# 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The 2011 omnibus tax act established a new property tax program called the homestead market value exclusion and repealed the existing market value homestead credit. 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 The repealed market value homestead credit gave homesteads approximately the same amount of tax relief through a state-paid credit rather than through shifting.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 amount of market value homestead credit 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).

## Why the Change

The main reason for replacement of the credit with the exclusion is the state budget situation – the credit costs the state approximately $260 million per year. In fact, in seven of the last eight years the state did not even pay a full reimbursement to all local governments. Eliminating the credit makes local government budgeting less awkward since the local government will know how much revenue it will receive from property taxes each year. In the past, a jurisdiction that needed $1,000,000 in property tax revenue to operate might need to set its levy at $1,050,000 in order to net $1,000,000 in revenue, because it did not know if it would receive the $50,000 credit reimbursement from the state.

Another argument for eliminating the credit is that it is a property tax relief program that is not well targeted, directing a great deal of money to homes, especially homes with low market values, without regard to need. The other major property tax relief programs, i.e., local government aid (LGA), county program aid (CPA), and the property tax refund, all attempt to distribute money based on some measure of jurisdictional or individual need. The market value homestead credit assumes all homes of the same market value have the same need, whether or not the homeowner's income is high or low, and whether or not the home is located in an area with high or low property tax rates.

## Actual Calculations

The next two pages show how the exclusion is actually calculated; the first page shows the calculations, the second shows the calculations applied to a hypothetical homestead.

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## 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:<br><br>EMV up to \$76,000 — MVexcl = 0.4 x EMV<br>EMV > \$76,000 and <\$413,800 — MVexcl = \$30,400 – ((EMV-\$76,000) x .09)<br>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):<br><br>EMV < \$500,000 — NTC = EMV X .01<br>EMV > \$500,000 — NTC = \$5,000 + ((EMV – \$500,000) x .0125) | **Step 4:** Determine property's net tax capacity (NTC):<br><br>TMV < \$500,000 — NTC = TMV x .01<br>TMV > \$500,000 — NTC = \$5,000 + ((TMV – \$500,000) x .0125) |
| **Step 3:** Determine property's gross tax:<br><br>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):<br><br>EMV up to \$76,000 — MVHC = EMV x .004<br>EMV > \$76,000 and < \$413,800 — MVHC = \$304 – ((EMV - \$76,000) x .0009)<br>EMV >\$413,800 — MVHC = 0 | |
| **Step 5:** Determine property's net tax capacity net tax:<br><br>Net tax = Gross tax – MVHC | **Step 5:** Determine property's net tax capacity net tax:<br><br>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) |

**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):<br><br>MVexcl = $30,400 – (($200,000 – $76,000) x .09) = $19,240 |
| | **Step 3:** Determine property's taxable market value (TMV):<br><br>TMV = $200,000 – $19,240 = $180,760 |
| **Step 2:** Determine property's net tax capacity (NTC)<br><br>NTC = $200,000 x .01 = $2,000 | **Step 4:** Determine property's net tax capacity (NTC):<br><br>NTC = $180,760 x .01 = $1,808 |
| **Step 3:** Determine property's gross tax:<br><br>Gross tax = $2,000 x 105.81% = $2,116 | |
| **Step 4:** Determine property's market value homestead credit (MVHC):<br><br>MVHC = $304 – (($200,000 – $76,000) x .0009) = $192 | |
| **Step 5:** Determine property's net tax capacity net tax:<br><br>Net tax = $2,116 – $192 = $1,924 | **Step 5:** Determine property's net tax capacity net tax:<br><br>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.