



Limited Market Value (LMV) A Study of Who Benefits and Who Pays

Presented by
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Presentation Outline

- ♣ LMV Background (Terms, Goals).
- ♣ The prevalence of LMV.
- ♣ The parcel level tax effects for homeowners and seasonal recreational residential property.

What is “Limited Market Value?”

- ♣ A limit on annual growth in the amount of market value subject to property taxation.

- ♣ LMV applies only to:
 - ⊖ *Agricultural homestead and non-homestead;*
 - ⊖ *Residential homestead and non-homestead;*
 - ⊖ *Seasonal recreational residential (cabins); and*
 - ⊖ *Timberland (added in 2001).*

Terminology

- ♣ “Preferred classes” is shorthand for those classes of property subject to the LMV law.
- ♣ “Estimated market value (EMV)” means the assessors estimate of the full market value of the property before any limitations.
- ♣ “Captured value” or “Limitation” refers to the amount of value not taxed under the limited market value law.
- ♣ “Taxable Market Value” or “Limited Value” means the estimated market value less captured value.

Current Law Phases-Out LMV

For tax payable in 2005 (Assessment Year 2004), the limit is equal to the greater of:

15% over 2004 TMV; or

25% of difference between 2005 EMV and 2004 TMV.

Limitation Equals the Greater of:	Taxes Payable Year					
	2002	2003	2004	2005	2006	2007
Percent of Prior Year Limited Value	8.5%	10%	12%	15%	15%	15%
Percent of Difference in Value	15%	15%	20%	25%	33%	50%

*No limitation beginning with taxes payable 2008.

History of LMV

- ♣ 1973-1974 for residential, agricultural, and temporary seasonal recreational residential (5%, excess added).
- ♣ 1975-1979 for all property (greater of 10% or $\frac{1}{4}$).
- ♣ 1979 Tax Court ruled unconstitutional, 1979 legislature eliminated with two-year phase-out, in 1980 Minnesota Supreme Court upheld constitutionality of LMV.
- ♣ No provisions 1980-1992.
- ♣ 1993-2000 for residential, agricultural, and seasonal recreational residential (periodic sunset extensions and changes to limits).
- ♣ 2001 legislature extended sunset from 2002 to 2007 and initiated phase-out by taxes payable 2008.

Policy Rationale for LMV

Opinions regarding the policy rationale for LMV vary. Our analysis assumes that the primary objective is to:

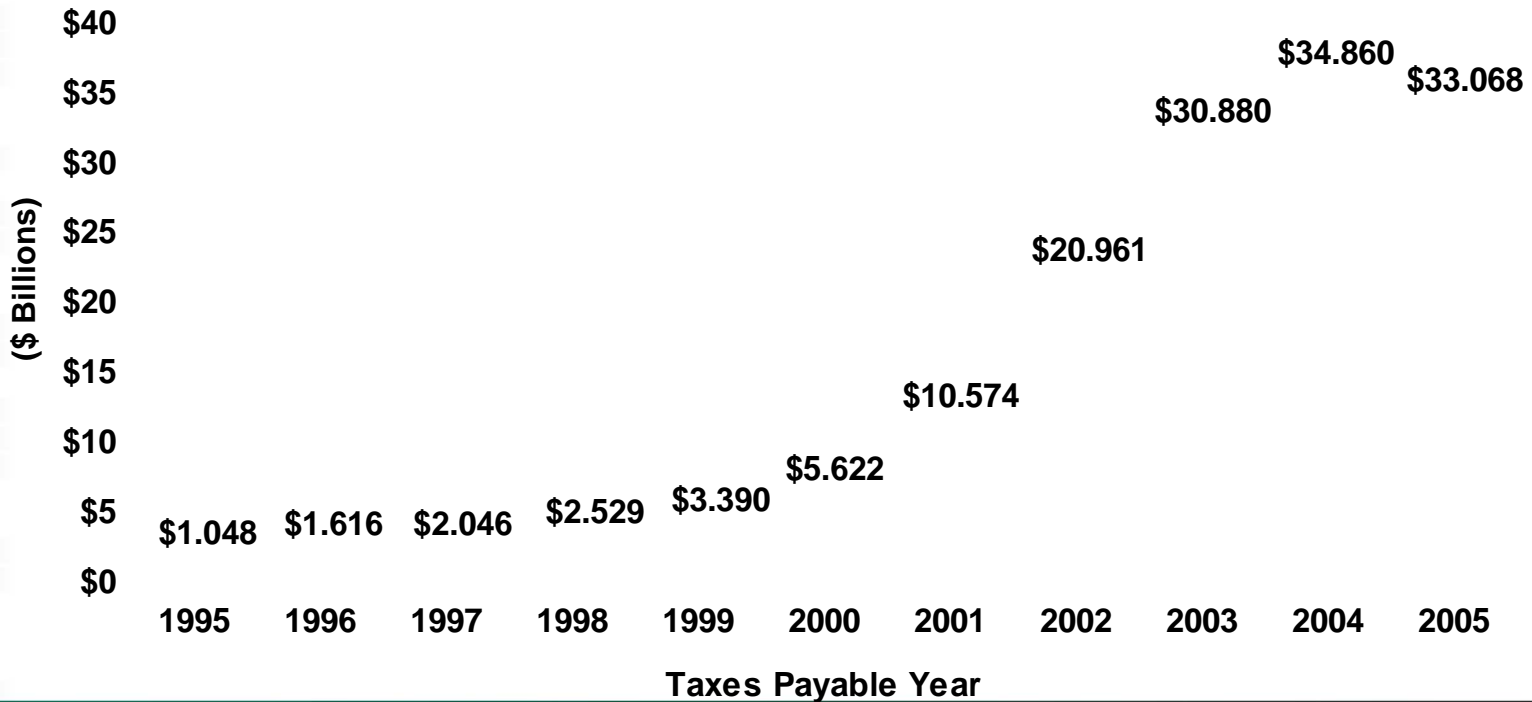
- ♣ Shield parcels that are experiencing rapid market value growth from rapid increases in tax. Rapid is defined by statutory limits.

Prevalence of LMV

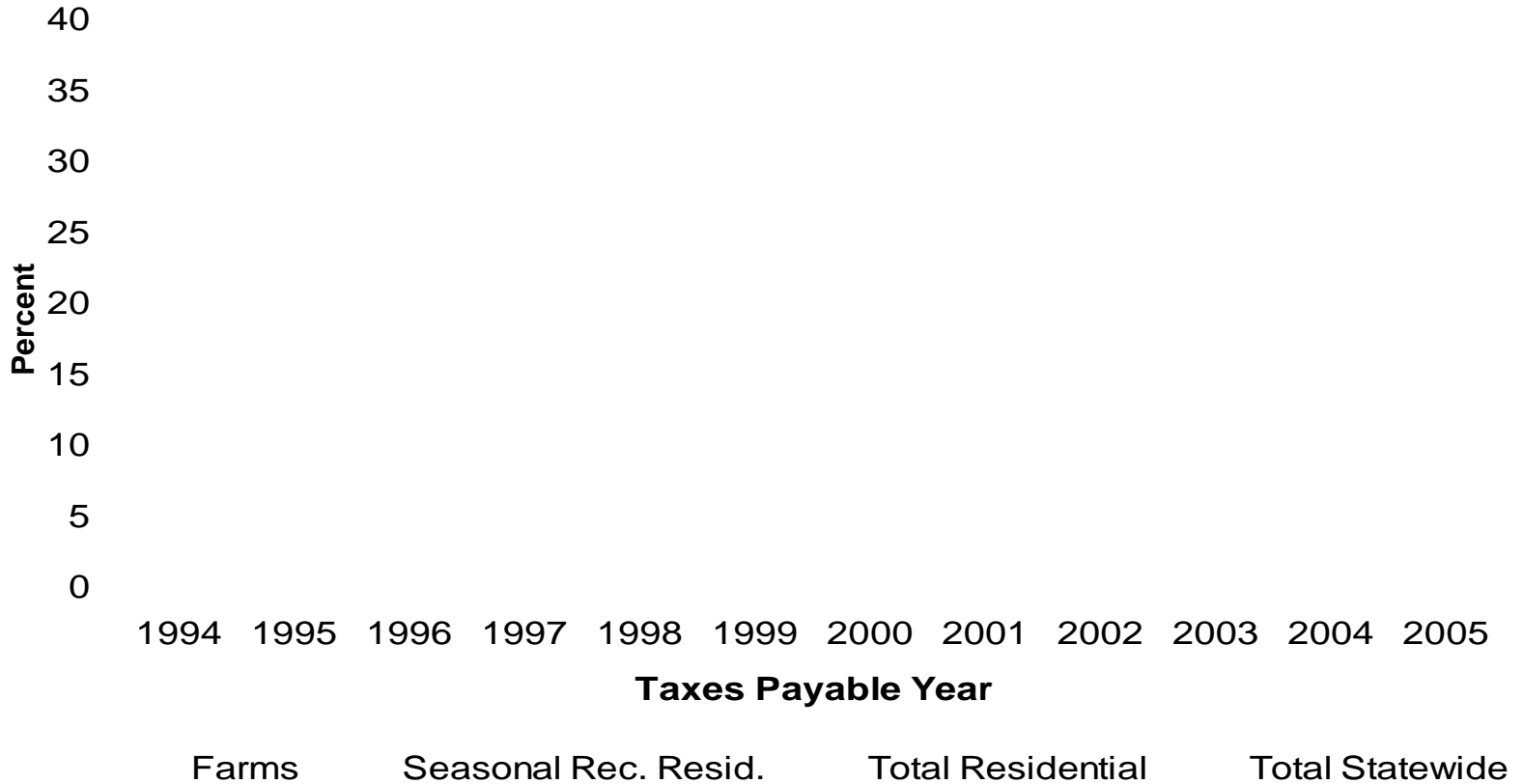
Based on:
Taxes Payable 2005
(TnT Levies)

Total Captured Value Pay 1995-2005

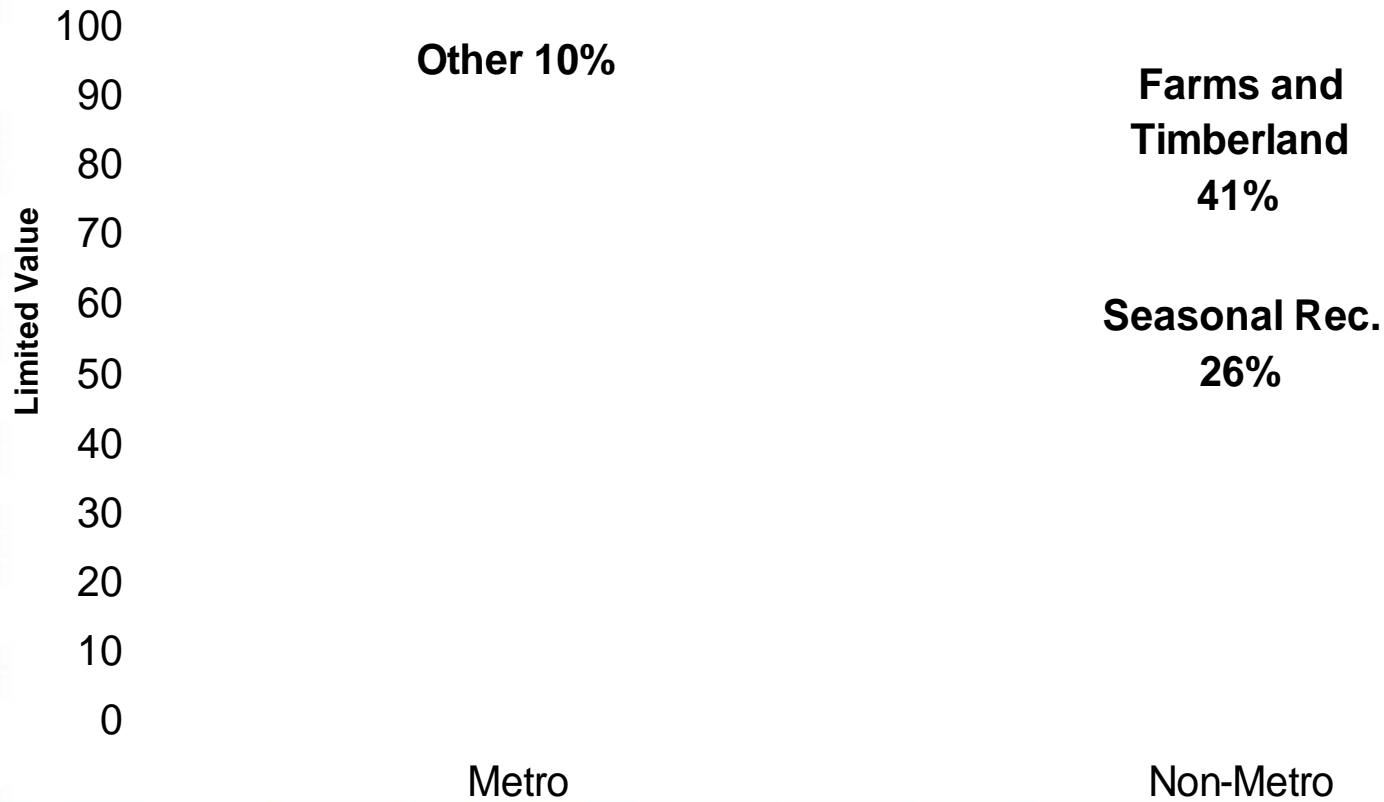
The pace of growth in captured value has slowed.



Statewide Captured Value as a Percent of Taxable Market Value (Before Limitation)



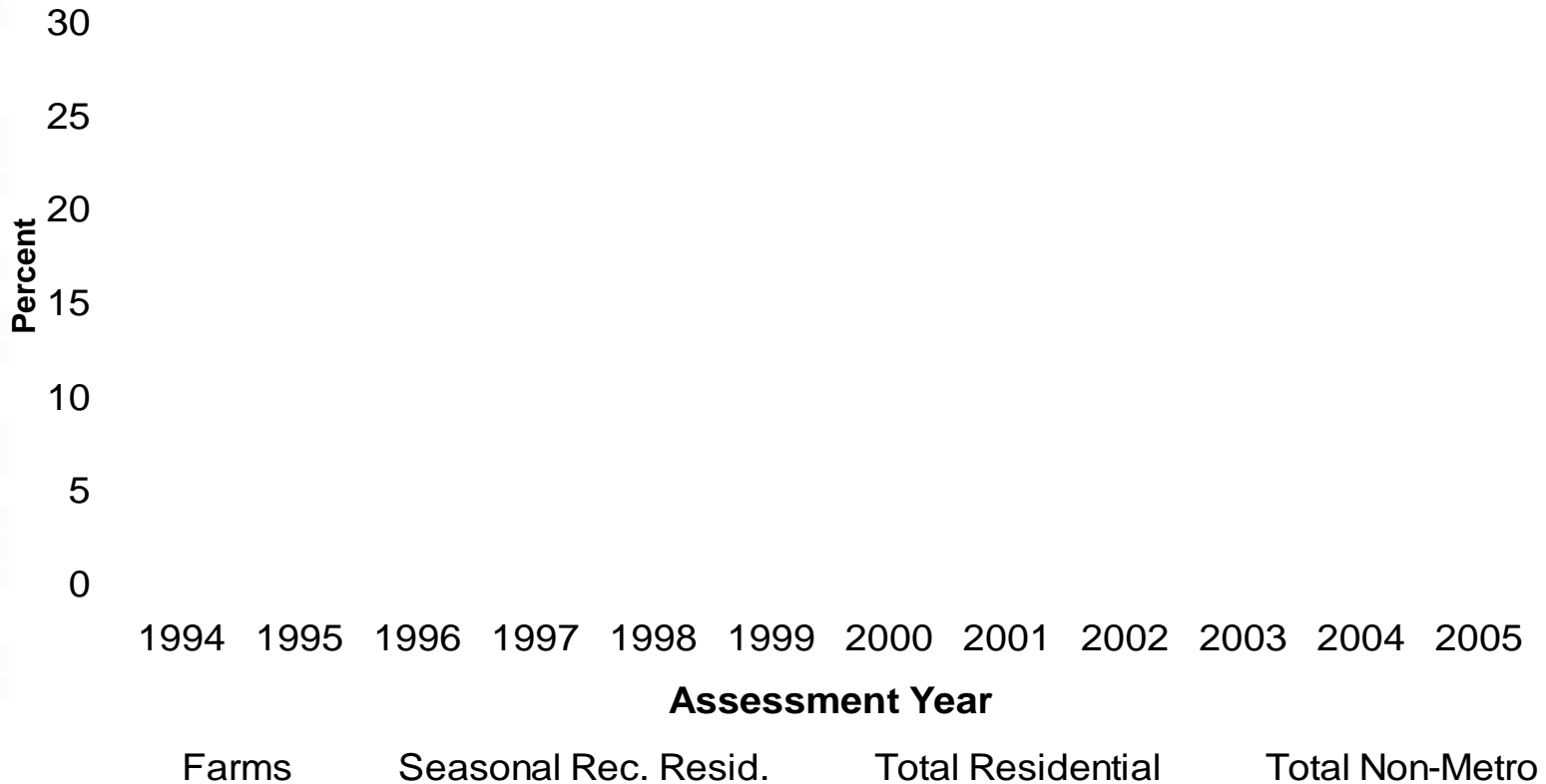
Percent Shares of Captured Value by Property Class Taxes Payable 2005



Captured Value as a Percentage of Taxable Market Value (Before Limitation) Metro Area



Captured Value as a Percentage of Taxable Market Value (Before Limitation) Non-Metro Area



Tax Effects

- ♣ The tax shift effects of LMV occur locally (at the parcel level) and patterns may vary across the state depending on past/present market forces and mix of property.
- ♣ Study attempts to analyze how **elimination** of LMV will effect individual parcels across the state.

Parcel Level Analysis Considers Three Questions.

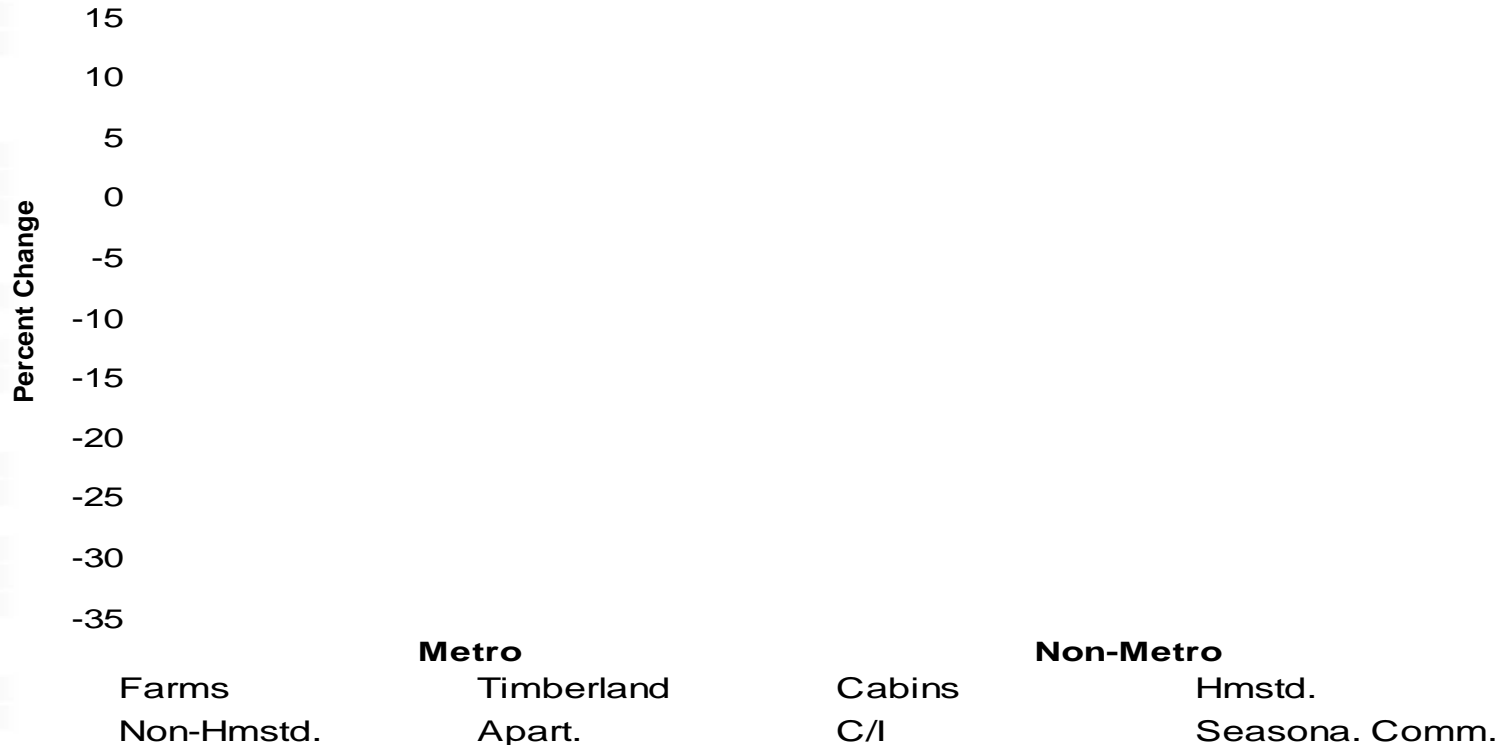
If LMV is Eliminated:

- Question 1: How many parcels would pay more tax and how many would pay less tax?
- Question 2: How much more/less tax would be paid?
- Question 3: Where are the parcels that pay more/less located?

Study Methodology

- ♣ Parcel level data from 2005 parcel level file for residential homesteads (not HGA), cabins, and some farm homesteads; supplemented by 2005 fall mini-abstract.
- ♣ Tax effects calculated using taxes payable 2005 property tax model with 2005 TnT levies.
 - ⊖ *All captured value added to tax base, local tax rates recalculated and used to compute new tax amounts for all homestead and cabin parcels and other classes (not parcel).*
 - ⊖ *Results sorted and analyzed at city/town level.*
- ♣ Parcel analysis captured 100% of limited value for residential homesteads and cabins, but only 52% of value for agricultural homestead.

Average Percent Change in Property Tax Due to LMV, By Class of Property Taxes Payable 2005



If there is value being withheld in a taxing district, then all properties in classes not subject to limitation are paying more tax than if LMV were eliminated.

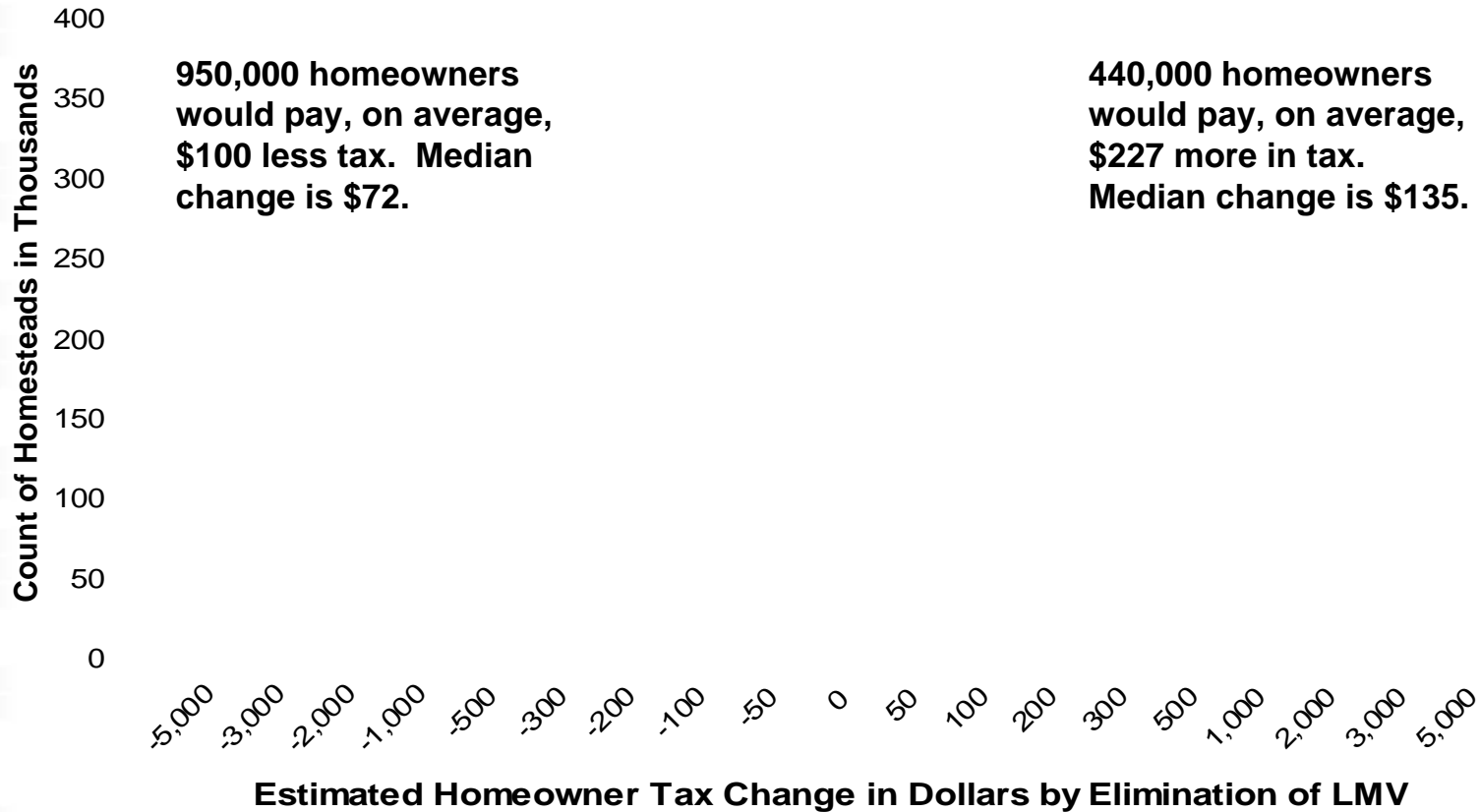
Tax Effects on Residential Homesteads Taxes Payable 2005 (1.39 Million Parcels)

If LMV were eliminated:

- ♣ 440,000 (32%) homeowners would pay \$101 million more tax.
- ♣ 950,000 (68%) homeowners would pay \$95 million less tax; 27% of those 950,000 had some value withheld.
- ♣ Remaining \$6 million shifted off of other classes, and on to homesteads.

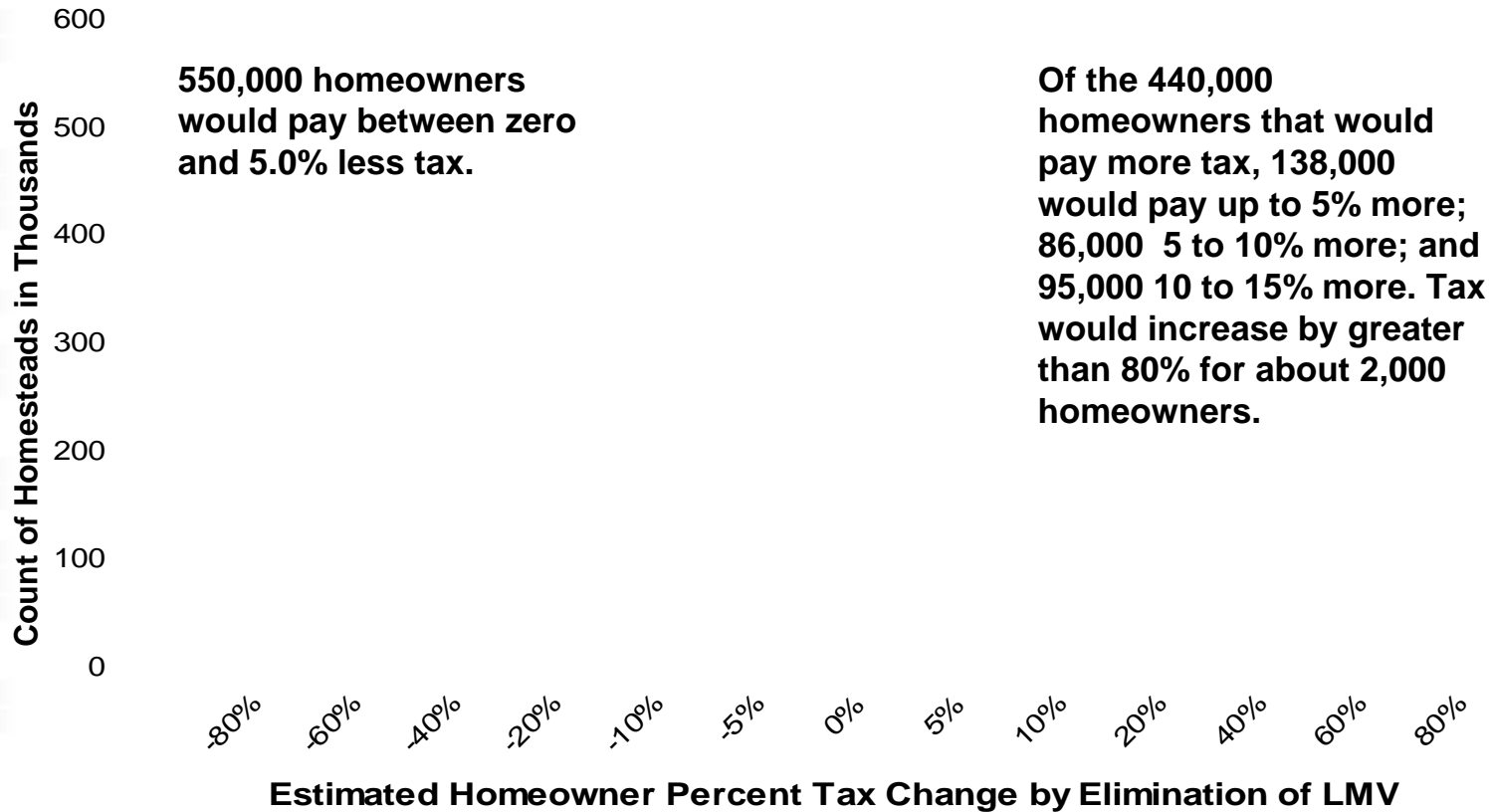
Average Tax Change for Homesteads

By how much would tax bills change, on average, for residential homesteads if LMV were eliminated?



Percentage Tax Change for Homesteads

What would be the percentage increase or decrease in tax bills for residential homesteads if LMV were eliminated?



Geographic Distribution for 1.39M Homestead Parcels

How would elimination of LMV affect homeowners in different areas?

Three maps:

- ♣ Statewide map showing the prevalence of winners and losers at city/town level;
- ♣ Statewide map showing average net tax increase for losers at city/town level (440,000);
- ♣ Statewide map showing average net tax decrease for winners at city/town level (950,000).

Tax Effects on Cabins

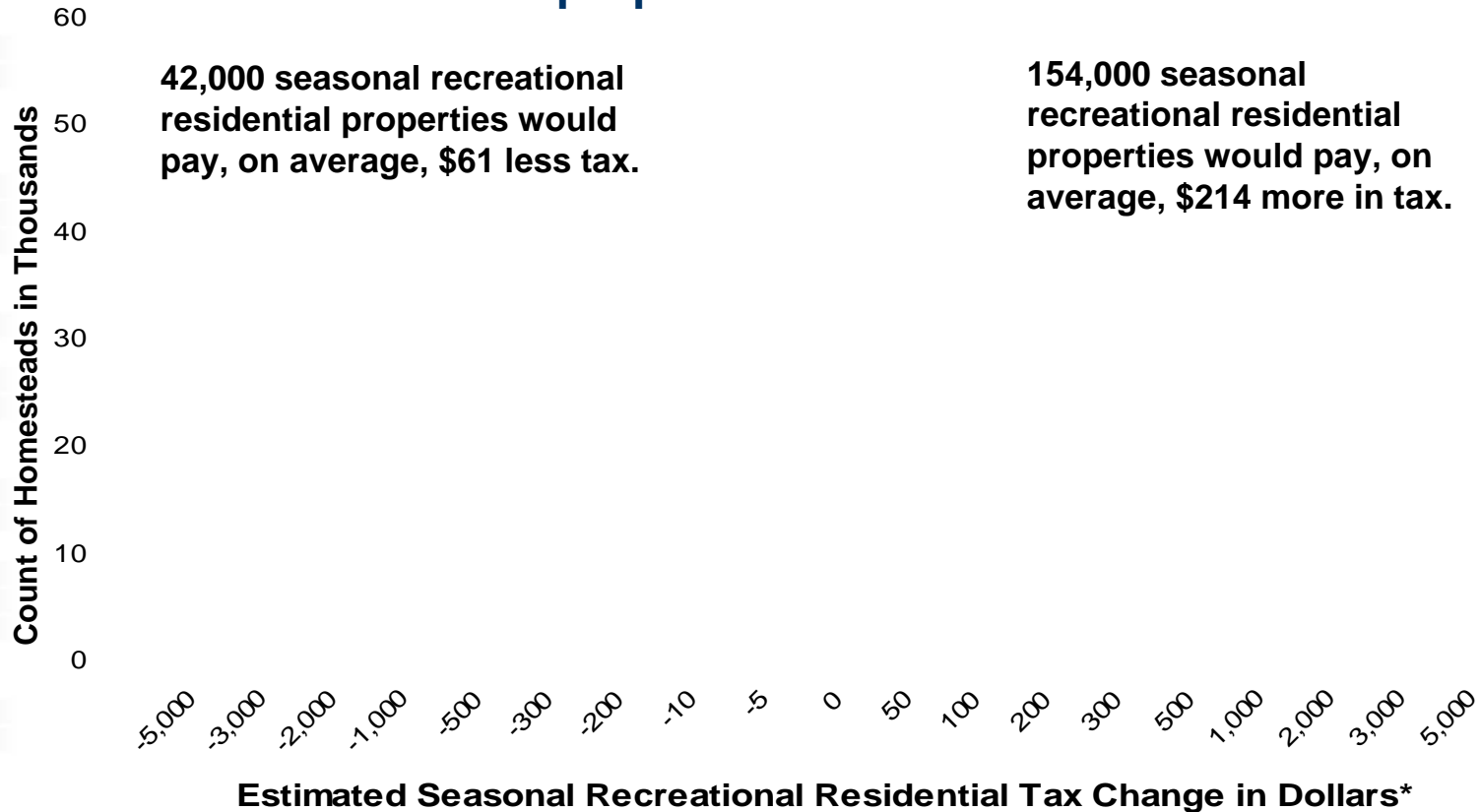
Taxes Payable 2005 (199,000 Parcels)

If LMV were eliminated for taxes payable in 2005:

- ♣ 154,000 (77%) parcels would pay \$33.0 million more tax.
- ♣ 42,000 (21%) parcels would pay \$2.6 million less tax.
- ♣ Remaining \$30.5 million tax shifted off of other classes, and on to cabins.

Average Tax Change for Cabins

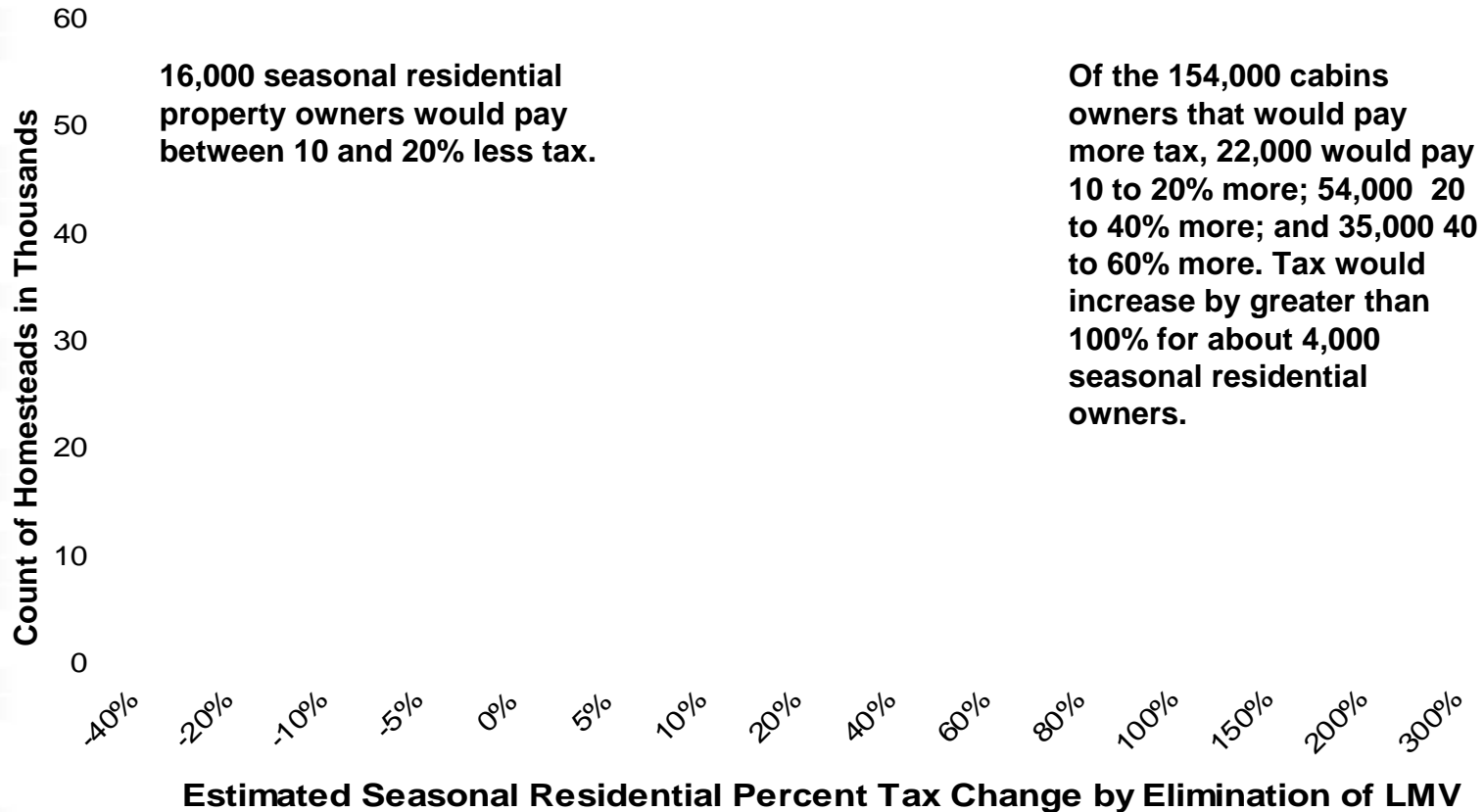
By how much would tax bills change, on average, for seasonal residential recreational properties if LMV were eliminated?



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

Percentage Tax Change for Cabins

What would be the percentage increase or decrease in tax bills for seasonal residential recreational properties if LMV were eliminated?





Thank you