

PROPERTY TAX

Prohibiting an increase in property value for homesteads owned by persons age 65 or older

February 20, 2019

	Yes	No
DOR Administrative Cost/Savings		x

Department of Revenue

Analysis of H.F. 0160 (Green) / S.F. 0600 (Utke) as introduced

	Fund Impact			
	FY2020	FY2021	FY2022	FY2023
	(000's)			
General Fund	\$0	\$440	\$2,850	\$4,610

Effective beginning with assessment year 2019 for taxes payable in 2020.

EXPLANATION OF THE BILL

Under current law, there are no market value exclusions based on a homeowner's age.

Under the proposal, the estimated market value of class 1 property, and that portion of class 2a property consisting of the house, garage, and surrounding one acre of land, may not exceed the previous year's estimated market value if:

- the homeowner occupies the property as a homestead, and
- the homeowner is 65 years of age or older on the day of assessment, and
- an application for the valuation freeze is submitted to the county assessor by July 1 of the assessment year.

For married couples, both spouses must be at least 65 years of age on the day of assessment, even if only one of them holds title to the property. Value increases due to new improvements are not eligible for the exclusion.

REVENUE ANALYSIS DETAIL

- Excluding new improvement values, it is assumed that residential property values will increase by 3% per year.
- It is estimated that 20% of the overall increase in homestead value would be eligible for the exclusion.
- Due to limited time to apply for the exclusion for assessment year 2019, the participation rate in the program is assumed to be 25% in the first year.
- The bill would reduce taxable market value for homesteads that benefit from the exclusion, shifting an estimated \$6.9 million in property tax onto other properties within individual jurisdictions in FY 2021.
 - This would reduce property tax refunds for participating homesteads by approximately \$750,000 in FY 2021.
 - At the same time, a portion of the property tax shift onto other properties would fall onto residential homesteads, increasing their property tax refund by approximately \$320,000. The overall savings to the state is net of this cost.

- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: It is estimated that 300,000 homesteads would be eligible for the exclusion.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Decrease	A new value exclusion program complicates the system.
<i>Efficiency & Compliance</i>	Decrease	Additional data requirements for administering the new program.
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Increase	For benefiting taxpayers, the valuation freeze would result in more stable property tax payments.
<i>Competitiveness for Businesses</i>	Neutral	
<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
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

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