MINNESOTA · REVENUE

PROPERTY TAX
Extension of This Old House
Homestead Exclusion

March 1, 2002

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3149 (Anderson) **Revised for oral amendment**

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
		(000's)		
General Fund			$0	$0

Effective August 1, 2002.

EXPLANATION OF THE BILL

Current Law: Improvements to homestead parcels made until January 2, 2003 (taxes payable 2004) are fully or partially excluded from the value of the house for assessment purposes provided that the house is at least 45 years old and the assessor's estimated market value of the house is $400,000 or less. After 10 years the amount of the exclusion is eliminated in two years if the value of the exclusion is $10,000 or less, or in five years if the value of the exclusion is over $10,000.

Proposed Law: The deadline for exemption is moved from assessment year January 2, 2003 to January 2, 2013. **As amended, effective with improvements made after January 2, 2003, valuation eligibility will be reduced from $400,000 to $250,000.**

REVENUE ANALYSIS DETAIL

- The department's report on the This Old House exclusion of homestead value shows that the total exemption currently is $526.5 million, and that the exemption grew by a net amount of $78.7 million from the 2000 to 2001 assessment year (taxes payable 2001 to 2002).
- The first year that the proposal would be effective is assessment year 2004, taxes payable 2005. Thus the proposal has no effect on state costs during the FY 2004 - FY 2005 biennium. Beginning in FY 2006, the continuation of the exclusion will cause a tax shift to other property including homeowners, and increase state costs for homeowner property tax refunds by about $20,000 per year. Elimination of the exclusion for homes between $250,000 to $400,000 for improvements made after January 2, 2003 is unlikely to change homeowner property tax refunds because most owners of the larger homes would not be eligible for the refund.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

sf3149_2/jb