



Shifting Property Taxes:

A Case Study of Minnesota's "Limited Market Value"

Presentation to
Federation of Tax Administrators
Revenue Estimated Conference

Tax Research Division
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Presentation Outline

- ❑ What is "Limited Market Value"?
- ❑ Limited Value by Property Type and Region
- ❑ Tax Impact by Property Type
- ❑ Tax Impact on Individual Home and Cabin Owners (parcel level analysis)
- ❑ Tax impact variation by home value



What is “Limited Market Value?”

Ramsey County	2003 Property Tax Statement		
Property Tax and Revenue	2003 Value Notice Information		
16 Assessment Date, Taxes payable year	January 2, 2001, payable 2002	January 2, 2002, payable 2003	January 2, 2003, payable 2004
17 Estimated Market Value	\$129,000	\$139,600	\$161,000
18 Limited Market Value	\$113,600	\$125,000	\$140,000

Taxable Value reduced about 15%,
so my taxes are down about 15% too.

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Preview: Three Surprises

- ❑ Surprise #1: Homeowners as a group are net *losers* in 2007! (They pay *more* tax.)
- ❑ Surprise #2: One-third of homeowners *whose value is limited* are still losers!
- ❑ Surprise #3: Taxable value rose *faster* than market value in 2007 (*because of* LMV).

Will LMV be allowed to expire
for taxes payable in 2010?

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What is “Limited Market Value?”

- ❑ A limit on annual growth in the dollar value subject to property taxation.

- ❑ LMV applies only to “preferred classes”:
 - Residential homestead and non-homestead;
 - Agricultural homestead and non-homestead;
 - Seasonal recreational residential (cabins); and
 - Timberland (added in 2001).

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Limited Market Value

- ❑ Does not apply to an increase in value due to improvements.

- ❑ Not owner-specific. LMV applies to the parcel, so carries over to a new owner.

- ❑ Value limit restricts neither the property tax rate nor the property tax levy.
 - If the property tax levy is fixed, then LMV shifts tax burden to other properties.

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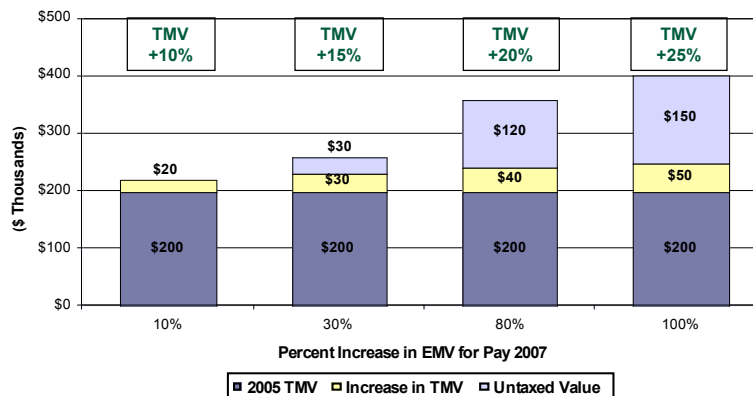
□ For assessment year 2006 (taxes payable 2007), the increase in taxable value cannot exceed the larger of:

- **15%** of previous year's TMV; or
- **25%** of the difference between new EMV and previous year's TMV.

where TMV = Taxable Market Value
EMV = Estimated Market Value
(full market value, assessed annually)

Limited Market Value (LMV) – Example 1

Impact of Limited Market Value for Pay 2007 Taxes
Home with TMV = EMV = \$200,000 for Pay 2006 Taxes





Limited Market Value (LMV)

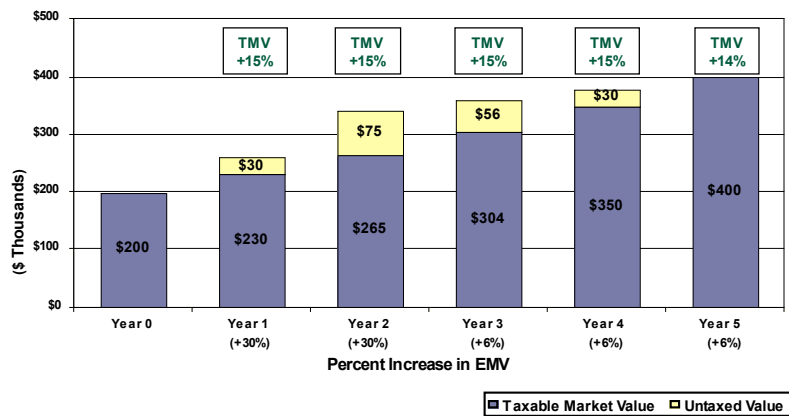
- Value limit is temporary: The amount of untaxed value automatically falls when property value increases slow down.
 - Example: Home's EMV rises by 30% per year for two years, then 6% per year for next three years.

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Limited Market Value (LMV) – Example 2

**Impact of Limited Market Value If EMV Rises
by 30%, 30%, 6%, 6%, and 6% (Assuming 2007 parameters)**

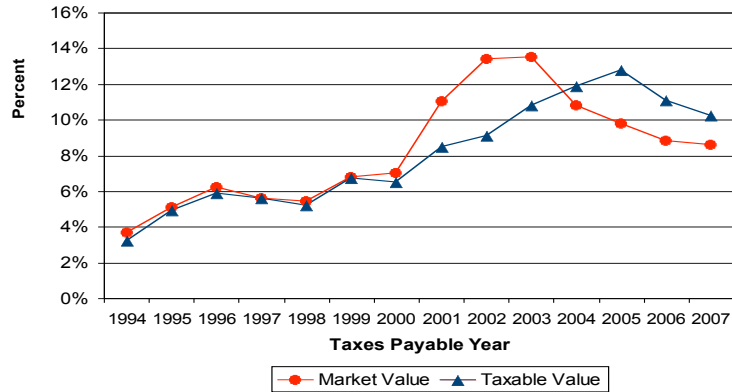


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History of Limited Market Value

Annual Increases in Market Value and Taxable Value (Homesteads, Taxes Payable 1994-2007)

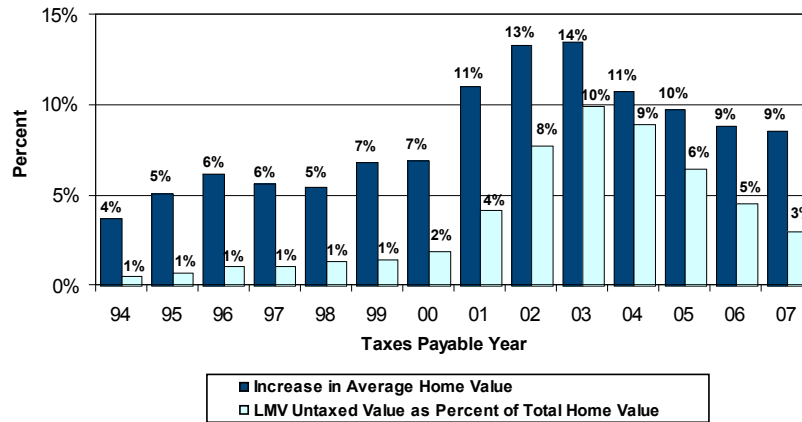


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History of Limited Market Value

Relationship Between Home Value Increases and Limited Value for Homesteads



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History of Limited Market Value

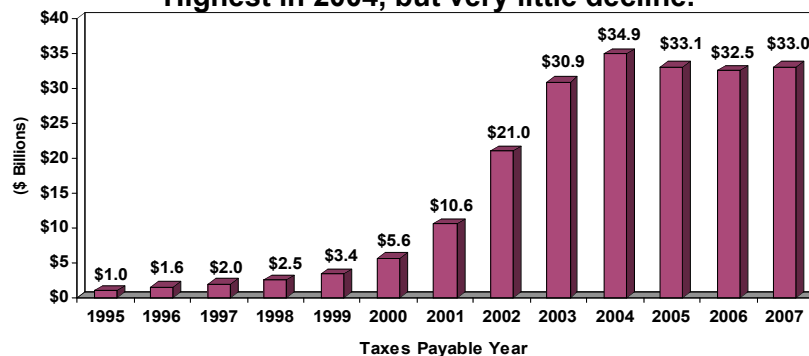
Payable Year(s)	Maximum increase in taxable market value is larger of:		Preferred Classes
	Percent Increase Above Previous Year's TMV	or Percent of Difference Between EMV and Previous Year's TMV	
1973-74	5%	-	Residential, agriculture, and cabins.
1975-79	10%	25%	
1980	10%	50%	All Property
NO LMV 1981-1992			
1993-96	10%	33%	Residential, agriculture, and cabins (plus timber starting 2001).
1997-02	10%	15%	
2003	12%	20%	
2004	15%	20%	
2005-07	15%	25%	
2008	15%	33%	
2009	15%	50%	
NO LMV 2010 AND AFTER			

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History of Limited Market Value

**Total Nontaxable Market Value due to LMV
(all property types combined)
Highest in 2004, but very little decline.**

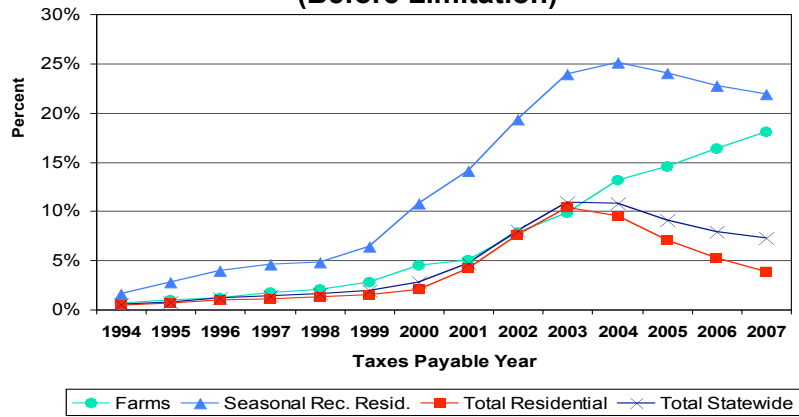


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History of Limited Market Value

Statewide Limitation as a Percent of Estimated Market Value (Before Limitation)

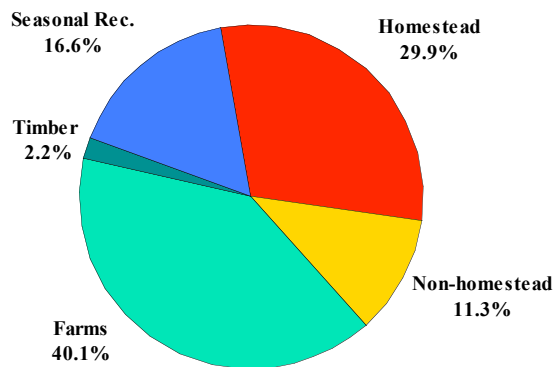


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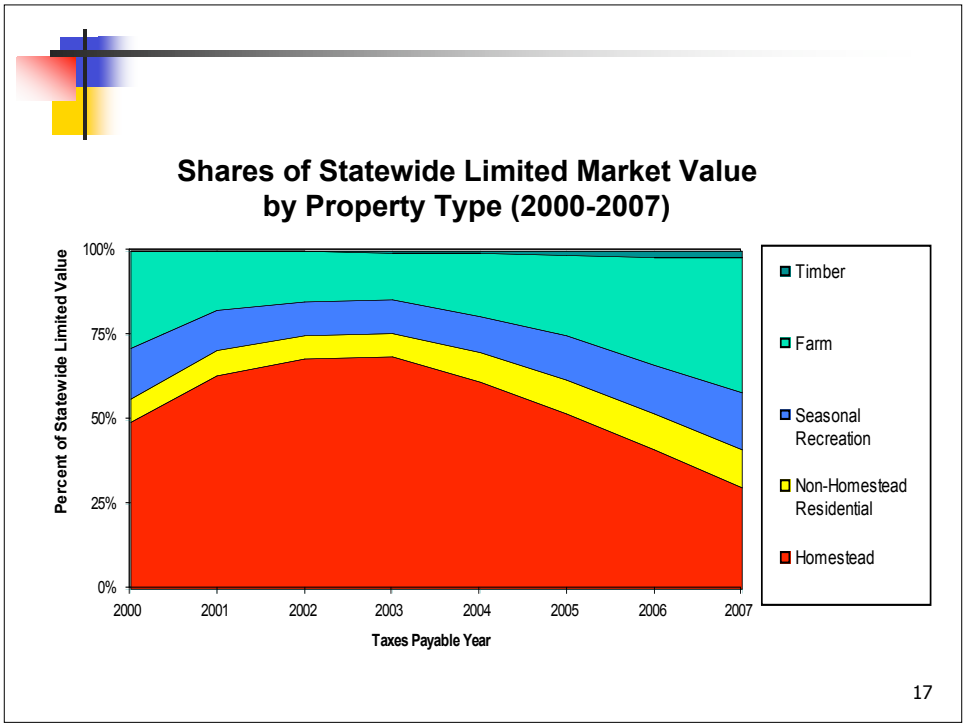


Limited Value by Property Type

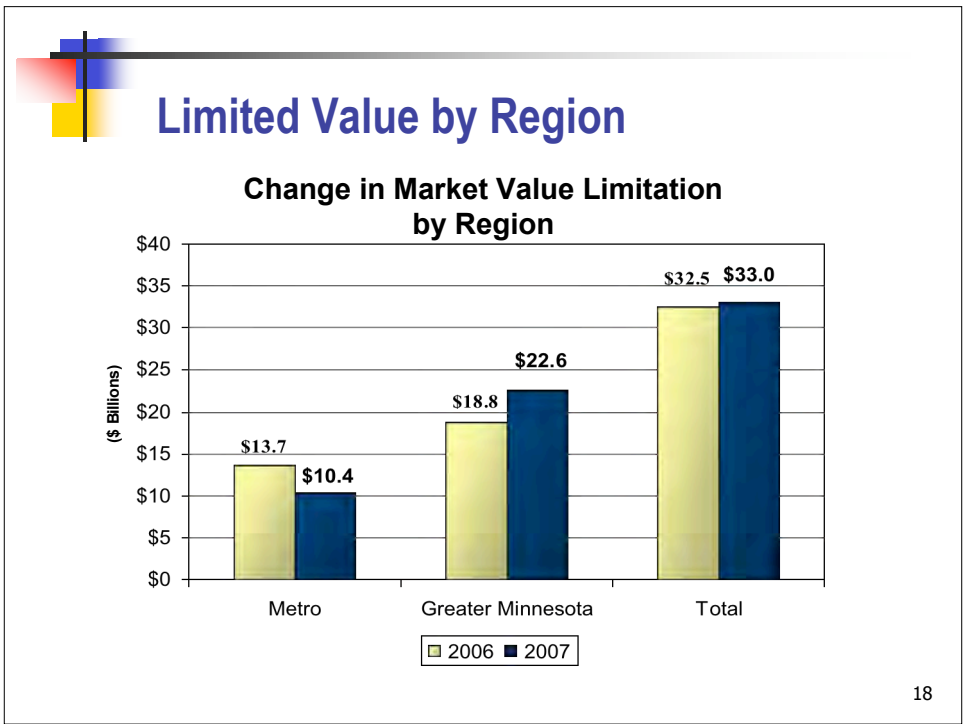
Statewide Market Value Limitation by Type of Property (2007)



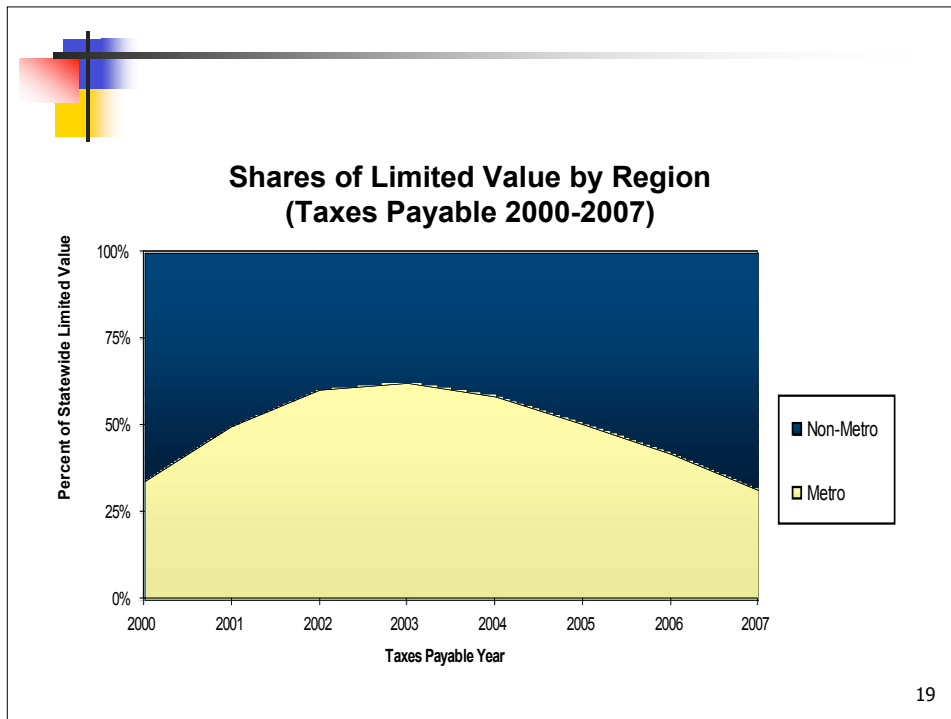
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Impact on Tax Liability

Modeling LMV's Impact (taxes payable 2007)

- ❑ Study assumes that LMV does not change local levies. It shifts tax burdens, but does not reduce them.
- ❑ The tax-shift effects of LMV occur locally (at the parcel level).
- ❑ Patterns may vary by taxing jurisdiction depending on relative market value changes and the mix of property.

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Impact on Tax Liability

Study Methodology

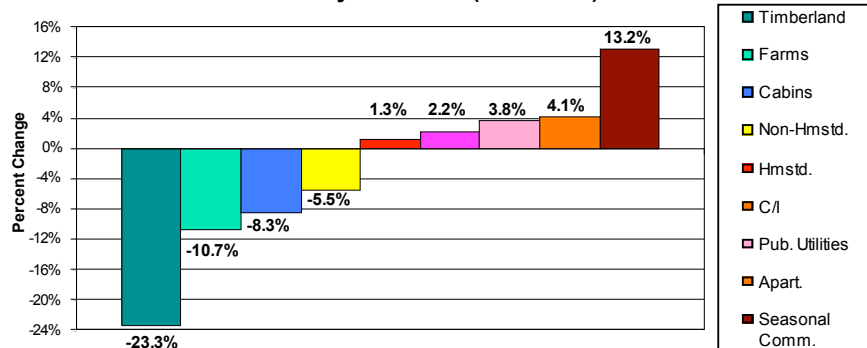
- Parcel-level data for assessment year 2006.
- Calculates tax impact for taxes payable 2007:
 - Add untaxed value (due to LMV) back to tax base.
 - Recalculate local tax rates (levies unchanged).
 - Compute “no LMV” tax amounts for each homestead and cabin parcel.
 - Compute “no LMV” aggregate tax amounts for other classes (not parcel-level).

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Impact on Tax Liability by Property Class

**Average Percent Change in Property Tax
Due to LMV, By Class of Property
Taxes Payable 2007 (Statewide)**



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Impact on Tax Liability – Homes

Tax Effects on Residential Homesteads Taxes Payable 2007 (1.43 Million Parcels)

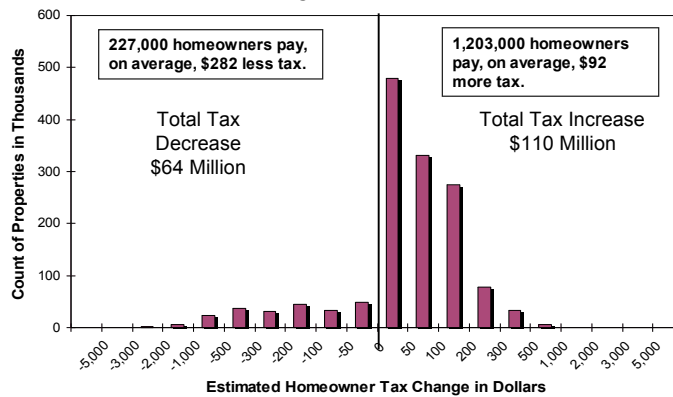
- ❑ 227,000 (16%) homeowners paid \$64 million less tax.
- ❑ 1,203,000 (84%) homeowners paid \$110 million more tax.
 - *One-third of homes with limited value actually paid more in tax (one-half for non-metro).*
- ❑ \$46 million net loss to homeowners was shifted on to homes from other classes.

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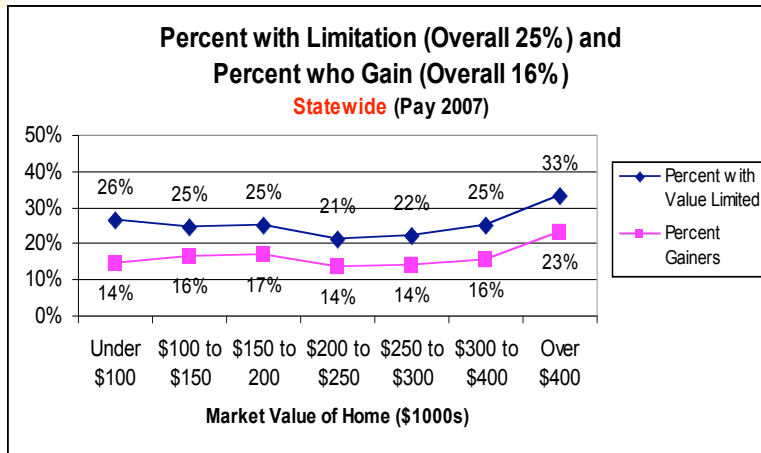
Impact on Tax Liability – Homes

Limited Market Value Impacts on Residential Homesteads (Payable 2007)



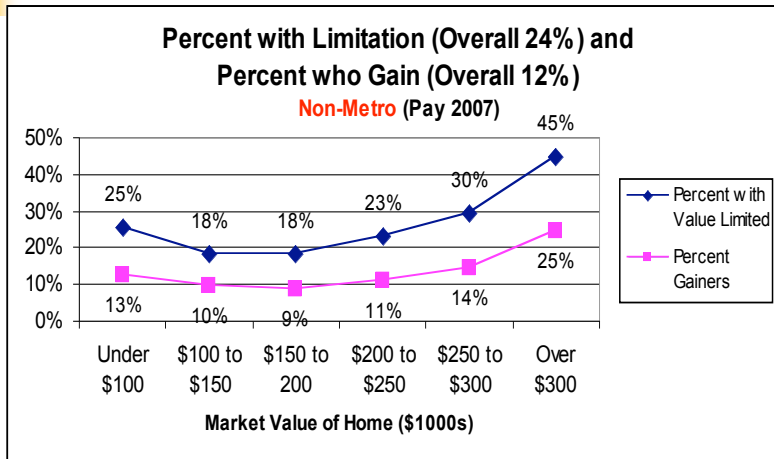
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LMV Variation by Home Market Value



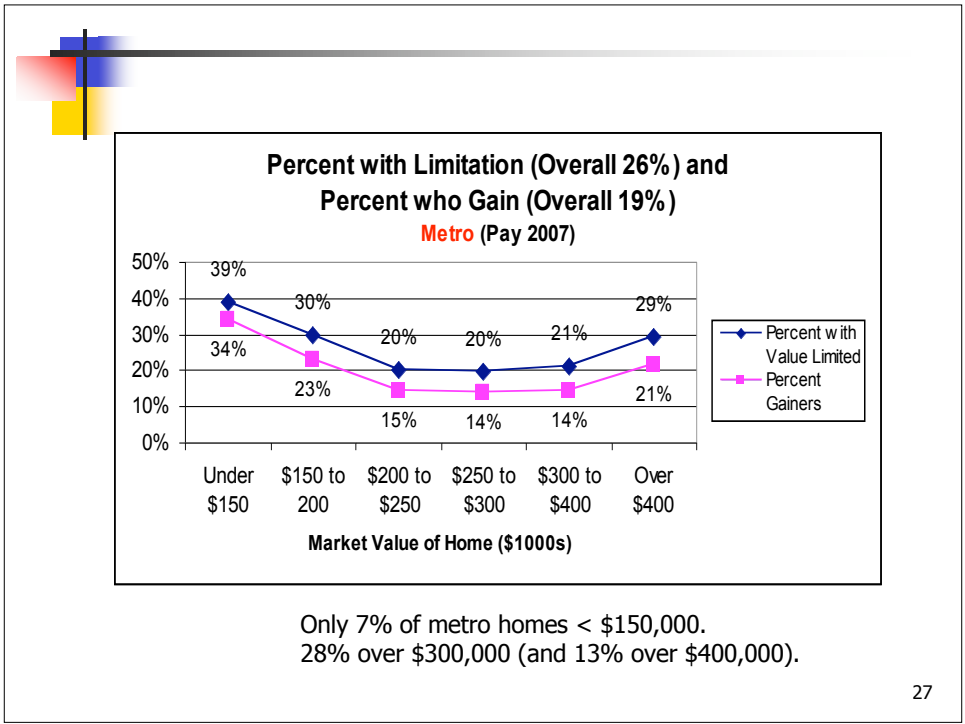
30% of homes < \$150,000.
 18% over \$300,000 (and 8% over \$400,000).

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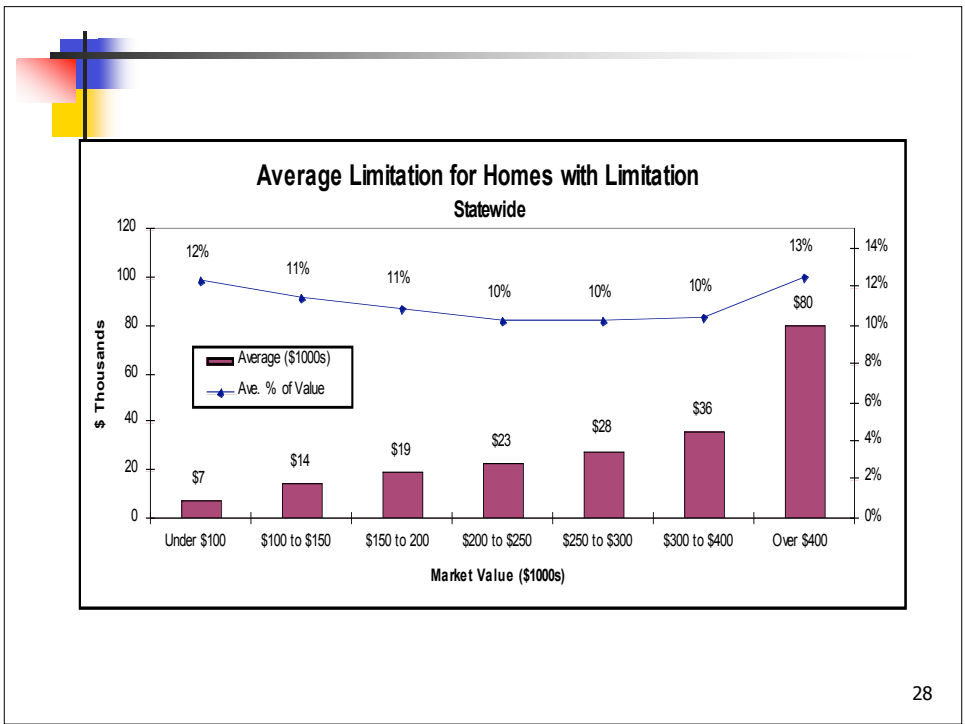


57% of non-metro homes < \$150,000.
 Only 8% over \$300,000.

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Impact on Tax Liability – Cabins

LMV's Effect on Cabins

Taxes Payable 2007 (203,000 Parcels)

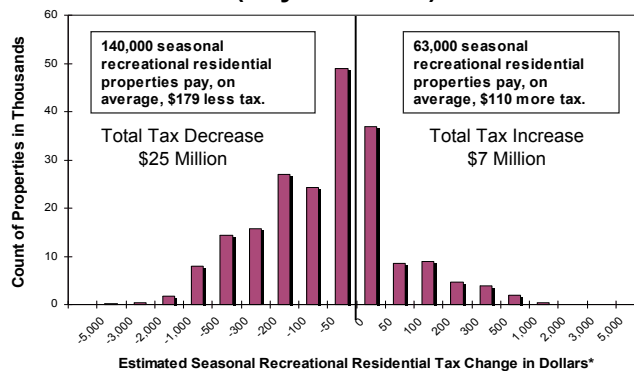
- 140,000 (69%) parcels paid \$25 million less tax.
- 63,000 (31%) parcels paid \$7 million more tax.
- \$17.2 million net gain was shifted to other classes, and off of cabins.

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Impact on Tax Liability – Cabins

Limited Market Value Impacts on Seasonal Recreational Residential Property (Payable 2007)



*Includes state tax. State tax rate adjusted to hold state tax amount constant.

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Conclusions

- LMV illustrates the distributional impacts of shifts in property tax burdens.
 - Fiscal illusion – many who think they benefit really do not. Many who think they are unaffected are really losers.
 - Benefits shift to type of property that is rising most rapidly (farms and cabins).

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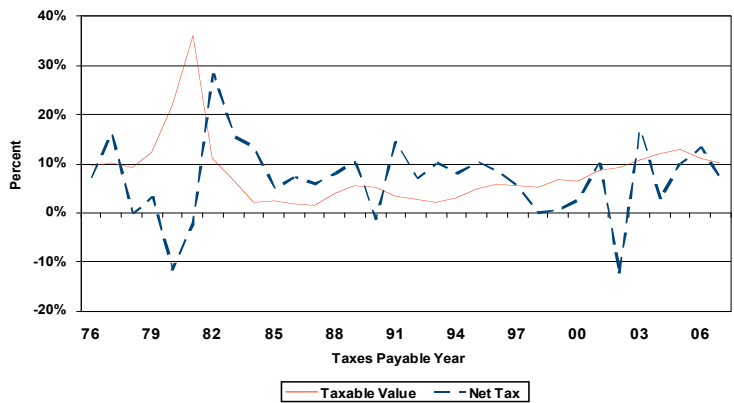
Prospects for Completion of Phase-Out?

- Impact much different in metro than non-metro.
- Typical impact varies by home value – but not in extreme way.
- Always some uneasiness with cutting taxes for those whose home values are rising faster at the expense of those whose home values are stagnant.
- Better understood by policymakers, and many seem to prefer expanding targeted relief (circuit breaker).

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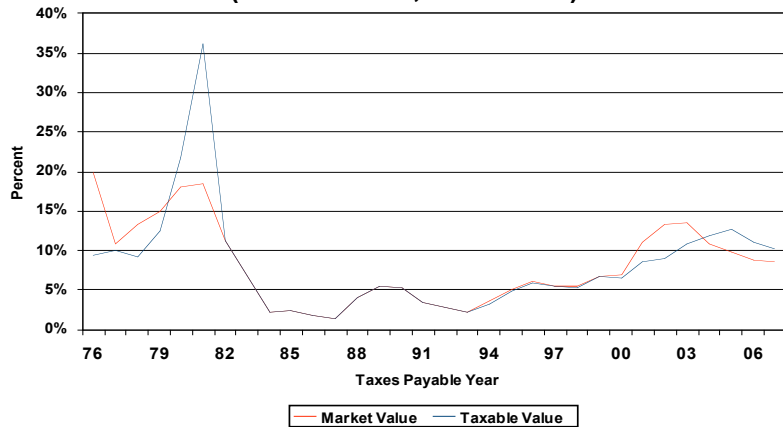
Annual Increases in Taxable Value and Net Tax (Homesteads, 1996-2007)



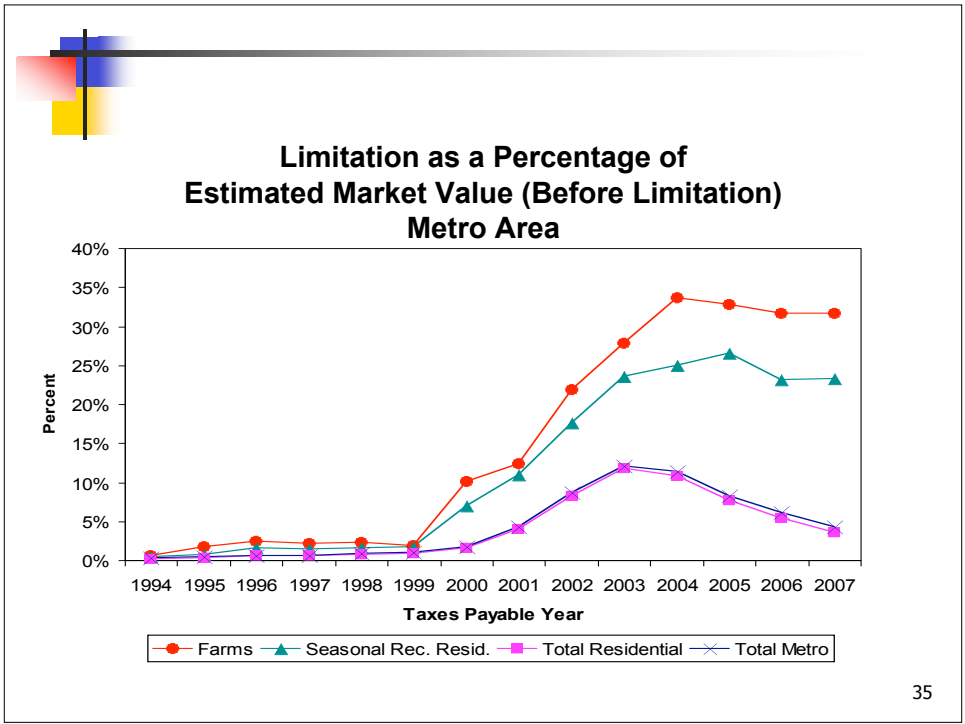
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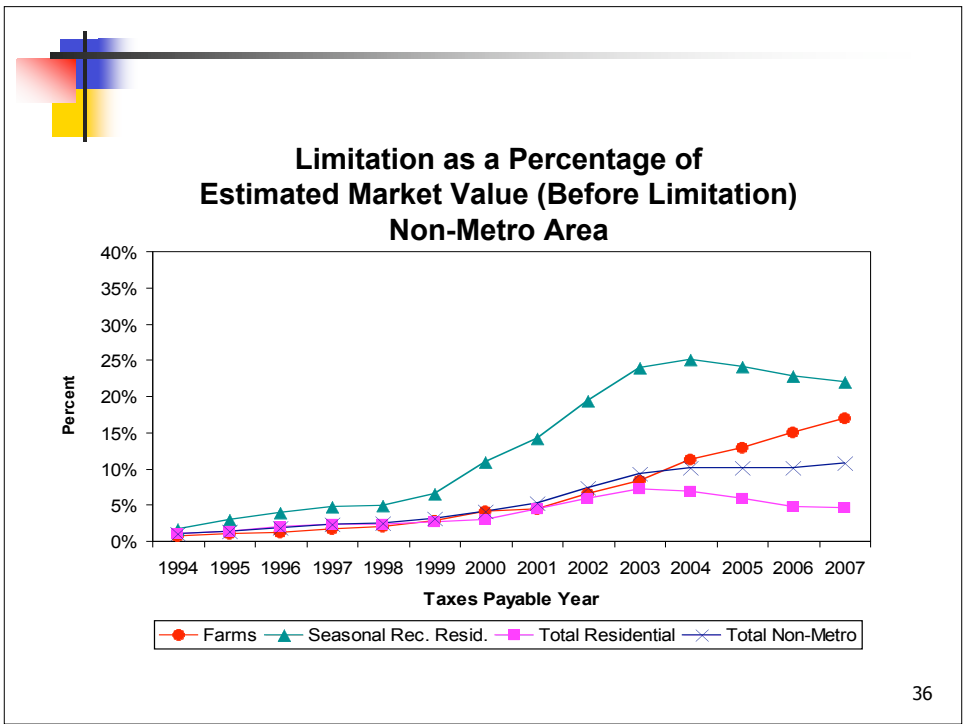
Annual Increases in Market Value and Taxable Value (Homesteads, 1996-2007)



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