SAINT LOUIS COUNTY MINNESOTA

UNDERSTANDING THE ISSUE: THE "HOMESTEAD MARKET VALUE EXCLUSION"

State Tax Change Adds Costs to Taxpayers

The State of Minnesota has a history of providing reduced property taxes to owner occupied homes. The Market Value Homestead Credit reduced property taxes owed on homesteaded properties through a credit calculated on home value, declining as the home value increased. Minnesota lawmakers, in the 2011 Special Legislative Session, eliminated the Homestead Credit and established a new property tax program called the Homestead Market Value Exclusion (HMVE). The elimination of the Homestead Credit and the new Homestead Market Value Exclusion will be the biggest change affecting property taxpayers in Minnesota since 2002.

Impact on Homeowners

Under the old Homestead Credit, a sliding scale property tax credit was calculated based on a home's market value. The maximum amount of the credit was $304 for a home valued at $76,000 or less, and was reduced to zero for homes exceeding $413,800 in value. The amount of the Homestead Credit appeared on homeowners' property tax statements as a reduction in the property taxes due. The State of Minnesota was then expected to fully reimburse the credited amount directly to the various taxing jurisdictions, such as cities and counties.

The Bad News for St. Louis County Taxpayers

The intricate mechanics of the change from the old Homestead Credit to the Homestead Market Value Exclusion will actually increase tax rates and taxes payable in 2012 for most property owners across the state.

Although the HMVE is intended to moderate homeowner impacts due to the loss of the Homestead Credit, the new "exclusion" of some of a home's market value for tax calculation purposes, effectively lowers the value of all homestead properties before figuring the individual property tax. The resulting loss in tax base will cause the tax rate and taxes on most properties to increase. Unfortunately, lower value homes may end up paying MORE taxes despite the new HMVE formula because of this expected tax rate increase.

Since St. Louis County is heavily populated with low valued residential properties, the application of the new HMVE formula, will likely result in an additional tax burden of more than $6 million on county property tax bills, even if the County Board freezes the property tax levy and collections at last year's level.

Removing the "Middle Man"

Local governments will no longer serve as the "middle man" between the State of Minnesota and the taxpayer. In seven of the last eight years, the state has not met its obligation to pay the full reimbursement of the Homestead Credit to local governments. For example, in 2011, the State told cities and counties to "credit" homeowners' property taxes by approximately $286 million statewide, but the state only paid these jurisdictions $157 million, or about 55% of what was expected. This created a $129 million gap in local government revenue budgets.* The new exclusion will remove the unpredictability of state payments to local governments, but at the expense of increased property taxes for all taxpayers throughout the state.

With the state taking direct authority, the new "homestead exclusion" will only amount to the $157 million that was reimbursed to local governments in 2011. This means homeowners across the state will actually be picking up the $129 million gap through higher property taxes.

For taxpayers in St. Louis County, this equals an average property tax increase across all property classes of approximately 6.2% before any changes in levy.**

*League of Minnesota Cities, MVHC Conversion to ValueExclusion
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