

# Homestead Market Value Exclusion

Otter Tail County

Presentation

October 14, 2011

# What Changed?

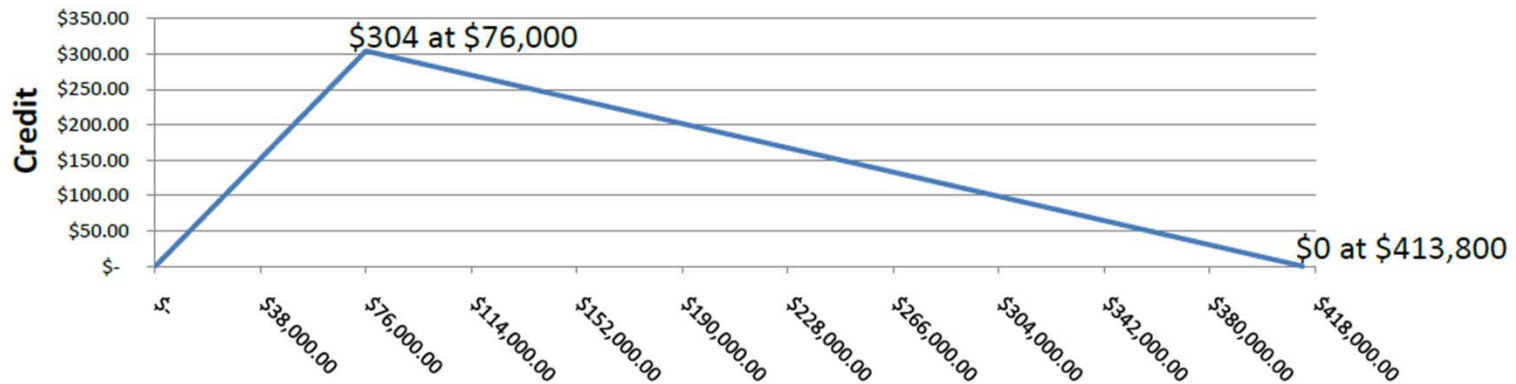
The 2011 Legislature repealed the Homestead Residential Market Value Credit and enacted a similarly designed Homestead Market Value Exclusion.

Note: For properties classed as Agricultural, this affects only the house/garage/one acre portion.

This change is effective for taxes payable in 2012.

M.S. 273.13, Subd. 35

# The Old Law:



- Homesteads received a credit on their tax statements **reducing their gross tax**.
- The credit equaled 0.4% of the first \$76,000 in market value. It was reduced 0.09% of the market value over \$76,000 until it hit \$0 at \$413,800 of market value.
- The state reimbursed local governments for the sum of the market value credits granted to individual taxpayers on tax statements.
- As a result, some of the local governments' levy came from the state credit reimbursement payments.

# The New Law:



- **A portion of homestead market value will be excluded from taxation.**
- The exclusion equals 40% of the first \$76,000 in market value. It is reduced by 9% of the market value over \$76,000 until it hits \$0 at \$413,800 of market value.
- The state will no longer pay a share of the tax on homesteads, but homesteads have less value subject to taxation.
- **The removal of the state spending on credits means property taxpayers, as a whole, will pay more if levies remain the same.**
- The reduction in the tax base for homesteads means non-homesteads will pay a higher share of the levy, and a large share of homesteads could pay more given that exclusion amounts and other factors vary.

# Homestead MV Exclusion

Example – Tax Calculated Under Old Law.

Assuming a very small city (for illustration purposes only) with only three properties – all of them residential and homestead. If the city had a levy of \$4,500, the resulting tax rate is 128.571%.



	House 1	House 2	House 3
Est. Market Value	50,000	100,000	200,000
- Exclusions	0	0	0
= Taxable Market Value	50,000	100,000	200,000
X Class Rate	1.00%	1.00%	1.00%
= Net Tax Capacity (NTC)	500.00	1,000.00	2,000.00
Gross Tax (NTC x tax rate)	642.86	1,285.71	2,571.42
- Homestead Credit	200.00	282.40	192.40
= Net Tax	442.86	1,003.31	2,379.02

# Homestead MV Exclusion

Example – Tax Calculated Under New Law with Comparison to Old Law

Assuming the same very small city with the same three properties – in order to collect the same levy of \$4,500, the tax rate will increase because the exclusion reduces net tax capacities. The resulting tax rate is 159.281%.



	House 1	House 2	House 3
Est. Market Value	50,000	100,000	200,000
- Exclusions	20,000	28,240	19,240
= Taxable Market Value	30,000	71,760	180,760
X Class Rate	1.00%	1.00%	1.00%
= Net Tax Capacity (NTC)	300.00	717.60	1,807.60
Gross Tax (NTC x tax rate)	477.84	1,143.00	2,879.16
- Homestead Credit	0	0	0
= Net Tax	477.84	1,142.99	2,879.15
= Net Tax	442.86	1,003.31	2,379.02

New Way  
Old Way

# The Affect on Tax Calculations:

The prior law credit was deducted from a gross tax while the exclusion will reduce the taxable value. Changing taxable value means outcomes won't be identical.

	Old Law: The Credit	New Law: The Exclusion
Estimated Market Value	\$116,000	\$116,000
Exclusions	\$0	\$26,800
Taxable Market Value	\$116,000	\$89,200
Class Rate	1%	1%
Net Tax Capacity	\$1,160	\$892
Tax Rate	105.810%	110.920%
Gross Tax	\$1,227	\$989
Credit	\$268	\$0
Net Tax	\$959	\$989

Note: Tax Rate Increase

Calculation Example:	
Total Estimated Market Value	\$116,000
1 <sup>st</sup> \$76,000 x 40%	\$30,400
Less: Remaining \$40,000 x 9%	- \$3,600
Exclusion Amount	\$26,800

# Impact: Levies, Budgets, & Property Taxes

There are three key considerations:

- Local governments will receive the full amount they levy from their taxpayers.
- Local governments do not need to plan for further residential homestead market value credit reductions because there is no longer a payment to cut.
- **Local governments should recognize that removing \$260 million of residential homestead market value credits from the system, and changing the composition of the tax base, will potentially create large tax increases for some properties.**

# Otter Tail County Net Tax Capacity

- Net Tax Capacity (NTC) is calculated for each individual parcel in the county.
- The estimated market value is multiplied by the property classification percentage.
- The classification percentage is set by the Legislature.
- The sum of all parcels gives us the total NTC for Otter Tail County as shown below.
- Approximately 3.98 million of the NTC change is the result the new Homestead Market Value Exclusion Program.
- The balance would be attributed to changes in property values, classifications, class rate table, etc.

	Pay 2011	Proposed Pay 2012	Dollar Change	Percent Change
Fully Taxable – NTC	84,478,877	79,745,814	(4,733,063)	(5.6%)
JOBZ Taxable – NTC	792,714	825,373	32,659	3.9%
Captured TIF - NTC	1,160,231	883,450	(276,781)	(23.9%)
Total – NTC	86,431,822	81,454,637	(4,977,185)	(5.8%)

## **Market Value Homestead Exclusion**

**While Exclusion is intended to mean no tax change to homeowners, loss in Tax Base causes tax rates and subsequently taxes on most properties to increase as shown below**

- **Otter Tail County 2011 Tax Base (Fully Taxable Plus JOBZ Taxable) - \$85,271,591**
- **Otter Tail County 2012 Tax Base (Fully Taxable Plus JOBZ Taxable) - \$80,571,187**
- **Otter Tail County 2011 Certified Net Levy (including regional library) - \$31,190,300**
- **Otter Tail County 2011 Certified Net Levy (excluding regional library) – \$30,708,822**
- **Otter Tail County 2012 Certified Net Levy (including regional library) - \$32,290,690\***
- **Otter Tail County 2012 Certified Net Levy (excluding regional library) – \$31,799,582\***
- **Otter Tail County Pay 2011 Net Tax Capacity Rate (including regional library) – 37.013**
- **Otter Tail County Pay 2011 Net Tax Capacity Rate (excluding regional library) – 36.335**
- **Otter Tail County Pay 2012 Net Tax Capacity Rate (including regional library) – 40.586**
- **Otter Tail County Pay 2012 Net Tax Capacity Rate (excluding regional library) – 39.856**

**\*Based on a proposed gross levy increase of approximately 2% and a \$511,961 reduction in County Program Aid.**

**Assuming a 0% gross levy increase and a \$511,961 reduction in County Program Aid Otter Tail County's rates would be approximately**

- **Otter Tail County Pay 2012 Net Tax Capacity Rate (including regional library) – 39.848**
- **Otter Tail County Pay 2012 Net Tax Capacity Rate (excluding regional library) – 39.118**

# Portion of a Proposed Statement for Pay 2012

**Owner(s):** John J. and Mary A. Johnson  
Route 1, Box 283  
Spruceville, Minnesota 55555

**Legal description:** Section 32, Township 123, Range 37  
East 1/2 of Northwest 1/4

**Property address:** Route 1, Box 283  
Spruceville, Minnesota 55555


	Taxes payable in 2011	Taxes payable in 2012*
Property classification:	Res. Hstd.	Res. Hstd.
Estimated market value:	\$100,000	\$100,000
Homestead exclusion:	n/a	-\$18,000
Taxable market value:	\$100,000	\$82,000

*Your **taxable market value** for property tax payable in 2012 was sent to you in the spring of 2011. The period to discuss possible changes has passed and changes can no longer be made to your property valuation. It is included here for your information only.*

*\*A new law effective beginning for pay 2012 converts the homestead market value credit to a market value exclusion. The pay 2012 taxable market value for homesteads reflects this exclusion.*

# New Image of Tax Statement:

County  
Director-Treasurer  
East, Box 78  
MN 55555-5555  
555-6789  
www.co.mn.us  
90.R1  
Leville Estates Addition to the City



## 2012 PROPERTY TAX STATEMENT

PROPERTY TAX VALUES & CLASSIFICATION		
Taxes Payable Year:	2011	2012
Estimated Market Value:	\$141,100	\$143,200
Improvements Excluded:	\$8,000	\$4,000
Homestead Exclusion:	N/A	\$24,352
Taxable Market Value:	\$133,100	\$114,848
New Improvements/ Expired Exclusions:	\$4,000	\$4,000
Property Classification:	RES HMSTD	RES HMSTD

**\$\$\$** *You may be eligible for one or even two refunds to reduce your property tax.*