MINNESOTA · REVENUE

February 07, 2011

PROPERTY TAX
Disabled Veterans Homestead Valuation Exclusion Extension

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of S.F. 0142 (Wiger) / H.F. 0350 (Lillie) as introduced

	Fund Impact			
	FY2012	**FY2013**	**FY2014**	**FY2015**
	(000's)			
Homestead Market Value Credit	$0	$50	$80	$120
PTR Interactions	$0	$100	$160	$230
Income Tax Interactions	$0	$0	$0	$0
General Fund Total	$0	$150	$240	$350

Effective for property taxes payable in 2011 and thereafter, and applies to homesteads that initially qualified for the exclusion for taxes payable in 2009 and thereafter.

EXPLANATION OF THE BILL

Under current law, a market value exclusion is available for homestead property owned by a disabled veteran who is at least 70% disabled as a result of a service-connected disability. The exclusion amount is based on the disability percentage: 70% to <100% disabled = $150,000 valuation exclusion; and 100% disabled = $300,000 valuation exclusion.

If upon the death of a 100% disabled veteran the spouse is the legal owner of the property, the exclusion carries over to the benefit of the veteran's spouse for one additional assessment year or until the spouse sells, transfers, or disposes of the property, whichever comes first.

The proposal would make permanent the exclusion extension for surviving spouses.

REVENUE ANALYSIS DETAIL

- For assessment year 2010, approximately 9,440 veterans in Minnesota with a disability rating of at least 70% received a homestead valuation exclusion, the third year it was available. Approximately 6,310 have a disability rating of 100%.
- Due to the passing of a qualifying disabled veteran, it is estimated that 3% of homesteads receiving the valuation exclusion would lose eligibility each year under current law. It is assumed that 25% of these homesteads would have no surviving spouse or the spouse would choose to transfer the property. The remaining 75% would be eligible to continue receiving the homestead valuation exclusion.
- A property qualifying for the disabled veteran valuation exclusion is not eligible to receive the market value homestead credit, resulting in a savings to the state general fund. The valuation exclusion also results in a net property tax refund savings to the state general fund. There would be no income tax interaction as shifting property taxes yield zero net change. The average state savings per homestead with a disability rating of 100% is estimated to be

approximately $650. A 3% annual growth rate is assumed.
- The first assessment year impacted would be 2011, for taxes payable in 2012. It is assumed that any eligible spouse who stopped receiving the market value exclusion for pay 2011 would be allowed to continue receiving the exclusion beginning again in pay 2012.
- The proposal would shift an estimated $400,000 in property tax onto all other property types in the first year, $625,000 in the second year, and $875,000 in the third year.
- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: An estimated 500 widowed spouses of veterans would continue receiving the homestead valuation exclusion in the first three years.

PROPERTY TAX BENCHMARKS **(Minn. Stat. § 270C.991)**

Transparency, Understandability, Simplicity & Accountability	Neutral	
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Increase	For taxpayers, the permanent exclusion would be in place until the property is transferred.
Competitiveness for Businesses	Neutral	
Responsiveness to Economic Conditions	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

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

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