

# Legislative Change to the Market Value Homestead Credit

*By: Paul Eger, Vice President, Governmental Affairs*

An item in the budget agreement that ended the state government shutdown that has received a lot of attention recently is the repeal of the market value homestead credit (MVHC) and the creation, in its place, of a new market value homestead exclusion.

The MVHC was enacted in 2001, along with a number of other property tax reforms. The MVHC provided qualifying homesteads with a credit on their tax statements which reduced their taxes. The credit was based on a formula that used a sliding scale, with the maximum credit being \$304 at \$76,000 in market value and zeroing out at \$413,800 of market value.

The state would then provide local governments with a credit reimbursement. Essentially, the state was responsible for paying a portion of a qualifying homestead's property taxes.

However...local governments could not count on the state reimbursing the full credit amount. In fact, since 2002 the state only fully funded the credit reimbursement to cities once. For example, in 2010 Richfield received less than \$100,000 in MVHC credit reimbursement from the state rather than the over \$700,000 they were certified to receive.

Due to state budget cuts to MVHC over the years, many local governments have set their levies with the expectation that they would only receive a portion (or none) of their credit reimbursement from the state. Therefore, shifting of property tax burden among different classes of properties has been occurring for years.

Local governments that did not anticipate receiving less from the state would have to make budget reductions late in the budget process.

With the repeal of the MVHC, the state was able to save approximately \$260 million per year. The savings is based on the full credit reimbursement formula and not the reduced amounts that have been the norm since 2002. For example, in 2010 the original credit reimbursement that was supposed to be paid to cities was approximately \$82 million. However, the final amount paid was approximately \$12.1 million.

The new homestead market value exclusion was created to provide substantially the same benefit to homesteads as the MVHC by excluding some of a homestead's market value from being taxed. The exclusion equals 40% of the first \$76,000 in market value and phases down to \$0 at \$413,000 of market value.

What does all of this mean? It means there is still a tax benefit for homesteads. It also means locally elected officials remain accountable for their levy decisions.

Locally elected officials need to consider a variety of variables when setting a levy, including the conversion of the MVHC to a market value homestead exclusion, local government aid (LGA) reductions, staffing and programmatic cost drivers, fluctuations in the market value of their tax base, AND how levy decisions will affect local taxpayers. For their part, taxpayers should take advantage of the opportunity to influence levy decisions by making their priorities known to their elected officials.