget FiscalYears 2024-2027, Minnesota Department of Revenue Tax Research Division, Page 230, https://www.revenue.state.mn.us/sites/default/files/2024-11/2024-tax-expenditure-budget-published-version-cover.pdf.

Appendix I. Other Statutory Components of Review

Minnesota Statutes 2025, section 3.8855 subdivision 5 outline components of review required when conducting a tax expenditure evaluation. Though the following components did not impact the overall findings of this evaluation, they are presented below for completeness.

Estimating the amount by which the tax rate for the relevant tax could be reduced if the revenue lost due to the tax expenditure were applied to a rate reduction

If the government housing programs tax expenditure were repealed, the mortgage registry tax could be reduced from 0.23% to 0.22%.

The incidence of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system

None of the tax expenditures included in this evaluation are considered to be significant tax expenditures as defined by DOR Tax Research and therefore excluded from the requirement for an incidence study as part of a tax expenditure evaluation per Minnesota Statute 2025, section 3.8855.