

MINNESOTA • REVENUE

PROPERTY TAX Reinstatement of This Old House Homestead Exclusion

April 11, 2003

Department of Revenue
Analysis of H.F. 232 (Rhodes) / S.F. 175 (Kelley)

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

	Revenue Gain or (Loss)			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
Market Value Homestead Credit	\$0	(\$50)	(\$100)	(\$140)
Property Tax Refund	<u>\$0</u>	<u>(\$20)</u>	<u>(\$30)</u>	<u>(\$50)</u>
General Fund Total	\$0	(\$70)	(\$130)	(\$190)

Effective for qualifying improvements made after January 1, 2003, and before January 2, 2008.

EXPLANATION OF THE BILL

Current Law: Improvements to homestead property 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. The value of the qualifying improvements will be excluded from the property tax for up to 10 years. After 10 years, the amount of the qualifying value is added back to the property 50% in each of the two subsequent assessment years if the value of improvements is \$10,000 or less. If the value of improvements is over \$10,000, 20% of the total exclusion is added back in each of the next five years. The property tax exclusion applies to improvements made before January 2, 2003.

Proposed Law: The bill reinstates the property tax exclusion for improvements to homesteads and extends it to improvements made before January 2, 2008.

REVENUE ANALYSIS DETAIL

- The first year that the proposal would be effective is assessment year 2003, taxes payable in 2004. Thus the proposal has no effect on state costs until FY 2005.
- The department's report on the "This Old House" exclusion of homestead value shows that the total exclusion for assessment year 2002 is \$597.3 million, up from \$212.3 million in 1997. The average exclusion increase from 1997 to 2002 was \$77 million.

REVENUE ANALYSIS DETAIL (cont.)

- For assessment year 2002, the average property exclusion per homestead added to the program was about \$26,700. This average exclusion is expected to increase by 10% annually.
- The number of new properties receiving some amount of exclusion was 2,648 in assessment year 2002. Based on the 1997 to 2002 trend, this number is expected to decrease by about 25% annually. Because the program was scheduled to expire, it was assumed that participation in 2003 would be further reduced by 10%.
- The average market value for residential property in assessment year 2002 was \$138,000. This value is expected to increase 9% annually.

Market Value Homestead Credit

- It is estimated that there will be 1,790 new properties in the “This Old House” program for assessment year 2003, plus an additional 1,493 in 2004 and 1,122 in 2005.
- For properties in the program, the proposed exclusion would increase the market value homestead credit by an average of \$26 in assessment year 2003 and by \$29 and \$32 in 2004 and 2005 respectively.

Homeowner Property Tax Refund

- Beginning in FY 2005, the continuation of the exclusion will cause a tax shift to other property, including homeowners, and increase state costs for homeowner property tax refunds.
- It is assumed that few of the homeowners participating in the program would be eligible for the property tax refund.

Number of Taxpayers Affected: Estimated 4,400 property owners would be directly affected in the first three years.

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