

MINNESOTA • REVENUE

Deed Tax:

Contract for Deed

No mortgage registration tax (MRT) is due on the recording of a contract for deed because a contract for deed is exempted under the MRT law. (M.S. 287.04(d))

Deed following contract for deed

A deed tax is due on the conveyance of legal ownership of real property with a deed following the satisfactory completion of the terms of a contract for deed. The deed that conveys legal ownership of the property from the grantor to the grantee is taxable.

The basis of the deed tax is the total consideration for the conveyance. In most cases, the total consideration is equal to the principal amount of the purchase price agreed upon at the time of the sale.

Note: *The basis of the deed tax does not include the interest charged and paid as part of the installment payments under the contract agreement.*

Deed Tax: Completion of Contract for Deed

Examples:

(A) Paul sells real property to Emma for \$ 200,000 on a contract for deed.

Terms: \$ 25,000 Down Payment
 \$ 175,000 \$ 1,942 monthly for 120 months

When the contract is "paid in full" and Paul provides a warranty deed to Emma, deed tax is due on the \$ 200,000 contract amount.

(B) Paul sells real property to Emma for \$ 200,000 on a contract for deed.

Terms: \$ 25,000 Down Payment
 \$ 175,000 \$ 1,942 monthly for 120 months

During the term of the contract, Paul sells his vendor's interest to Bob. After receiving payments for 2 years, Bob sells his vendor's interest to Ted who holds the contract until completion.

When the contract is "paid in full" and Ted provides a warranty deed to Emma, deed tax is due on the \$ 200,000 contract amount.

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Assignment of Grantor's (Vendor's) interest with Warranty or Quit Claim Deed

Under a contract for deed, the grantor retains the legal title to the real property until the purchase price is paid in full and the other terms of the contract are completed.

Before a contract is paid off, the grantor (vendor) may choose to assign its contract rights to a third party.

Assignment of a grantor's right to receive the payments is exempt from deed tax because no real property is conveyed. However, if the grantor issues a deed to the property along with the assignment, the conveyance document is subject to tax.

Deed Tax on "Assignment of Vendor's Interest" accompanied by a deed:

► *Price paid for assignment less current "contract for deed" principal balance* ◀

Examples:

Paul sells real property to Emma – Contract for Deed \$ 200,000.

(A) Paul sells his vendor's interest to Aaron for \$ 100,000. The remaining principal balance on the contract for deed is \$ 94,000.

Deed Tax Due: \$ 19.80¹ (\$ 100,000 - \$ 94,000 = \$ 6,000)

(B) Paul sells his vendor's interest to Aaron for \$ 94,000. The remaining principal balance on the contract for deed is \$ 100,000.

Deed Tax Due: \$ 1.65² (\$ 94,000 - \$ 100,000 = \$ - 6,000)

Note: When the contract is "paid in full" and Emma receives a warranty deed from Aaron, the deed tax due is \$ 660.00 (based on \$ 200,000 Contract for Deed Price).

¹ Tax Rate .0033, additional .0001 in Hennepin and Ramsey County.

² When consideration is \$ 500 or less, the tax is \$ 1.65.

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Assignment of Grantee's (Vendee's) Interest with Warranty or Quit Claim Deed

Under a contract for deed, the grantee (vendee) generally has the legal right to possess and use the property during the course of the contract and to receive legal title to the property when the terms of the contract are completed.

The assignment of a grantee's interest in a contract for deed is exempt from the deed tax if the only thing conveyed is the right to make the payments and occupy the property during the term of the contract. However, if the grantee issues a deed to the property along with the assignment, the conveyance document is subject to the deed tax.

Deed Tax on "Assignment of Vendee's Interest" accompanied by a deed:

► *Price paid for assignment net of current "contract for deed" principal balance* ◀

Examples:

Paul sells real property to Emma – Contract for Deed \$ 200,000.

(A) Emma sells her vendee's interest to Natalie for \$ 225,000 (i.e., purchase price). Natalie pays part of the purchase price by assuming the balance on the contract for deed of \$ 75,000.

Deed Tax Due: \$ 495.00¹ (\$ 225,000 - \$ 75,000 = \$ 150,000)

(B) Emma sells her vendee's interest to Natalie for \$ 175,000 (i.e., purchase price). Natalie pays the entire purchase price by assuming the balance on the contract for deed of \$ 175,000.

Deed Tax Due: \$ 1.65² (\$ 175,000 - \$ 175,000 = 0)

Note: When the contract is "paid in full" and Natalie receives a warranty deed from Paul, the deed tax due is \$ 660.00 (based on \$ 200,000 Contract for Deed Price).

¹ Tax Rate .0033, additional .0001 in Hennepin and Ramsey County.

² When consideration is \$ 500 or less, the tax is \$ 1.65.

Cancellation of contract for deed

No deed tax is due on the cancellation of a contract for deed. It is included as an exception to the tax under M.S. 287.22, Clause (1). The result of the cancellation is that the grantor retains legal ownership of the property. Therefore, there is no reason to impose a deed tax.

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