

# MINNESOTA • REVENUE

## PROPERTY TAX Homestead Property Valuation Exclusion for Veterans

March 27, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 2857 (Eastlund) / S.F. 3187 (Murphy) **Estimates Revised to Include Impact on Homestead Market Value Credit**

	<b>Fund Impact</b>			
	<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	\$910	\$960
Homestead Market Value Credit	<u>\$0</u>	<u>\$0</u>	<u>(\$520)</u>	<u>(\$550)</u>
General Fund	\$0	\$0	\$390	\$410

Effective for property 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 homestead property valuation exclusion for veterans who are at least 50% disabled as a result of a service-connected disability. The exclusion amount is a graduated scale based on the disability percentage.

<b>Disability Rating</b>	<b>Valuation Exclusion</b>
50% to < 75%	\$30,000
75% to < 100%	\$50,000
100%	\$100,000

The exclusion extends to surviving spouses of these veterans. For agricultural homesteads, only the portion of the property consisting of the house, garage, and surrounding one acre of land qualify for the exclusion. Property owners attempting to qualify must apply to the assessor before July 1 of each assessment year to be eligible for the valuation exclusion in the next taxes payable year. Once the property has been accepted for a valuation exclusion, no annual reapplication is required and the property receives the valuation until there is a change in ownership.

## REVENUE ANALYSIS DETAIL

- According to the Minnesota Department of Veterans Affairs, there are approximately 13,225 veterans in Minnesota with a disability rating of at least 50%:
  - 3,735 fully-disabled;
  - 2,010 who are disabled at least 75% but less than 100%; and
  - 7,480 who are disabled at least 50% but less than 75%.
- It was assumed that about 9,900 are homeowners and would qualify for the proposed homestead valuation exclusion.
- The main impact of the exclusion on the state general fund would be the reduction of property tax refunds for the disabled veterans.
- It was assumed that 75% of the veterans qualifying for the exclusion are eligible for the property tax refund under current law and receive an average refund of \$500. With the partial valuation exclusion resulting in a reduction in property taxes, these refunds would be reduced, resulting in a savings to the state general fund.
- The average refund reductions based on disability rating are assumed to be:
  - \$250 for fully-disabled;
  - \$125 for at least 75% disabled but less than 100%; and
  - \$75 for at least 50% disabled but less than 75%.
- The exclusion 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.
- **The valuation exclusion would result in some increased costs to the general fund due to the increase of the homestead market value credit paid to most properties.** The homestead market value credit is equal to 0.4% of the market value of the property and cannot exceed \$304. The \$304 maximum credit is reduced by 0.09% of the market value in excess of \$76,000. The credit goes to zero at a market value of \$413,778. Based on the average residential homestead market value and the valuation exclusions by disability rating, the costs would be approximately \$520,000 beginning in fiscal year 2008.
- A 5% annual growth rate is assumed.

**Number of Taxpayers:** An estimated 9,900 disabled veterans in Minnesota.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)