DEPARTMENT OF REVENUE

April 25, 2018

PROPERTY TAX
Disabled veterans homestead exclusion spousal benefit modified

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
S.F. 3261 (Anderson, B) as proposed to be amended by SC3261A-2

	Fund Impact			
	FY2018	**FY2019**	**FY2020**	**FY2021**
	(000's)			
PTR Interactions - Application due date changed	$0	$0	$600	negligible
PTR Interactions - Exclusion transfer for spouses	$0	$0	$60	$70
General Fund Total	$0	$0	$660	$70

Effective beginning with assessments in 2018, for taxes payable in 2019.

EXPLANATION OF THE BILL

Under current law:

1. the homestead of a veteran with a disability becomes eligible for a valuation exclusion in the current assessment year if the application is received by July 1. For applications received after July 1, the exclusion becomes effective for the following assessment year; and
2. when a veteran who had a 100 percent and permanent disability dies, the surviving spouse is allowed to receive the exclusion for the year in which the veteran died and for eight additional taxes payable years, provided that the surviving spouse holds legal or beneficial title to the homestead and resides there; however, a surviving spouse no longer qualifies for the exclusion if the spouse remarries, ceases to use the property as a permanent residence, or sells, transfers, or otherwise disposes of the property.

Under the proposal:

1. the due date for applications would be changed to December 15, and all approved applications filed by December 15 would receive the exclusion for the current assessment year; and
2. the general requirements for surviving spouses regarding remarriage, ownership, and residency would remain; however, a surviving spouse would be allowed a once-per-lifetime transfer of the exclusion to a different property, provided that on the date of sale of the original property, the estimated market value of the new property is less than or equal to the estimated market value of the property that originally received the exclusion. The total number of years that a surviving spouse is allowed to receive the exclusion would still be limited to eight taxes payable years.

The bill also includes language that allows the county veterans service officer and the assessor to exchange data needed for determining a person's eligibility for the exclusion.

REVENUE ANALYSIS DETAIL

Application due date changed to December 15:

- The proposal would allow veterans or surviving spouses who move after July 1 to reapply for the exclusion in the same assessment year as the move occurred.
- In addition, the later application date would allow newly eligible veterans to apply after July 1 of the current year and receive the exclusion for the current assessment year, rather than the following assessment year (as under current law).
- Changing the application deadline for the exclusion creates a shift in net state savings due to property tax refund interactions.
  - The main impact occurs in the initial fiscal year. A portion of the state-paid property tax refund that under current law is saved in one fiscal year would now be shifted into the previous fiscal year.
  - The impact of the shift in subsequent years is the difference between forecasted refund savings under current law and the effect of shifting those amounts into the previous fiscal year.
  - The first year the state general fund would be impacted under the proposal would be for applications filed in 2018 for taxes payable in 2019 (state-paid property tax refunds in FY 2020).
- It is assumed that approximately 2,000 applications will be received in calendar year 2018, and that about half of the applications will be filed between July 2 and December 15.
  - Approximately 14,800 parcels received the exclusion for taxes payable in 2017, while approximately 15,400 parcels received the exclusion for taxes payable in 2018. This is a net increase of about 600 parcels. However, from taxes payable 2017 to taxes payable 2018, more than 1,400 parcels ceased receiving the exclusion, while more than 2,000 parcels began receiving the exclusion.
- Beginning with taxes payable in 2019, the later application deadline would result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads. The average savings per homestead (with either a 70% or a 100% disability rating) is an estimated $560, assumed to grow annually at a 3% rate.
- At the same time, the proposal would shift an estimated $2 million in property tax (for taxes payable in 2019) onto all other property types, including other homesteads. This would increase homeowner property tax refunds. The overall property tax refund savings to the state is net of these costs.
- Under the proposal, an estimated $600,000 of property tax refund savings currently projected for FY 2021 would shift into FY 2020.
- For subsequent years (beginning in FY 2021) the net impact on the state general fund is estimated to be less than $5,000.

Surviving spouse one-time transfer of exclusion to a different property:

- It is estimated that 5% of surviving spouse homeowners move each year.
- For surviving spouses that moved prior to calendar year 2018, a participation rate of 25% is assumed.
- For surviving spouses moving in calendar year 2018 or later, a participation rate of 50% is assumed.
- It is estimated that approximately 100 surviving spouses would benefit from the proposal in taxes payable 2019.
- Beginning with taxes payable in 2019, the transfer of the exclusion would result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads. The average savings per homestead with a 100% disability rating is an estimated $570, assumed to grow annually at a 3% rate.

- At the same time, the proposal would shift an estimated $210,000 in property tax (for taxes payable in 2019) onto all other properties, including other homesteads. This would increase homeowner property tax refunds. The overall property tax refund savings to the state is net of these costs.
- Under the proposal, an estimated $60,000 in property tax refund amounts would be saved by the state in FY 2020.
- Tax year impacts are allocated to the following fiscal year.

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

Transparency, Understandability, Simplicity & Accountability	Neutral	
Efficiency & Compliance	Decrease	For counties, there would need to be a way to track exclusions that move with a surviving spouse homeowner (especially if the homeowner moves to a different county).
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
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
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

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