



# Market Value Homestead Credit Reimbursement 101

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This guide is intended to describe the basics of the Market Value Homestead Credit (MVHC) reimbursement program. The program was designed to provide state-paid property tax relief to owners of certain qualifying homestead property. The MVHC program is closely tied to the property tax system, a detailed description of which can be found in the “Property Taxation 101” guide.

## Background

In the 2001 legislative session, state lawmakers eliminated the Homestead and Agricultural Credit Aid (HACA) program, which had provided \$200 million in state aid to cities for property tax relief. Of these funds, \$140 million were folded into the Local Government Aid (LGA) program. The 2001 property tax reform bill eliminated the general education property tax levy, bringing tax relief to all property owners, including homeowners, and replaced it with a new state property tax on businesses. The Legislature also created the Market Value Homestead Credit (MVHC) program, giving most homeowners additional tax relief.

## How it works for homeowners:

### “The credit”

The MVHC program reduces the property tax owed on a homestead property by 0.4% of the homestead’s market value, up to a maximum per property of \$304.

$$\text{Credit} = \text{market value} \times 0.4\%$$

The maximum credit of \$304 occurs at a market value of \$76,000. For homesteads

with market values over \$76,000, the credit is reduced by 0.09% of the excess market value.

$$\text{Credit} = \$304 - ((\text{market value} - \$76000) \times 0.09\%)$$

Homesteads with market value of \$413,778 and higher do not receive any credit. The table below shows some sample market values and corresponding credit amounts.

<i>Homestead Market Value</i>	<i>Market Value Homestead Credit</i>
\$50,000	\$200
\$76,000	\$304
\$100,000	\$282
\$200,000	\$192
\$350,000	\$57
\$413,778	\$0

On each homeowner's property tax bill, the market value homestead credit is allocated to the local taxing districts (city, county, school, special districts) according to the share of the total tax rate that each taxing district represents. For example, if the city tax rate is 30% and the total tax rate is 120%, a fourth (30/120) of the market value credit is allocated to the city portion of the homestead's property tax bill. For taxes

payable in 2010 and thereafter the property tax statement must not state or imply that this credit is paid by the state.

**How it works for cities:**

**“The reimbursement”**

The MVHC reimbursement is not an aid; it does not represent dollars in addition to what the city has levied. The reimbursement makes up part of a city’s levy. Cities do not budget for it. The credit to homeowners reduces a city’s property tax receipts by the amount of the credit allocated to the city. This means the city will receive less than its certified tax levy from taxpayers. The state makes up the difference by reimbursing the city for the city portion of the credit received by property owners. The combination of after-credit tax receipts and the MVHC reimbursement should equal the city's certified levy. For most cities, between five and fifteen percent of the city's levy is paid by the state through the MVHC reimbursement.

An example helps to illustrate how the program works. Assume a city certifies a levy of \$100. Taxpayers receive a \$10 credit on property tax bills. After taxpayers pay their tax bills, \$90 is generated for the city. The difference between what is generated from taxpayers (\$90) and what the city certified (\$100) is made up by the MVHC reimbursement (\$10). The city must still certify \$100 for its levy in order to realize the full \$100 from the combination of taxpayer payments and the reimbursement.

**Cuts to Reimbursement**

The 2003 legislature balanced a major state deficit by cutting state aids and credit reimbursements to cities. Under the cuts, some cities that received little or no Local Government Aid experienced a reduction in the MVHC reimbursement. The 2005 legislature extended the MVHC

reimbursement cuts for 103 cities for 2005 and 2006. The funding for the city portion of the MVHC reimbursement was reduced from approximately \$82 million to \$65 million for these years. While property owners continued to receive the benefit of the full credit, cities were not reimbursed for the full amount of those credits. These cities therefore did not collect their total certified levy amount. In other words, for these cities, the gap between the certified levy and what the taxpayers pay was not filled completely (or at all). The MVHC reimbursements were restored for taxes payable in 2007. However, the 2008 payment of MVHC reimbursement to cities was reduced in December through unallotment<sup>1</sup>, a process used to balance the state budget. Unallotment was again used to reduce reimbursement payments to cities in 2009 and 2010 by \$19.6 million and \$25 million, respectively. The 2010 legislature extended the unallotment cuts to MVHC reimbursements (\$25m) for 2011.

<b>Year</b>	<b>Original Amount</b>	<b>Final Amount</b>
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 est.	81,835,790	11,626,460**
2011 est.	81,835,790	56,374,068*

\*Post ratified unallotment

\*\*post ratified unallotment & supplemental cuts

Cities receive their market value credit reimbursement in two installments from the state, in October and in December. Information on the amount of each city’s

<sup>1</sup> The Governor’s unallotments were ratified by the 2010 legislature.

credit reimbursement is usually available in late summer each year.

### **MVHC and Tax Increment Financing (TIF) districts**

TIF districts are eligible for the market value credit reimbursement when a property receiving the credit is located within the TIF district. The portion of the credit allocated to the TIF district is based on the percentage of the parcel's value that is captured in the TIF district. The market value credit reimbursements for a TIF district are sent to the city in each December. Cities with TIF districts can determine the amount of the

market value credit reimbursement the districts will receive by consulting the Department of Revenue.

### **Agricultural Market Value Credit**

The 2001 legislature also created the Agricultural Market Value Credit program, which reduces the property tax of agricultural homestead property up to \$345, based upon a percentage of market value. This credit program, like the MVHC, results in a portion of the city's certified levy paid by the state instead of local taxpayers. Most cities receive very little, if any, of this credit reimbursement.

## **Resources**

League of Minnesota Cities

<http://www.lmc.org/page/1/property-tax-state-funding-fiscal-issues.jsp>

- 2009/2010 LGA and MVHC Unallotment FAQ (pdf)
- Property Tax 101 (pdf)
- Property Tax Statement 101 (pdf)