

MINNESOTA • REVENUE

PROPERTY TAX

Valuation Exclusion for Improvements to Certain Properties

March 09, 2011

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of S.F. 0552 (Latz) / H.F. 0877 (Simon) as introduced

	Fund Impact			
	FY2012	FY2013	FY2014	FY2015
		(000's)		
General Fund	\$0	\$0	\$35	\$70

Effective for improvements initially subject to assessment on January 2, 2012, and thereafter.

EXPLANATION OF THE BILL

The bill allows new improvements to homestead property to be fully or partially excluded from property tax assessments. Under current law, the last new homestead improvements allowed under this law, commonly referred to as the "This Old House" exclusion, were those before January 2, 2003. Homesteads eligible must be older than 45 years, and have an assessed value less than or equal to \$400,000 on January 2 of the current year. The total qualifying value of the improvements excluded may not exceed \$50,000.

In addition, the bill allows new improvements to commercial and industrial property to be fully or partially excluded from property tax assessments. Eligible property must be older than 45 years, and have an assessed value less than or equal to \$2,000,000 on January 2 of the current year. The total qualifying value of the improvements excluded may not exceed \$250,000.

REVENUE ANALYSIS DETAIL

- It is assumed that the new improvement exclusions for residential homesteads will be about \$70 million of market value per year, based on the annual average exclusion under the old program from assessment year 1994 to 2003. In addition, the commercial-industrial exclusion is assumed to be about \$20 million of market value per year, based on the volume of new construction in the a "normal" year, 2007.
- The exclusions would shift property taxes onto non-preferred property types within individual jurisdictions.
- There would be a net decrease in homestead property taxes, resulting in a property tax refund savings of about \$35,000 per year.

Number of Taxpayers: About 60,000 homeowners were enrolled in the old homestead program at its peak.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	Two new value exclusion programs complicate the system.
<i>Efficiency & Compliance</i>	Decrease	Additional data requirements for administering two new programs.
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Neutral	
<i>Competitiveness for Businesses</i>	Mixed	Value exclusions for homesteads may increase property taxes for some businesses, while some businesses will directly benefit from exclusion.
<i>Responsiveness to Economic Conditions</i>	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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