

# MINNESOTA • REVENUE

## PROPERTY TAX Senior Market Value Freeze

April 15, 2003

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

Department of Revenue  
Analysis of H.F. 434 (Severson) / S.F. 441 (Fischbach)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
	(000's)			
Property Tax Refund	\$0	\$1,700	\$4,900	\$9,400
Market Value Credit	<u>\$0</u>	<u>(\$800)</u>	<u>(\$1,800)</u>	<u>(\$3,700)</u>
General Fund Total	\$0	\$900	\$3,100	\$5,700

Effective for taxes payable in 2004 and thereafter.

### EXPLANATION OF THE BILL

**Current Law:** The taxable market value of a homestead owned by a senior aged 65 years or older is valued without preferential treatment. Annual growth in the taxable market value of a all homesteads is limited so that it cannot grow in excess of 15 % for pay 2004 to 2006, or 20% of the annual difference in pay 2004, 25% of the difference for pay 2005, or 33% of the difference in pay 2006 if the latter amounts are greater than the percentage threshold.

**Proposed Law:** The taxable market value of residential homestead and farm homestead house, garage and one acre is frozen at the pay 2003 level if the property is owned and occupied as a homestead by a person 65 years of age or older, or in the case of a married couple if both spouses are 65 years or older. The total household income may not exceed \$40,000, and the homestead must have been occupied by the applicants for at least 15 years. Improvements made to the homestead are not eligible for the valuation reduction.

## **REVENUE ANALYSIS DETAIL**

- It is assumed that both spouses are 65 or over in 90% of senior homesteads.
- It is assumed that 85% of qualified seniors have lived in their home for 15 plus years.
- It is assumed that 75% of senior homeowners have incomes below \$40,000.
- It is assumed that participation will begin at 50% in the first year, and grow to 60% and then 70% in the next two years.
- Because the residential homestead market value credit formula includes a phaseout of the maximum credit over a market value of \$76,000, the limitation on growth of senior homestead market value will result in an increase in the cost of the credit of \$800,000 in F.Y. 2005, and increase of \$1,800,000 in F.Y. 2006, and an increase of \$3,700,000 in F.Y. 2007.
- Freezing the market value of qualified seniors at the pay 2003 level will reduce property tax refunds by about \$1,700,000 in F.Y. 2005, \$4,900,000 in F.Y. 2006, and \$9,400,000 in F.Y. 2007.

**Number of Taxpayers Affected:** About 145,000 senior homesteads would be affected.

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

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