

Property Taxes

Property Tax Relief Aids

Property tax aids are state payments to local taxing jurisdictions that are intended to replace property tax levy revenues. Property tax credits are state payments that reduce property taxes for individual taxpayers. In both cases, the effect is that property taxpayers pay less than what the taxes would be otherwise, and the state makes up the difference by providing payments to the taxing district. The major tax relief programs are the homestead market value exclusion; the agricultural homestead credit and school building bond credit; referendum tax base replacement aid; local government (city) aid; county program aid; and township aid. Most school districts receive some level of aid under all of these programs except those specifically designated for only cities, counties or townships.

Two other major property tax relief programs are the Homestead Credit Refund and the Rental Property Tax Refund. These programs do not reduce individual property tax amounts, but rather provide refunds to eligible property tax payers based on the relationship between their income and property tax liability. Property tax payers with low income relative to their property tax bills have a portion of their tax refunded. Similarly, renters may be eligible to receive a property tax refund based on the assumption that a portion of their rent is property taxes.

Market Value Exclusion

The homestead market value exclusion replaces the homestead market value credit. It reduces a homeowner's overall property tax burden, particularly for low-valued homes. The exclusion reduces the taxable market value of all residential homesteads, including the house, garage, and one-acre of farm homesteads, and equals 40 percent multiplied by the market value of the property up to a maximum exclusion of \$30,400 with the exclusion being phased out for home values over \$76,000. The rate of phase-out equals 9 percent times the market value above \$76,000, resulting in the credit being fully phased-out for homes valued above \$413,800.

Agricultural Credits

The **Agricultural Homestead Market Value Credit** reduces the overall property tax burdens for farmers, particularly for low-valued agricultural homesteads. The credit applies to all agricultural homesteads, but does not apply to the house, garage, and surrounding one acre of farmland, since that portion of the property benefits from the homestead market value exclusion. The credit equals 0.3 percent for the first \$115,000 of value and 0.1 percent for market value above \$115,000. The maximum credit is \$490. The 2017 Legislature created a new tax credit called the **School Building Bond Agricultural Credit**, designed to limit the tax burden of school building projects on agricultural property. It applies to all property classified as agricultural, but does not apply to the house, garage, and surrounding one acre of farmland. The credit equals 40 percent of the property tax that is attributed to school district bonded debt levies. The projected state aid entitlement cost of this credit for taxes payable in 2018 is \$32.2 million.

Referendum Tax Base Replacement Aid

Operating referendum levies are not assessed on agricultural land or non-commercial seasonal recreational property (cabins, for example). In order to prevent the shift of tax burden for referendum levies from these types of properties to other classes of property, districts are paid referendum tax base replacement aid. Payments to school districts equal the amount of taxes cabins and farms would have otherwise paid for existing levies had they not been exempted, based on referendum amounts in existence in 2003.

Property Tax Calculation - Agricultural Homestead Property



Tax Calculation for Agricultural Homestead (For Property Taxes Payable in 2018 for FY 2019)

Estimated Market Value	=	\$360,000
Home, Garage & 1 Acre Estimated Market Value	=	\$100,000
Farm Land Estimated Market Value	=	\$260,000
Class Rate = For Home, Garage and 1 acre:	1.0%	
For Agriculture land:	0.5%	

Taxable Market Value = Est. Market Value (House, Garage & 1 Acre) - Exclusion * (next page)

$$\begin{aligned} &= \$100,000 - \$28,240 \\ &= \$71,760 \end{aligned}$$

Tax Capacity = Taxable Market Value x Class Rate

Tax Capacity, Home = (\$71,760 x 0.01)
= \$718

Tax Capacity, Land = (260,000 x 0.005)
= \$1,300

Tax Capacity, Home and Farmland = \$718 + \$1,300 = \$2,018

Tax Capacity Gross Tax = Tax Rate x Tax Capacity
= Tax Rate x \$2,018

Market Value Net Tax = Tax Rate x Market Value
= Tax Rate x \$100,000 ** (next page)

Calculation of Tax	Tax Capacity		Market Value	
	Tax Rate	x	Tax Rate	x
		\$2,018		\$100,000
County Rate	51.7%	\$1,043	0.0%	\$0
Township Rate	8.3%	\$167	0.0%	\$0
School Rate	25.4%	\$513	0.2%	\$200
Special Rate	5.0%	\$101	0.0%	\$0
Tax Capacity Gross Tax	90.4%	\$1,824		
Agriculture Credit * (next page)		(\$490)		
Market Value Net Tax				\$200
Total Net Tax		\$1,334	+	\$200
			=	\$1,534

*** Calculation of Homestead Market Value Exclusion and the Agricultural Homestead Market Value Credit**

Homestead Market Value Exclusion

Maximum Exclusion = \$30,400

Phase-out portion = $(\$100,000 - 76,000) \times 0.09$
= $\$24,000 \times 0.09$
= \$2,160

Exclusion = $\$30,400 - \$2,160 = \$28,240$

Agricultural Homestead Market Value Credit

Maximum Credit = \$490

Part I = $\$115,000 \times 0.003$
= \$345

Part II = $(\$260,000 - \$115,000) \times 0.001$
= $\$145,000 \times 0.001$
= \$145
= $\$345 + \145

Total Credit = \$490

*** Farm land is excluded from Market Value for most school levies that are levied against Market Value, so this example excludes the farm land from the Market Value used to calculate the Market Value Net Tax.*

