

It is relatively common for municipalities to issue **credits** for property tax. Credits are subtracted after taxes have been calculated. One common credit is the homestead tax credit. To qualify as a homestead, a property must be the primary residence of the homeowner.

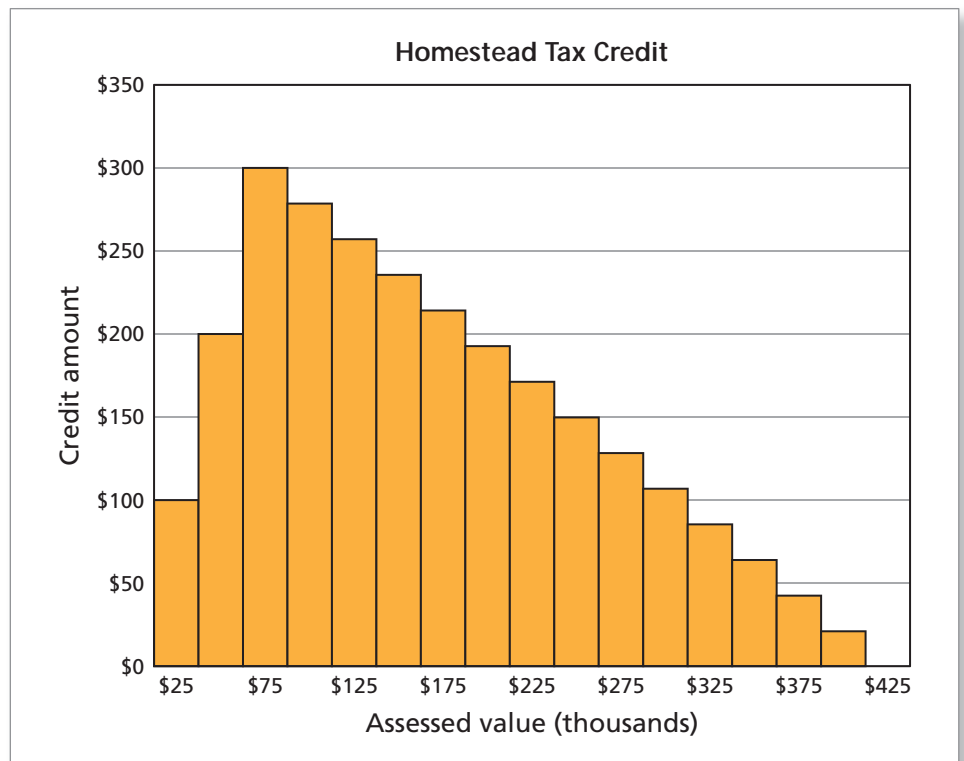
EXAMPLE 4 Applying a Tax Credit

The assessed value of a homeowner's primary residence is \$75,000, and the property tax rate is 40 mills. The homeowner receives a homestead tax credit according to the graph. How much does the homeowner pay for property tax?

Study Tip

Homestead exemption laws have three main characteristics.

1. They prevent the forced sale of a home to meet creditor demands.
2. They provide a surviving spouse with shelter.
3. They provide an exemption from property taxes.



SOLUTION

The graph shows that the homestead tax credit is \$300 for a property with an assessed value of \$75,000. So, the property tax is

$$\begin{aligned} \text{Property tax} &= \text{Tax rate} \times \text{Assessed value} - \text{Credit} \\ &= 0.04(75,000) - 300 \\ &= \$2700. \end{aligned}$$

The homeowner pays \$2700 for property tax.

✓ Checkpoint

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The assessed value of a homeowner's primary residence is \$125,000, and the property tax rate is 70 mills. The homeowner receives a homestead tax credit according to the graph. How much does the homeowner pay for property tax?