

Legislative Changes to the Market Value Homestead Credit

The method by which homeowners receive property tax credit is changing. As part of the 2011 State of Minnesota Omnibus Tax Bill, the Legislature repealed the Market Value Homestead Credit and replaced it with a new Market Value Exclusion Program.

What is the Market Value Homestead Credit?

Under the repealed program, homesteaded homeowners received a reduction to the amount of tax due on their property tax statement. The reduction was equivalent to 0.4% for the first \$76,000 of market value with a prorated reduction for market values between \$76,001 up to \$413,800. Those taxpayers who qualified for this credit saw a reduction to the bottom line on their property tax bill. In other words, the Market Value Homestead Credit was subtracted from the total property tax bill to arrive at the amount to be paid by the property owner. Taxing jurisdictions, such as the city, were made whole by the state who reimbursed them for the amount of homestead credits given to residents. In an effort for the state to balance its budget, this credit reimbursement was withheld, creating a gap between what was levied versus what was collected through property tax. The state has withheld the city of Ramsey's entire Market Value Homestead Credit reimbursement since 2010 with only a minimal amount received in 2009.

How is the New Market Value Exclusion Program Different?

The new Market Value Exclusion Program still provides a tax reduction to all homesteads valued below \$413,800; however, the method by which the reduction is calculated is changing. Instead of providing a property tax monetary credit, the new program excludes a portion of each home's market value from the property tax calculation. With a reduction in taxable market value, each home contributes a smaller amount to each taxing jurisdiction's tax base. The tax burden on any given homestead could be lesser or greater depending upon the mix of properties in the jurisdiction and the level of the tax rate. With the new Market Value Exclusion Program, all of the taxing jurisdiction levies (school, county, city) will now be paid by property taxpayers instead of a portion of the levy being 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.

Comparison of Market Value Homestead Credit Under Old & New Laws:

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

*The tax rate change used here reflects average state-wide rates for 2011 under either approach and assumes no change in levies.

What Can Property Taxpayers Expect in 2012?

At its regular September 13, 2011 meeting, the city council approved the proposed 2012 property tax levy of \$8,445,483 (\$8,128,609 in 2010). While the proposed levy can always be reduced, it cannot be increased without "higher" level approval through an appeals process. The city will learn the full effect of the Market Value Homestead Credit Exclusion, in conjunction with the proposed levies of the respective taxing jurisdictions (schools, county, city), when it receives preliminary tax numbers from Anoka County in November. Once data is received, the City Council will discuss levy and tax rates during regular work session(s) in the upcoming months. The city plans to formally adopt a final levy at its regularly scheduled meeting on December 13, 2011.

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