2012 Changes in Homestead Benefits

What is Changing?

The 2011 Legislature repealed the Homestead Market Value Credit, (the homestead credit), and replaced it with a new Homestead Market Value Exclusion. ***The last year of the credit is for property taxes paid in 2011 and the exclusion begins for property taxes payable in 2012.***

What is a credit?
A **credit** is a reduction in the amount of taxes due.

What is an exclusion?
An **exclusion** is a reduction in the amount of property value subject to tax.

Computation of Credit and Exclusion Amounts

Even though the tax benefits of the credit and exclusion are not equal, the calculation of the exclusion amount is similar to the calculation of the former credit.

Credit=0.4% of the first $76,000, minus 0.09% of the value over $76,000

Exclusion = 40% of the first $76,000, minus 9% of the value over $76,000

Example: House valued at $150,000

Credit = (0.4% x $76,000) – ($74,000 x 0.09%)
= $304 - $67
= $237

Exclusion = (40% x $76,000) – ($74,000 x 9%)
= $30,400 - $6,660
= $23,740

Credit/Exclusion Comparison

Home Market Value	*2011 Homestead Market Value Credit*	*2012 Homestead Market Value Exclusion*
$76,000	$304	$30,400
$150,000	$237	$23,740
$250,000	$147	$14,740
$300,000	$102	$10,240
$350,000	$57	$5,740
$400,000	$12	$1,240
$450,000	$0	$0

Why is this Change Resulting in Tax Increases?

There are four reasons why this change in homestead benefits results in tax increases for most properties:

- **State money is no longer reducing total taxes.** By eliminating the homestead credit the state is saving $260 million per year and this amount is now being paid by local property tax payers.
- **The reduction in taxable value increases tax rates.** With the total taxable value being reduced by the exclusion, collecting the same total amount of property tax as the prior year requires a higher rate.
- **The reduction in taxable property value shifts the relative burdens of who pays.** With homestead values reduced, other property types (and homes with higher values) pay a larger share of the tax.
- **The exclusion provides less benefit to most properties than the credit.** The new homestead exclusion may not be enough to offset the increases in tax rates and the elimination of the credit, especially in areas that have lower total property tax rates.