DEPARTMENT OF REVENUE

March 19, 2019

PROPERTY TAX

Disabled veteran homestead exclusion application due date modified, and refunds provided for qualifying veterans

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 1259 (Sandstede) as proposed to be amended by HF1259A2

	Fund Impact			
	FY2020	**FY2021**	**FY2022**	**FY2023**
	(000's)			
PTR Interactions - Due Date Change	$0	$600	negligible	negligible
PTR Interactions - Special Refund	negligible	$0	$0	$0

The due date change is effective for assessments beginning in 2019.
The special refund of taxes paid in 2017 and 2018 is effective for applications received in 2019.

EXPLANATION OF THE BILL

Application Due by December 15:
Under current law, 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.

Under the proposal, 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.

Special Refund of Taxes Paid in 2017 and 2018:
Under current law, the exclusion must be granted before taxes are paid. No refund of taxes is allowed.

Under the proposal, a qualifying veteran who received a 70 percent or greater disability rating in 2016 or 2017 would be allowed to apply for a retroactive exclusion for assessment years 2016 and/or 2017 and receive a refund of taxes paid in 2017 and/or 2018. Refund amounts would be calculated as follows:

- The county auditor would recalculate the taxes based on the applicable exclusion ($150,000 or $300,000).
- The difference between the original tax amount and the recalculated tax amount would be refunded to the taxpayer.

To obtain the special refund, a veteran would need to submit an application by December 15, 2019.

REVENUE ANALYSIS DETAIL

Application Due by December 15:

- The bill would allow veterans 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 bill would be for applications filed in 2019 for taxes payable in 2020 (property tax refunds in FY 2021).
- It is assumed that approximately 1,000 applications will be received in calendar year 2019 between July 2 and December 15.
- Beginning with taxes payable in 2020, 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 is an estimated $560, assumed to grow annually at a 3% rate.
- At the same time, the bill would shift an estimated $2 million in property tax (for taxes payable in 2020) 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 2022 would shift into FY 2021.
- For subsequent years (beginning in FY 2022) the net impact on the state general fund is estimated to be less than $5,000.

Special Refund of Taxes Paid in 2017 and 2018:

- It is assumed that fewer than 10 taxpayers would apply for the special refund.
- There would be no shifting of taxes since property taxes have already been paid for 2017 and 2018.
- It is assumed that the proposal would have no effect on levies set by local taxing jurisdictions.
- However, after receiving this special refund, taxpayers that also received a homeowner's property tax refund in 2017 and/or 2018 would need to file an amended property tax refund return. The amount of the homeowner's refund would be recalculated and reduced. The savings to the state general fund is assumed to be less than $5,000 in FY 2020.

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

Transparency, Understandability, Simplicity & Accountability	Neutral
Efficiency & Compliance	Neutral
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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