STATE OF MINNESOTA
Legislative Budget Office

Mortgage Registry and Deed Transfer Tax Exemptions Tax Expenditure Evaluations

PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

JUNE 17, 2026

Agenda

- Background and Methodology
- Government Housing Mortgage Registry Tax Exemption Evaluation
- Agricultural Loan Mortgage Registry Tax Exemption Evaluation
- Deed Transfer Tax Bundle Evaluation

Mortgage Registry Tax Exemptions

- Government Housing
- Agricultural Loan

Deed Transfer Tax Exemptions

- Exchange of Permanent School Fund Land
- Property Partitioned by Co-Owners
- Distribution by Personal Representatives
- Cemetery Lots
- Mortgage and Lien Foreclosures
- Decree of Marriage Dissolution

Methodology

- Background Research
  - Topic briefs published by non-partisan legislative research staff
  - Meeting with Minnesota Association of County Officers
  - There is no summary filing data available for these exemptions
- Survey to Minnesota Counties
  - Analysis of available exemption claims data and county processing procedures
  - Analysis of administrative burden

Mortgage Registry Tax Exemptions

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- Agricultural Loan

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Mortgage Registry Tax (MRT) Exemption Background

- The MRT rate is 0.23% of the total debt (principal debt x 0.23% = mortgage registry tax liability).
- Each county remits **97%** of the revenues to the **state General Fund** and the **county retains the other 3%** for its administrative expenses.
- 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. This form is **not required** to claim an MRT exemption.

MRT Background Selected Summary Survey Data

- Mortgages Recorded with an Exemption 2024
  - Median: 97
  - **Metropolitan Statistical Area** (MSA) Counties Response Range: **345** (minimum) to **698** (maximum)
  - **Non-MSA** Response Range: **23** (minimum) to **150** (maximum)

Mortgage Registry Tax Exemptions

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Deed Transfer Tax Exemptions

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Background-Government Housing

- To be eligible, a **mortgage loan** must be **authorized** under a **low- or moderate-income** or **other affordable housing program**.
- 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.

Background-Government Housing Exemption

- “The objective of the **Government Housing Programs mortgage registry tax exemption** is to incentivize and promote affordable housing in the state of Minnesota.”
- The estimate of annual revenue lost from Fiscal Year 2024-2027 remains constant at $3.3 million.
- If the government housing programs tax expenditure were **repealed**, the mortgage registry tax could be **reduced** from **0.23% to 0.22%.**

This objective was approved and adopted by the Tax Expenditure Review Commission on August 16, 2024.

Evaluation Findings-Government Housing

- Due to data limitations, it is not possible to empirically determine the degree to which increases in affordable housing in Minnesota can be attributed to utilization of the government housing MRT exemption.
- Without a comprehensive understanding of utilization of the exemption, it is not possible to isolate its specific contribution to the broader policy area.

Mortgage Registry Tax Exemptions

- Government Housing
- Agricultural Loan

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Background-Agricultural Loan

- The proceeds of the loans must either be, or intend to be, used to purchase or improve “qualifying” agricultural real property.
- The intended use of the qualifying real property must be for the production for sale of agricultural products.

Tax Expenditure Objective-Agricultural Loan

- "The objective of the **Agricultural Loan mortgage registry tax exemption** is to increase the competitiveness of Minnesota banks offering agricultural loans with federal lenders whose loans are not subject to the state mortgage registry tax."
- The estimate of annual revenue lost for Fiscal Year 2026 is $4.7 million.
- If the agricultural loan tax expenditure were repealed, the change in the mortgage registry tax rate would be negligible.

This objective was approved and adopted by the Tax Expenditure Review Commission on August 16, 2024.

Evaluation Findings-Agricultural Loan

- The LBO cannot conclude that the Agricultural Loan MRT exemption is meeting its objective.
- Data limitations complicate the LBO's efforts to conduct a proper evaluation of effectiveness and efficiency of the exemption.

Potential Modifications to Both MRT Exemptions

- One potential modification includes systematically tracking the MRT exemption by exemption type.
- One option would be to **require the use and submission of the MRT1 form** electronically with each claim.

Mortgage Registry Tax Exemptions

- Government Housing
- Agricultural Loan

Deed Transfer Tax Exemptions

- Exchange of Permanent School Fund Land
- Property Partitioned by Co-Owners
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- Decree of Marriage Dissolution

Deed Transfer Tax Exemption Background

- The deed transfer tax is imposed on the value of property transferred from one individual to another, known as a transfer tax.
- In Minnesota, the standard deed transfer tax rate is 0.33% of the price paid for real property.
- Each county remits **97%** of the revenues to the **state General Fund** and the **county retains the other 3%** for its administrative expenses.
- The **DT1 form** serves as **certification of deed tax amount** and that the deed qualifies for the exemption indicated on the form. A **written statement** on the deed indicating the specific exemption may be used **in place of the DT1 form**.

Deed Transfer Tax Background Selected Summary Survey Data

Survey Question	2024 Average	2024 Median
Count of Deeds Recorded	3,176	1,469
Count of Deeds with an Exemption	400	187

Tax Expenditure Objectives-Deed Transfer Tax

“The objective of Property Partitioned between Co-owners, Distributions by Personal Representatives, Cemetery Lots, Mortgage and Lien Foreclosure Sales is to **define the tax base for the application of the deed transfer tax.”**

“The objective of the Exchange of Permanent School Fund Lands exemption is to **help ensure the Permanent School Fund secures maximum financial return consistent with fund goals stated in M.S. 127A.31 and fiduciary responsibilities imposed by Article 11, Section 8 of the Minnesota Constitution.”**

“The objective of the Decree of Marriage Dissolution exemption is to **define the tax base for the application of the deed transfer tax and lessen the financial burden on individuals undergoing divorce proceedings.”**

These objectives were approved and adopted by the Tax Expenditure Review Commission on August 16, 2024.

Estimate of Annual Revenue Lost

Fiscal Year	2024	2025	2026	2027
Property Partitioned Between Co-Owners	*	*	*	*
Distributions by Personal Representatives	*	*	*	*
Cemetery Lots	$100,000	$100,000	$100,000	$100,000
Exchange of Permanent School Fund Lands	*	*	*	*
Mortgage or Lien Foreclosure Sales	$1,100,000	$1,100,000	$1,200,000	$1,200,000
Decree of Marriage Dissolution	$400,000	$400,000	$400,000	$400,000

**Estimate of Annual Revenue Lost is less than $50,000*
Estimates from the Department of Revenue 2024 Tax Expenditure Budget

Evaluation Findings

- **Property Partitioned Between Co-Owners, Distribution by Personal Representatives, Cemetery Lots, Mortgage or Lien Foreclosure Sales, and Decree of Marriage Dissolution** all **meet their objective** of defining the deed transfer tax base through utilization.
- The **Decree of Marriage Dissolution** exemption also **meets its objective** of lessening the financial burden on individuals undergoing divorce proceedings through utilization.
- **Exchange of Permanent School Fund Lands** exemption **meets its objective** of helping to ensure the Permanent School Fund secures maximum financial return through utilization.

Potential Modifications to Increase Efficiency or Effectiveness

- Tracking utilization through a **requirement of the DT1 form** when claiming an exemption.

- Revisiting proposed objective statements of defining the tax base.

Overall Conclusions

- Potential modifications include considering **requiring** the use of the **MRT1 and DT1** form to claim a mortgage registry or deed transfer tax exemption.

Recommendation to the Legislature

The Commission may choose to consider these findings in preparing a recommendation to the legislature to continue, repeal, or modify the tax expenditure, as is required of the Commission under Minnesota Statutes, section 3.8855, subdivision 5.

Thank you

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Appendix

Appendix: Best Practices to Evaluate Tax Expenditures

At minimum, evaluations should include:

- A description of the incentive, including its history and goals
- An assessment of the program's design and administration
- Estimates of the expenditure's economic and fiscal impacts
- Policy recommendations

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: Best Practices… Other Criteria to Consider

- Displacement – to what extent does the expenditure benefit certain taxpayers at the expense of others?
- Leakage – does the expenditure benefit non-state residents?
- Timing – how does timing impact the level of fiscal risk and economic return to the state?
- Opportunity costs – are there trade-offs related to expenditure costs?
- “But for” – does the credit change taxpayer behavior?

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: General Tax Principles

I. Allocative Efficiency (Neutrality)

II. Fairness and Equity

- Horizontal Equity – Equal treatment of equals

III. Simplicity

- Transparency
- Ease of compliance and administration

May conflict with each other or with policy goals (vertical equity, maintaining state competitiveness, promoting economic development)

Appendix: Minnesota Statutes 3.8855, Subd. 5

Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Objective** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its objective
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same objective
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

Appendix: Minn. Stat. 3.8855, Subd. 5 (continued)

7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if tax expenditure is significant)
   - A significant tax expenditure, as defined in Minn. Stat. 270C.11, subd. 6, is a tax expenditure but excludes any tax expenditure that:
     a) is incorporated into state law by reference to a federal definition of income;
     b) results in a revenue reduction of less than $10,000,000 per biennium; or
     c) is a business tax credit
8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities
9. **Recommend** whether the tax expenditure be continued, repealed, or modified

Appendix-Mortgage Registry and Deed Transfer Tax

Appendix: DOR Tax Research Data Request

- Total claims and total deed tax amounts for as many years back available.
  - Not Available
- DT1 claims counts by reason code for as many years back available.
  - Not Available
- Is the DT1 form required?
  - The form is voluntary and is used to clarify non-standard transactions and to claim an exemption.
- If the form is not required, is there a sense of how often people are including this form as a part of their deed tax exemption process?
  - Rough estimate – 2%
- When someone claims an exemption without utilizing the DT1 form, does DOR participate in any alternative certification process?
  - 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.
- Does DOR see any opportunity for improvements in deed transfer tax exemption form processing?
  - No

Mortgage Registry Tax Appendix Slides

MRT1 Mortgage Registry Tax Form

DEPARTMENT OF REVENUE

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)

Component of Review #4: Government Housing Compare to Direct Expenditure with the Same Objective

- 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.
- 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
  - The Workforce Affordable Homeownership program provides nonprofits, cooperatives, and community land trusts the opportunity to develop homeownership opportunities.

Component of Review #4: Agricultural Loans
Compare to Direct Expenditure with the Same Objective

- The LBO did not identify other direct expenditures with the same objective of increasing competitiveness for Minnesota banks

Component of Review #7: MRT
Incidence of the Tax Expenditure and Effect on State 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

Component of Review #8: Government Housing Cumulative Fiscal Impacts of Other State and Federal Policies

- State Housing Tax Credit: Minnesota-level program for eligible taxpayers to annually contribute at least $1,000 but not more than $2 million to affordable housing development projects.
- Low Income Rental Classification: provides reduced property tax class rate for qualifying rental housing that meets income and affordability criteria under Minnesota Statutes 273.128. For more information on the program, see Appendix F. Shift Estimate of 4d(1) Low-Income Rental Housing.
- Low-Income Housing Tax Credit: facilitated by the U.S Department of Housing and Urban Development 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.

Component of Review #8: Agricultural Loans
Cumulative Fiscal Impacts of Other State and Federal Policies

- State Level:
  - Beginning Farmer Loan Program
  - Rural Finance Authority Loan Programs
- Federal Level:
  - Variety of tax preferences as documented in the Internal Revenue Services Farmer's Tax Guide

Deed Transfer Tax Appendix Slides

Background: TEB 10.1.01 Property Partitioned Between Co-owners

- Enacted in 1984 and recodified in 1999
- Exemption for a deed to or from a co-owner partitioning undivided interest in the same piece of property.
- Claims estimates not available for this tax expenditure
- Estimated fiscal impact is less than $50,000 for fiscal year 2026

Background: TEBB 10.1.02 Distributions by Personal Representatives

- Enacted in 1975 and recodified in 1999
- Exemption for a deed of distribution conveying legal ownership of real property from a decedent’s estate by a personal representative (PR).
- When the real property is distributed, the PR executes a deed of distribution and conveys legal ownership of the property to the heirs as designated in the probated will.
- Claims estimates not available for tax year 2023
- Estimated fiscal impact is less than $50,000 for fiscal year 2026

Background: TEB 10.1.03 Cemetery Lots

- Enacted in 1961 and recodified in 1999
- Exemption for a deed transferring one or more cemetery lots.
- Claims estimates not available for tax year 2023
- Estimated fiscal impact is $100,000 for fiscal year 2026

Background: TEB 10.1.04 Exchange of Permanent School Fund Lands

- Enacted in 1991 and recodified in 1999
- Exemption for a deed or other instrument issued pursuant to a permanent school fund land exchange.
- Qualifying exchanges include transferring permanent school fund lands located in state parks or waysides for other land that meet the permanent school fund goals. (land that generates revenue for public schools)
  - The goal of the permanent school fund is to secure the maximum long-term economic return from the school trust lands consistent with the fiduciary responsibilities imposed by the trust relationship established in the Minnesota Constitution, with sound natural resource conservation and management principles.
- Claims estimates not available for tax year 2023
- Estimated fiscal impact less than $50,000 for fiscal year 2026

Background: TEB 10.1.05 Mortgage or Lien Foreclosure Sales

- Enacted in 1993
- Exemption for a referee’s or sheriff’s certificate of sale in a mortgage or lien foreclosure sale. A Sheriff’s certificate of sale is the official document given to a purchaser of real property sold at a Mortgage foreclosure sale.
- Also exempt is a referee’s, sheriff’s, or certificate holder’s certificate of redemption from a mortgage or lien foreclosure sale issued to the redeeming mortgagor or lien holder.
- Claims estimates not available for tax year 2023
- Estimated fiscal impact is $1,200,000 for fiscal year 2026

Background: TEB 10.1.06 Decree of Marriage Dissolution

- Enacted in 1997
- An exemption for the transfer of one spouse's interest in real estate to the other spouse if the transfer is by decree of marriage dissolution, or if the transfer is by deed or other instrument made pursuant to the decree.
- Claims estimates not available for tax year 2023
- Estimated fiscal impact is $400,000 for fiscal year 2026

DT1 Deed Tax Form

DEPARTMENT OF REVENUE

DT1, Deed Tax

Form DT1 may be used to document your claim for an exempt or minimum tax transfer. Note: In the absence of a qualifying reason, deed tax must be based on at least the fair market value of the property being conveyed (M.S. 287.20, subd. 2). The "full" deed tax rate is .0033 (.0034 in Hennepin/Ramsey Counties).

Deed Tax

Name of Grantor

Name of Grantee

Property ID Number

Enter Reason Code (see below)

Deed Tax Amount

Minimum Tax = $1.65
($1.70 for Hennepin and Ramsey counties)

Sign Here

Grantor, grantee or representative, sign below

I declare that the information on this certificate is correct and complete to the best of my knowledge and belief.
I understand that there are penalties for underpayment of tax (M.S. 287.31 and M.S. 287.325).

Signature of Grantor/Grantee or Authorized Agent	Title	Date	
Print Name	E-mail Address (optional)	Daytime Phone	
Address	City	State	ZIP Code

If you have questions, call 651-556-4721.

Reason codes

Exempt transfers

1 Transfer of real property by court order. The change in ownership must result from the order itself.

2 Transfer of real property through certificate of sale issued to the purchaser in a mortgage or lien foreclosure sale.

3 Transfer of real property through a certificate of redemption issued to the redeeming mortgagor, their heir, devisee or representative.

4 Deed to or from the federal government.

5 Deed conveying real property located within the historic boundaries of a federally recognized American Indian tribe if the grantor or grantee is the tribal government or member of a tribe.

6 Deed between the parties to a marriage dissolution pursuant to the terms of the dissolution decree.

7 Deed conveying a cemetery lot or lots.

8 Deed by a personal representative distributing the decedent's property according to the terms of the will or probate court order.

9 Transfer on death deed defined under M.S. 507.071.

10 Deed between co-owners partitioning their undivided interest in the same piece of property.

11 Transfer pursuant to a permanent school fund land exchange under M.S. 92.121 and related laws.

12 Deed or other instrument that grants, creates, modifies or terminates an easement.

13 Deed transferring real property pursuant to a Ch. 11 or Ch. 12 plan of reorganization.

14 Deed resulting from a business conversion as listed in M.S. 287.21.

Minimum tax transfers

Designated transfers (codes 15 through 20).

15 Deed between a sole owner and entity owned directly or indirectly by that sole owner, or between two entities owned directly or indirectly by the sole owner.

16 Deed between a husband and wife and an entity owned directly or indirectly by the couple, or between two entities owned directly or indirectly by the couple.

17 Deed between co-owners and an entity owned directly or indirectly by the co-owners, or between two entities owned directly or indirectly by the co-owners.

18 Deed between a grantor and a revocable trust created by that grantor.

19 Deed transferring substantially all assets of a corporation pursuant to a reorganization under IRC section 368(a).

20 Deed transferring substantially all assets of a partnership pursuant to a continuation under IRC section 708.

Ownership change provision: Any ownership change in the grantee/transferee entity within six months after a designated transfer triggers a **retroactive deed tax**.

21 Deed of real property resulting from the consolidation or merger of two or more corporations, limited liability companies, or partnerships, or any combination of such entities.

22 Deed gifting real property.

23 Deed given in lieu of foreclosure. Deed includes non-merger language and the FMV of the property minus the mortgage lien is $3,000 or less.

24 Deed correcting error for less than $3,000 of consideration (corrective deed).

25 Deed from an intermediary as part of an IRC section 1031 exchange. The intermediary's total document fee for the transfer is $3,000 or less. A "full" deed tax was paid on the FMV of the real property when the transfer was made to the intermediary.

26 Deed written between a principal and agent, and the agent's total compensation for the entire transaction, monetary or otherwise, is less than $3,000.

27 Deed to a builder for the purpose of obtaining financing to build an improvement for the grantor. Upon completion the real property is reconveyed to the land owner.

28 If above codes do not apply, use Code 28 and explain below or attach a separate sheet.

(Rev 4/21)

Component of Review #4:
Compare to Direct Expenditure with the Same Objective

- Upon conducting a review of other states, 42 other states have various tax exemptions for transfer of real property.
- No direct expenditure programs were identified in Minnesota for the transfer of real property.

Component of Review #6:
Revenue Neutral Tax Rate Reduction

- According to analysis by the DOR Tax Research Division in the 2024 Tax Expenditure Budget, if the tax expenditures were repealed, the change in the deed transfer tax rate would be negligible.

Component of Review #7:
Incidence of the Tax Expenditure and Effect on State 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

Component of Review #8:
Cumulative Fiscal Impacts of Other State and Federal Policies

- For the exemptions targeting cemetery lots, distributions by personal representatives, property partitioned between co-owners, and mortgage and lien foreclosure sales, no other programs were identified in Minnesota for this group of taxpayers for similar activities.
- For the exemption targeting an exchange of permanent school fund lands, no other programs aimed at ensuring the permanent school fund secures maximum financial return were identified.
- For the exemption targeting the decree of marriage dissolution, there are many financial programs that aim to lessen the financial burden on individuals undergoing divorce proceedings. However, these programs are limited to privately funded legal support programs and are widely administered in the form of various legal aid programs. As such, these programs fall outside the scope of this analysis.