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Homestead Market Value Exclusion 101

August 2016

The Homestead Market Value Exclusion (HMVE) program (hereafter referred to as "the exclusion") replaced the Market Value Homestead Credit (MVHC) program for taxes payable in 2012 and beyond. This guide describes how the exclusion works and highlights some of the issues that cities should keep in mind when examining the effects of the program on their communities. Many of the issues relate to the ways that different aspects of the property tax system interact. A detailed description of the overall property tax system can be found in the "Property Taxation 101" guide.

History of MVHC Reimbursement

Year	Original Amount (cities)	Final Amount (cities)
2002	87,512,765	87,512,765
2003	85,539,919	65,425,091
2004	85,290,722	66,279,257
2005	82,636,505	65,087,094
2006	78,921,393	62,809,103
2007	75,935,548	75,935,548
2008	75,810,435	63,310,311
2009	76,770,261	57,204,103
2010	82,053,176	12,106,217
2011	60,246,987	12,148,508
2012 & beyond	Eliminated	Eliminated

How it works for homeowners:

Much like in the MVHC program, homeowners do not have to take any action in order to benefit from the market value exclusion. It is applied automatically. The maximum exclusion goes to homes valued at $76,000 or less. The exclusion at that level is 40% of market value. For a $76,000 home, that means $30,400 of value is not taxable. In other words, all property taxes are applied only to the remaining $45,600 of market value. As home value increases, the portion of market value eligible for exclusion phases out and is at zero percent for homes valued at more than $413,778. Note that market values are determined in the year prior to the year in which taxes are paid. For example, values used to calculate taxes payable in 2016 were set in early 2015.

Below is a sample calculation of total taxes due (city, county, and school district taxes) before and after the exclusion from the Department of Revenue:

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Sample Home Market Value		$76,000	$150,000	$300,000	$450,000
Previous Law: MVHC					
	Net Tax Capacity (market value x 1% class rate)	$760	$1,500	$3,000	$4,500
	Gross Tax at rate of 105.81% (rate x tax capacity)	$804.16	$1,587.15	$3,174.30	$4,761.45
	Current MVHC	$304.00	$237.40	$102.40	$0
	Net Tax (total tax less credit)	*$500.16*	*$1,349.75*	*$3,071.90*	*$4,761.45*
Current Law: Exclusion					
	Market Value Exclusion	$30,400	$23,740	$10,240	$0
	MV after exclusion	$45,600	$126,260	$289,760	$450,000
	Home Net Tax Capacity (market value x 1% class rate)	$456	$1,263	$2,898	$4,500
	MVHC Credit	$0	$0	$0	$0
	Net Tax at rate of 110.92% (rate x tax capacity)	*$505.80*	*$1,400.48*	*$3,214.02*	*$4,991.40*

*the total tax rates used in this example are statewide averages before and after the effects of the exclusion

What it meant for cities

The immediate effect of the exclusion was a decrease in the tax base. The valuations used for calculating taxes owed in 2012 were set in early 2011. The extent of the decrease in tax base depended on the portion of homestead property each city had. The tax base decrease meant that in order to generate the same amount of city property tax dollars as in 2011, city tax rates had to go up. For example, if prior to the conversion a city's tax base was 1000 and its tax levy was 100, the tax rate would be 10%. With the exclusion, in that same city the tax base was reduced 40% to 600. The city still needed to generate 100 in property taxes. The rate climbed to almost 17%. For many cities, it was very difficult to hold levies flat given the repeated cuts to Local Government Aid (LGA) payments and to ongoing cost pressures, like the cost of healthcare, fuel and infrastructure maintenance.

The exclusion resulted in a shift in tax burden from homestead properties to other kinds of property. The extent of this shift was influenced by the portion of all homestead property made up of lower value homes. The more lower-value homes a city had as a portion of its tax base means more tax burden shifting. In many communities, lower value homes paid more in taxes even if the levy remains flat. This is because of the increase in tax rate necessary to generate the same amount of tax levy. This effect was more likely in cities where a high portion of property was lower value homes.

Property tax bills, of course, reflect the levy decisions and tax bases of not just the city, but also the county, the school district and any special districts. The tax bases of all local governments were affected by the exclusion program. A given city may not have seen a big decrease in its city tax base and therefore experienced little shifting of city tax burden. The county containing that city may have a lot of lower-value homes and therefore experienced a big tax base loss. That would have still affected property owners within the city.

Beyond 2012

Going forward, valuations provided on tax statements sent to homeowners will reflect the exclusion. City leaders will know what their tax base for the following year's property tax levy is going into budget season. Cities, however, will still see shifts of property tax burden as property values for all kinds of properties change.

Resources

League of Minnesota Cities
http://www.lmc.org/page/1/property-tax-state-funding-fiscal-issues.jsp