

MINNESOTA • REVENUE

PROPERTY TAX Homestead Property Tax Exemption for Veterans

March 27, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 169 (Rukavina) / S.F. 417 (Murphy) **Estimates Revised to Include Impact on Homestead Market Value Credit**

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
Property Tax Refund	\$0	\$0	\$1,070	\$1,130
Homestead Market Value Credit	<u>\$0</u>	<u>\$0</u>	<u>\$600</u>	<u>\$630</u>
General Fund	\$0	\$0	\$1,670	\$1,760

Assumed effective for taxes payable in 2007 and thereafter.

EXPLANATION OF THE BILL

Current Law: A veteran who has a permanent and total service-connected disability due to the loss, or loss of use, of both lower extremities and who has acquired a special housing unit to accommodate the disability, is entitled to have such a homestead classified under class 1b. This classification applies a class rate of 0.45% on the first \$32,000 of market value, instead of the 1.0% rate applied to homesteads without the 1b classification.

Proposed Law: The bill adds a full exemption from property tax for homesteads of veterans who are 100% disabled as a result of a service-connected disability. The exemption extends to surviving spouses of these veterans. The bill also deletes language in existing law that provides for a 1b disabled class for permanently and totally disabled veterans in specially adopted housing units.

REVENUE ANALYSIS DETAIL

- According to the Minnesota Department of Veterans Affairs, there are approximately 3,735 fully-disabled veterans in Minnesota. It was assumed that about 2,800 are homeowners and would qualify for the proposed homestead property tax exemption.
- The main impact of the exemption on the state general fund would be the elimination of property tax refunds for the disabled veterans.
- It was assumed that 75% of the veterans qualifying for the exemption are eligible for the property tax refund under current law and receive an average refund of \$500. With a full property tax exemption, these refunds would no longer be paid, resulting in a savings to the state general fund.
- The exemption would also result in some shift of property tax to other types of property, increasing state-paid homeowner property tax refunds. The general fund impact is net of this increase.

REVENUE ANALYSIS DETAIL (continued)

- **The exemption would also result in some increased savings to the general fund due to the reduction of the homestead market value credit previously paid to the properties. Based on the average residential homestead market value, the savings would be approximately \$600,000 beginning in fiscal year 2008.**
- A 5% annual growth rate is assumed.

Number of Taxpayers: An estimated 2,800 disabled veterans in Minnesota.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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