Shifting Property Taxes:

A Case Study of Minnesota’s “Limited Market Value”

Presentation to
Federation of Tax Administrators
Revenue Estimated Conference

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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

Ramsey County 2003 Property Tax Statement

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>17 Estimated Market Value</td>
<td>$129,000</td>
<td>$139,600</td>
<td>$161,000</td>
</tr>
<tr>
<td>18 Limited Market Value</td>
<td>$113,600</td>
<td>$125,000</td>
<td>$140,000</td>
</tr>
</tbody>
</table>

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

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?
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).

- 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.
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  
\[
\text{TMV} = \text{Taxable Market Value} \\
\text{EMV} = \text{Estimated Market Value} \\
\text{(full market value, assessed annually)}
\]

**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

<table>
<thead>
<tr>
<th>Percent Increase in EMV for Pay 2007</th>
<th>2005 TMV</th>
<th>Increase in TMV</th>
<th>Untaxed Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$200</td>
<td>$20</td>
<td>$200</td>
</tr>
<tr>
<td>30%</td>
<td>$200</td>
<td>$30</td>
<td>$200</td>
</tr>
<tr>
<td>80%</td>
<td>$200</td>
<td>$120</td>
<td>$200</td>
</tr>
<tr>
<td>100%</td>
<td>$200</td>
<td>$150</td>
<td>$200</td>
</tr>
</tbody>
</table>
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.

Limited Market Value (LMV) – Example 2

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

<table>
<thead>
<tr>
<th>Year</th>
<th>TMV +15%</th>
<th>TMV +15%</th>
<th>TMV +15%</th>
<th>TMV +15%</th>
<th>TMV +14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 0</td>
<td>$200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 1</td>
<td>$230</td>
<td>$200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td>$265</td>
<td>$230</td>
<td>$200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 3</td>
<td>$304</td>
<td>$265</td>
<td>$230</td>
<td>$200</td>
<td></td>
</tr>
<tr>
<td>Year 4</td>
<td>$350</td>
<td>$304</td>
<td>$265</td>
<td>$230</td>
<td>$200</td>
</tr>
<tr>
<td>Year 5</td>
<td>$400</td>
<td>$350</td>
<td>$304</td>
<td>$265</td>
<td>$230</td>
</tr>
</tbody>
</table>

Taxable Market Value  Untaxed Value
History of Limited Market Value

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

Taxes Payable Year
- Market Value
- Taxable Value

History of Limited Market Value

Relationship Between Home Value Increases and Limited Value for Homesteads

Taxes Payable Year
- Increase in Average Home Value
- LMV Untaxed Value as Percent of Total Home Value
History of Limited Market Value

<table>
<thead>
<tr>
<th>Payable Year(s)</th>
<th>Percent Increase Above Previous Year's TMV</th>
<th>Percent of Difference Between EMV and Previous Year's TMV</th>
<th>Preferred Classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>5%</td>
<td>-</td>
<td>Residential, agriculture, and cabins.</td>
</tr>
<tr>
<td>1975-79</td>
<td>10%</td>
<td>25%</td>
<td>All Property</td>
</tr>
<tr>
<td>1980</td>
<td>10%</td>
<td>50%</td>
<td>Residential, agriculture, and cabins (plus timber starting 2001).</td>
</tr>
</tbody>
</table>

History of Limited Market Value

Total Nontaxable Market Value due to LMV

(all property types combined)

Highest in 2004, but very little decline.
History of Limited Market Value

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

Limited Value by Property Type

Statewide Market Value Limitation by Type of Property (2007)
Shares of Statewide Limited Market Value by Property Type (2000-2007)

Limited Value by Region

Change in Market Value Limitation by Region

- Timber
- Farm
- Seasonal Recreation
- Non-Homestead Residential
- Homestead

<table>
<thead>
<tr>
<th>Region</th>
<th>2006 (Billions)</th>
<th>2007 (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro</td>
<td>$13.7</td>
<td>$18.8</td>
</tr>
<tr>
<td>Greater Minnesota</td>
<td>$10.4</td>
<td>$22.6</td>
</tr>
<tr>
<td>Total</td>
<td>$32.5</td>
<td>$33.0</td>
</tr>
</tbody>
</table>
**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.
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).

Impact on Tax Liability by Property Class

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

Limited Market Value Impacts on Residential Homesteads
(Payable 2007)

- 227,000 homeowners pay, on average, $282 less tax.
- 1,203,000 homeowners pay, on average, $92 more tax.

$64 million net loss to homeowners was shifted on to homes from other classes.
30% of homes < $150,000.
18% over $300,000 (and 8% over $400,000).

57% of non-metro homes < $150,000.
Only 8% over $300,000.
Only 7% of metro homes < $150,000. 28% over $300,000 (and 13% over $400,000).
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.

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

140,000 seasonal recreational residential properties pay, on average, $179 less tax.

63,000 seasonal recreational residential properties pay, on average, $110 more tax.

Total Tax Decrease $25 Million
Total Tax Increase $7 Million

Estimated Seasonal Recreational Residential Tax Change in Dollars*

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

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

Annual Increases in Market Value and Taxable Value (Homesteads, 1996-2007)
Limitation as a Percentage of Estimated Market Value (Before Limitation)

Metro Area

Non-Metro Area