

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The 2011 Legislature repealed the Homestead Residential Market Value Credit and replaced it with a new program called the Homestead Market Value Exclusion.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.

LOCAL GOVERNMENTS CANNOT UNDO THIS STATE LAW CHANGE

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 market value for the first \$76,000 in market value, reaching its maximum level of \$304. The \$304 credit was gradually phased out for homes valued 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 homesteaded 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 amount of the homestead exclusion.

- Homesteaded 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 homes of various values.

| Estimated Market Value | Homestead Exclusion | Taxable Market Value (after Homestead Exclusion) |
|------------------------|---------------------|--|
| \$ 76,000 | \$ 30,400 | \$ 45,600 |
| \$ 150,000 | \$ 23,740 | \$ 126,260 |
| \$ 250,000 | \$ 14,740 | \$ 235,260 |
| \$ 350,000 | \$ 5,740 | \$ 344,260 |
| \$ 400,000 | \$ 1,240 | \$ 398,760 |
| \$ 425,000 | \$ - | \$ 425,000 |

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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 was able to save roughly \$260 million each year. 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 did not pay the full credit amount to at least some local governments, due to its budget problems. This meant each year 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.
- The new homestead exclusion lowers the tax base, which has led to increases in the property tax rates of most local taxing jurisdictions. A property tax rate is calculated by dividing the property tax levy by the total tax base.
- For properties that are non-homestead, including commercial and industrial property, 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 tax rates and the elimination of the homestead credit, thus many homestead properties as well will experience tax increases.

Additional Resources for Homeowners#

For additional information on understanding the changes in homestead benefits and to see detailed calculations of how it affects taxes in 2012, please visit: <http://taxes.state.mn.us/property/Documents/hmve-taxpayers.pdf>

Affected homeowners with household incomes below \$100,780 or whose property taxes increase by more than 12% or \$100 (whichever is greater) may apply for the state's property tax refund and, if qualified, will get some of the increase refunded. The form to apply for the state's property tax refund is the M1PR, available at:

http://taxes.state.mn.us/Forms_and_Instructions/m1pr_10.pdf