

# IMPORTANT PROPERTY TAX LAW CHANGE

## 2011 Law Change: A New Homestead Market Value Exclusion replaces the Homestead Market Value Credit

The 2011 Legislature repealed the Homestead Residential Market Value Credit and replaced it with a new program called the Homestead Market Value Exclusion. This change is impacting the property taxes on all homesteaded and non-homesteaded property for Pay 2012.

**Old Law:** All homesteaded property less than \$413,800 in value received a Homestead Residential Market Value Credit. This credit reduced the property taxes billed and was shown on line 4 of the property tax statement mailed in March of each year.

- Homesteaded property received a credit or reduction on the amount of property taxes.
- The credit was equal to .4% of the first \$76,000 in market value. The \$304 credit was gradually phased out for homes valued at more than \$76,000, until it was reduced to \$0 at a value of \$413,800. The chart below gives examples of the amount of credit on various valued homes.

Estimated Market Value	Taxable Market Value	"Old Law" Homestead Credit
\$ 76,000	\$ 76,000	\$ 304.00
\$ 150,000	\$ 150,000	\$ 237.40
\$ 250,000	\$ 250,000	\$ 147.40
\$ 350,000	\$ 350,000	\$ 57.40
\$ 400,000	\$ 400,000	\$ 12.40
\$ 425,000	\$ 425,000	\$ -

**New Law:** All homestead property less than \$413,800 in value will receive a Homestead Market Value Exclusion. This value exclusion will be identified on the valuation notices mailed in March of each year. The taxable value listed on your Proposed Property Tax Statement has been reduced by the homestead exclusion amount your property qualifies for.

- Homestead property no longer receives a credit that reduces the property taxes paid. Instead, a portion of the homestead's property value will be excluded from taxation.
- The Homestead Market Value Exclusion excludes from taxation 40% of the value on the first \$76,000 of a property's value. The amount excluded is reduced as the value rises above \$76,000 (the exclusion reduction is equal to 9% of the value above \$76,000). Homesteads that exceed \$413,800 in value will receive no homestead exclusion. The chart below gives examples of the exclusion amount on various valued homes.

Estimated Market Value	Homestead Exclusion* (rounded to nearest \$100)	Taxable Market Value (after Homestead Exclusion)
\$ 76,000	\$ 30,400	\$ 45,600
\$ 150,000	\$ 23,700	\$ 126,300
\$ 250,000	\$ 14,700	\$ 235,300
\$ 350,000	\$ 5,700	\$ 344,300
\$ 400,000	\$ 1,200	\$ 398,800
\$ 425,000	\$ -	\$ 425,000

Why the State Change:

- The elimination of the market value homestead credit was included in the 2011 budget bills passed in the legislative special session in July of 2011. By eliminating the credit, the state no longer has to pay roughly \$260 million each year in credits. This was one cost saving measure the state used to close the \$5 billion two-year state budget deficit.
- Under the old credit law, the state was reducing the taxes paid by homesteaded property and instead the state was promising to pay that portion of the tax to the local taxing districts (i.e., your city, county, school, and other local taxing districts). However, in seven of the last eight years, the state, because of its budget problems, was not paying the full credit amount to each local government. This meant most years many local governments were left with a deficit in their budgets because of the state’s inability to pay the amount it owed.

What is the Impact: The impact of this state change will vary for each property depending on a variety of factors. However, in general, the elimination of the homestead credit and replacement with a homestead exclusion is going to mean higher property taxes for most property owners, even if property tax levies adopted by local governments do not increase. The bullets below explain the most significant impacts of this change:

- The state is no longer providing a homestead credit and instead the entire levy is being paid by local property taxpayers. In Washington County, this means a total of more than \$11 million in credits that were paid by the state to all the local governments will now be paid by property owners.
- The new homestead exclusion lowers the county’s tax base by roughly 4%, which has lead to increases in the property tax rates of most local taxing jurisdictions. A property tax rate is calculated by dividing the amount of the property tax levy by the total tax base.
- For properties that are non-homestead or commercial and industrial, the higher property tax rates are likely to mean higher property tax bills even if their values have declined.
- For properties that are homestead, the new homestead exclusion may not be enough to offset the increases in the tax rates and the elimination of the homestead credit, thus many properties will experience tax increases.

Washington County Tax Impact: Washington County lowered its proposed property tax amount for 2012 from the 2011 amount by \$260,000(a 0.3% decrease). For a \$213,500 valued home that experienced the median value change from 2011 to 2012 (a 2.8% reduction), the county tax portion of the total tax bill is increasing by \$22. If the homestead credit had not been repealed and replaced by the homestead exclusion, that same 0.3% levy decrease would have lead to a \$25 reduction in property taxes in 2012 on that same property. The difference between those two amounts illustrates the impact on the county tax of the repeal of the homestead credit on a typical home in the county.

Home Valued at \$213,500 for Pay 2012 ( assuming a 2.8% value reduction from 2011 to 2012)					
Scenario	County Levy Increase	Actual Pay 2011 Property Tax	Estimated Pay 2012 Property Tax	\$ Change	% Change
Net Tax Under Spec. Session Law conversion of Market Value Credit to Exclusion	-0.3%	607	629	22	3.62%
Net Tax Under Pay 2011 Laws (MVHC in place)	-0.3%	607	582	-25	-4.11%

Impact of State Elimination of Homestead Credit on County Tax on Typical Washington County Home: + \$47

*Information contained in this flyer was gathered from bulletins and documents prepared by the Minnesota House Research Department and Minnesota Department of Revenue and from information prepared by the Washington County Department of Property Records and Taxpayer Services.*