The Homestead Market Value Exclusion

Minn. Stat. § 273.13, subd. 35

HOUSE RESEARCH

The 2011 omnibus tax act established a new property tax program called the homestead market value exclusion and repealed the existing market value homestead credit (MVHC). The homestead market value exclusion provides a tax reduction to all homesteads valued below $413,800 by shifting a portion of the tax burden that would otherwise fall on the homestead to other types of property. The repealed MVHC gave homesteads approximately the same amount of tax relief through a state-paid credit rather than through shifting. Through the exclusion, the cost of providing relief to homeowners is shouldered relatively evenly among all types of property.

How It Works

The exclusion provides for a portion of each home's market value to be excluded from its value for property tax calculations. The amount of value excluded is directly proportional to the MVHC the home received under the old law. In this way, each home contributes a smaller amount to each taxing jurisdiction's tax base. The tax rate tends to be a little higher because of the reduced tax base, which is why taxes increase for the other types of property.

The tax burden on any given homestead could be lesser or greater depending upon the mix of properties in the jurisdiction (more nonhomestead properties increases the likelihood that homestead taxes will be reduced and vice versa) and the level of the tax rate (higher tax rates make it more likely that homestead taxes will be reduced and vice versa).

Calculation Comparison: Exclusion vs. Credit

Tables 1 and 2 show the actual calculations for both the exclusion and the MVHC; table 1 shows the actual equations, and table 2 shows the calculations applied to a hypothetical homestead. The tax impact for the hypothetical homestead shows a modest tax increase, but that is only one possible outcome. The actual outcome for any given property will vary based on tax base characteristics of the taxing jurisdictions where the property is located, and on levy decisions made by local government officials. The next section focuses on those levy decisions.

Impact on Local Government Levies and Budgeting

From a local government standpoint, the main impact of the change is that all of the levy will now be paid by property taxpayers—there will no longer be a portion of the levy that is paid by the state as a credit reimbursement. Because of this, there will no longer be a possibility of the state withholding some or all of the reimbursement as it sometimes has in the past.

How the change will affect property taxes will depend upon how local governments respond. Circumstances are likely to vary based on local factors—budget conditions, previous or future state aid cuts, local service preferences, sensitivity to tax increases, and so on. The examples that follow attempt to illustrate some of the many possibilities.

In these examples, we posit two hypothetical taxing jurisdictions, one of which had a permanent reduction in its market value homestead credit (MVHC) reimbursement for 2011 while the other did not. Most other characteristics of the jurisdictions are the same to keep the examples simple. The tax base composition is the same for both jurisdictions, and the tax base composition does not change between payable 2011 and payable 2012. The table below shows the composition of the tax base. The examples make no attempt to address other changes between pay 2011 and pay 2012, and specifically do not address any changes in state aids.

Composition of Tax Base (Net Tax Capacity) for Hypothetical Jurisdictions

	Payable 2011	Payable 2012
Properties:		
1,000 homes @ $100,000	$1,000,000	$717,600
1,000 homes @ $200,000	2,000,000	1,807,600
Nonhomestead properties	3,000,000	3,000,000
Total NTC	$6,000,000	$5,525,200

Example: Jurisdiction A with No Permanent Reduction in MVHC Reimbursement

Pay 2011. Jurisdiction "A" decided that it needed $2,000,000 in property tax system revenues to fund its budget for taxes payable in 2011, so it set its levy at $2,000,000. It expected that approximately $1,857,000 of the $2,000,000 would be paid by its taxpayers, with the other $143,000 coming as a reimbursement from the state for the MVHC. Jurisdiction "A" has traditionally received full MVHC reimbursement each year, and no reimbursement reductions were certified for pay 2011 when the levy was set.

Pay 2012. Because a portion of the levy no longer comes from the state, the full levy will be paid by local taxpayers. The jurisdiction could decide to raise the full amount of revenue that it had in 2011, in which case it would again set its levy at $2,000,000. Or it could decide to raise only the amount of revenue that actually was paid by its taxpayers in 2011, in which case it will set its levy at $1,857,000, and have to budget for less revenue. Obviously, it could also choose to levy something in between these two possibilities, or greater or less than these possibilities, but the examples focus on just these two possibilities.

Jurisdiction A Tax Rates and Tax Impacts

	Pay 2011	Pay 2012: Constant Revenues	Pay 2012: Constant Taxes
Levy	$2,000,000	$2,000,000	$1,857,000
Total taxes	$1,857,000	$2,000,000	$1,857,000
State-paid credit	$143,000	$0	$0
Total revenues	$2,000,000	$2,000,000	$1,857,000
Tax base (net tax capacity)	$6,000,000	$5,525,200	$5,525,200
Jurisdiction tax rate	33.333%[1]	36.187%	33.610%
Tax on $100,000 homes	$248,000	$260,000 (+4.8%)	$241,000 (-2.8%)
Tax on $200,000 homes	$609,000	$654,000 (+7.4%)	$608,000 (-0.2%)
Tax on other properties	$1,000,000	$1,086,000 (+8.6%)	$1,008,000 (+0.8%)

In this example, the jurisdiction's share of the tax on a $100,000 home is $248 in 2011 and would go down to $241 if the jurisdiction went with the "constant tax" approach, or increase to $260 if the jurisdiction went with the constant revenue approach. For a $200,000 home, taxes would go from $609 in 2011 to $608 under the constant tax approach, or $654 under the constant revenue approach. For properties other than homesteads, taxes would increase 0.8 percent under "constant taxes" or 8.6 percent under "constant revenues."

Example: Jurisdiction B with Permanent Reduction in MVHC Reimbursement

Pay 2011. Jurisdiction "B" also decided to raise $2,000,000 in property tax system revenues to fund its budget. It expected that if it levied $2,000,000, approximately $1,857,000 of the $2,000,000 would be paid by its taxpayers, with $143,000 due from the state as a reimbursement for the MVHC. Most years, jurisdiction "B" has not received its full reimbursement from the state, and in fact before its payable 2011 levy was even set, the state certified that there would be a $100,000 reduction in its MVHC reimbursement for 2011. Because of its history of getting little or no MVHC reimbursement each year, jurisdiction officials were dubious about even getting the $43,000 reimbursement that would be expected after the $100,000 cut. So they assumed there would be no credit reimbursement, and set the levy at $2,143,000, ensuring that they would get the full $2,000,000 they needed, even if the state withheld the entire $143,000 MVHC reimbursement. They decided that if they actually received anything from the state as a reimbursement, they would add it to their reserve fund.

Pay 2012. Because there is no longer a portion of the levy coming from the state, the full levy will come from local taxpayers. The jurisdiction could decide to raise the full amount of revenue that it expected in 2011, in which case it would set its levy at $2,043,000. Or it could decide to

[1] The jurisdiction's tax rate is assumed to be 30 percent of the total tax rate on the property in 2011.

raise only the amount of revenue that actually was paid by its taxpayers in 2011, in which case it will set its levy at $2,000,000. (Note that both of these levy amounts are less than the pay 2011 levy, which was set artificially high to offset known and potential MVHC reimbursement reductions.) Obviously, it could also choose to levy something in between these two possibilities, or greater or less than these possibilities, but the examples focus on just these two possibilities.

Jurisdiction B Tax Rates and Tax Impacts

	Pay 2011	Pay 2012: Constant Revenues	Pay 2012: Constant Taxes
Levy	$2,143,000	$2,043,000	$2,000,000
Total Taxes	$2,000,000	$2,043,000	$2,000,000
State-paid credit	$43,000 (?)	$0	$0
Total Revenues	$2,043,000 (?)	$2,043,000	$2,000,000
Tax base (net tax capacity)	$6,000,000	$5,525,200	$5,525,200
Jurisdiction tax rate	35.717%[2]	36.976%	36.198%
Tax on $100,000 homes	$272,000	$265,000 (-2.6%)	$260,000 (-4.4%)
Tax on $200,000 homes	$656,000	$668,000 (+1.8%)	$654,000 (-0.3%)
Tax on other properties	$1,072,000	$1,109,000 (+3.5%)	$1,086,000 (+1.3%)

In this example, the jurisdiction's share of the tax on a $100,000 home is $272 in 2011 and would go down to $260 if the jurisdiction went with the "constant tax" approach, or down to $265 if the jurisdiction went with the constant revenue approach. For a $200,000 home, taxes would go from $656 in 2011 to $654 under the constant tax approach, or increase to $668 under the constant revenue approach. For properties other than homesteads, taxes would increase 1.3 percent under "constant taxes" or 3.5 percent under "constant revenues."

[2] The jurisdiction's tax rate is assumed to be 30 percent of the total tax rate on the property in 2011.

Table 1
Computation of homestead net tax: old law versus new law

Old Law	**New Law**
Step 1: Assessor determines property's estimated market value (EMV)	**Step 1:** Assessor determines property's estimated market value (EMV)
	Step 2: Determine property's market value exclusion (MVexcl) based on EMV: EMV up to $76,000 MVexcl = 0.4 x EMV EMV > $76,000 and <$413,800 MVexcl = $30,400 – ((EMV-$76,000) x .09) EMV > $413,800 MVexcl = 0
	Step 3: Determine property's taxable market value (TMV) = EMV – MVexcl
Step 2: Determine property's net tax capacity (NTC): EMV < $500,000 NTC = EMV X .01 EMV > $500,000 NTC = $5,000 + ((EMV – $500,000) x .0125)	**Step 4:** Determine property's net tax capacity (NTC): TMV < $500,000 NTC = TMV x .01 TMV > $500,000 NTC = $5,000 + ((TMV – $500,000) x .0125)
Step 3: Determine property's gross tax: Gross tax = NTC x Total tax rate [sum of county rate + city/town rate + school district rate + special district rates]	
Step 4: Determine property's market value homestead credit (MVHC): EMV up to $76,000 MVHC = EMV x .004 EMV > $76,000 and < $413,800 MVHC = $304 – ((EMV - $76,000) x .0009) EMV >$413,800 MVHC = 0	
Step 5: Determine property's net tax capacity net tax: Net tax = Gross tax – MVHC	**Step 5:** Determine property's net tax capacity net tax: Net tax = NTC X Total tax rate [sum of county rate + city/town rate + school district rate + special district rates]
Step 6: Determine property's total net tax equal to its net tax capacity net tax plus its referendum market value tax (not discussed here)	**Step 6:** Determine property's total net tax equal to its net tax capacity net tax plus its referendum market value tax (not discussed here)

Table 2
Computation of homestead net tax: old law versus new law, homestead valued at $200,000

Old Law	New Law
Step 1: EMV = $200,000	**Step 1:** EMV = $200,000
	Step 2: Determine property's market value exclusion (MVexcl): MVexcl = $30,400 – (($200,000 – $76,000) x .09) = $19,240
	Step 3: Determine property's taxable market value (TMV): TMV = $200,000 – $19,240 = $180,760
Step 2: Determine property's net tax capacity (NTC) NTC = $200,000 x .01 = $2,000	**Step 4:** Determine property's net tax capacity (NTC): NTC = $180,760 x .01 = $1,808
Step 3: Determine property's gross tax: Gross tax = $2,000 x 105.81% = $2,116	
Step 4: Determine property's market value homestead credit (MVHC): MVHC = $304 – (($200,000 – $76,000) x .0009) = $192	
Step 5: Determine property's net tax capacity net tax: Net tax = $2,116 – $192 = $1,924	**Step 5:** Determine property's net tax capacity net tax: Net tax = $1,808 x 110.92% = $2,005
Step 6: Determine property's total net tax equal to its net tax capacity net tax plus its referendum market value tax (not discussed here)	**Step 6:** Determine property's total net tax equal to its net tax capacity net tax plus its referendum market value tax (not discussed here)

Note that the tax rates are different between the old law and the new law. The rates used in the example are based on House Research estimated statewide average rates for taxes payable in 2011 under the old law, and under the new law assuming jurisdictions made no changes to their levies.