

# WHAT'S GOING ON WITH MY TAX BILL?

What is changing?

Does my property qualify  
for the new exclusion?

Why might the change  
increase my property taxes  
no matter what?

How the replacement for the state's **market value  
homestead credit** program may impact the city portion  
of your 2012 property taxes

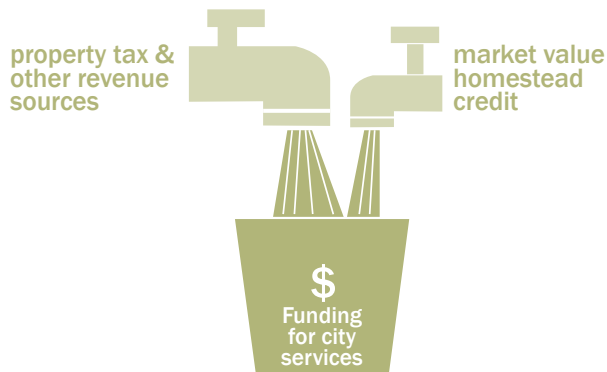
# Before change

## Market value homestead credit (MVHC)

Qualifying homeowners receive a state **TAX CREDIT** on their property tax bill that reduces the amount of property tax they are required to pay. The state is supposed to reimburse local governments, including cities, counties, and school districts, for the revenue lost as a result of the credit.



### How MVHC should work:



#### COMBINED REVENUES PAY FOR CITY SERVICES

The intent of the law was for the state to subsidize a homeowner's property tax bill by promising to pay part of that bill to the city. Those MVHC dollars, combined with revenue from property taxes and other city revenue sources, were to provide the necessary funds to pay for city services like police, fire, clean water, parks, etc.

### How MVHC has worked:



#### INCONSISTENT REIMBURSEMENT LEAVES HOLE

The state fails to reimburse cities for some or all of the property tax credit each year. City revenues fall short of those needed to fund city services, forcing responses like reduced services and increased property taxes.

# After change

## Homestead market value exclusion (HMVE)

Qualifying Homeowners will receive a **VALUE EXCLUSION**, which means that they will pay taxes on only a **PORTION** of their home's value. The previous credit program will be eliminated.



**VALUE EXCLUSION**  
on homestead property

### How HMVE will work:

value of home minus exclusion



city tax rate



Under the state's new market value exclusion, qualifying homeowners pay tax on a **PORTION** of their home's value; in other words, the **TAXABLE MARKET VALUE** goes **DOWN**. This leads homeowners to expect lower tax bills. >

**BUT** instead, the exclusion will reduce the overall tax base so that **TAX RATES WILL HAVE TO RISE** in order to bring in even the same amount of tax dollars as last year to fund city services. Higher tax rates would apply to **ALL** property in the community, including those homes receiving the exclusion.

# Questions?

**How can I find out if my property qualifies for the homestead market value exclusion program?** Only homesteads (defined as owner-occupied homes for tax purposes) qualify for the exclusion. Homesteads valued at less than \$76,000 will have 40 percent of their value excluded. For homesteads valued at more than \$76,000 the exclusion percentage is reduced until it hits 0% at homesteads valued at more than \$413,778. The proposed tax statements property owners will receive this fall may be confusing. They might show a change in the value of the home but won't specify how much of that change is due to the new exclusion as opposed to changes in the housing market. The final tax statements sent in the spring will be more specific about what portion of the value is excluded for each homestead.

**What does the change mean for business and apartment owners?** It is likely that taxes on business and apartment properties will rise in 2012. This is because the non-business and apartment portion of city tax bases will shrink with the exclusions given to homesteads. In other words, business and apartment properties will become bigger pieces of the tax base pie. In order to generate at least the same amount of property tax dollars to provide city services, the tax rate would need to be higher. All properties in a community would be subject to the higher tax rate.

**Are all cities affected by this change in the same way?** No two cities will be affected in exactly the same way because the mix of different property types is different in each community. In some cities, most of the property tax base is homes. In others, business property or farm property makes up a larger portion of the tax base. The amount of homestead property—specifically, the amount of homes that qualify for the exclusion—will determine the effect on the city's tax base.

**Is this change permanent? Will it make my taxes go up or down next year?** The State Legislature can always take action on any part of

state property tax policy. It may make changes to the new exclusion program or it may not. The effects of the HMVE on property owners' future tax bills are very difficult to predict—for some properties, tax bills beyond 2012 may increase while for others they may decrease. The transition from the MVHC system to the new HMVE system will be complete in 2012 so moving forward there will not be any effects on property tax bills due to the conversion itself. Regardless of what happens with the new exclusion program, property tax bills can still go up or down due to changes in the property's assessed value, or changes in city, county, or school district levies.

**Why is the state government involved in this at all? I thought property taxes were set by local governments?** While city councils and mayors set city budgets and determine the amount of property taxes to collect, policy decisions made at the state level about how the property tax system works also affect property tax bills. The state designs property tax relief programs, like the market value homestead credit and the new market value exclusion, as well as the local government aid program (general aid paid directly to cities). The state also establishes different categories of property and determines the portion of each type of property that is taxable through the system of classification rates.

**What are the other things that impact how much property tax I pay?** Besides state policy choices, other things that can affect your property taxes include city spending decisions, changes in the valuation of your property, changes in the valuation of other properties in your community, and spending decisions of your county and school district. Your property tax bill includes property taxes paid to counties, cities, schools, and special districts, like watershed districts.

**Are there other property tax relief programs available for homeowners or business owners?** The state administers several property tax relief programs, including the regular property tax refund program (also known as the "circuit breaker" program). Information about the different programs and eligibility rules are available at [www.taxes.state.mn.us](http://www.taxes.state.mn.us).

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## For more information

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