

April 02, 2019

PROPERTY TAX

Homestead determinations modifications

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of S.F. 1758 (Weber) / H.F. 2141 (Marquart) as introduced

	Fund Impact			
	FY2020	FY2021	FY2022	FY2023
	(000's)			
Property Tax Refund Interaction	\$0	(\$60)	(\$60)	(\$60)
Ag Homestead Market Value Credit	\$0	(\$260)	(\$270)	(\$270)
Estate Tax	(unknown)	(unknown)	(unknown)	(unknown)
General Fund Total	\$0	(\$320)	(\$330)	(\$330)

Effective on July 1, 2019.

EXPLANATION OF THE BILL

The proposal would make a number of changes to the special rules for homestead determinations. The proposal reorganizes the homestead statute, adds definitions for some terms, and clarifies a number of items related to homestead classification. It would also expand properties eligible for agricultural homestead classification in a few situations. These include:

- Allowing homestead for entity-owned property that is farmed by a separate entity
- Including the surviving spouse of a deceased grantor of a trust to qualify as the owner's spouse
- Allowing individually owned homestead property to be linked to property owned by spousal trusts (living or deceased)
- Allowing certain transfers of ownership for property that qualified as homestead under special circumstances in 1997, 1998, 2007, and 2008

REVENUE ANALYSIS DETAIL

- Under the proposal, the classification rate for all properties changing from non-homestead agricultural land to homestead agricultural land would change from 1.00% to 0.50% for the first \$1.94 million of value and 1.00% for the remaining value.
 - By allowing homestead for entity-owned property farmed by a separate entity, it is assumed that one percent, or approximately \$500 million, of 2a and 2b non-homestead land market value statewide would qualify as homestead agricultural land under the proposal.
 - By allowing homestead for spousal trusts and certain transfers of ownership for properties that qualified for homestead under special circumstances, it is assumed that a small number of properties would qualify as homestead agricultural land under the proposal.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural homestead and onto all other properties, including other homesteads.

- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by \$60,000 beginning in fiscal year 2021.
- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by \$270,000 beginning in taxes payable 2020. These numbers have been converted to fiscal years for the purpose of this estimate.
- Adequate data is not available to estimate the impact of the proposal on estate taxes. Since the additional property that would be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue would be small. However, it is likely that the impact could be significant for a small number of taxpayers.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Increase	Clarifies some language and terms regarding homestead classification.
	Decrease	Decreases simplicity by expanding situations that would qualify for agricultural homestead classification.
<i>Efficiency & Compliance</i>	Decrease	Increases administrative complexity for assessors that would need to determine whether or not land qualifies as homestead under the proposal.
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Neutral	
<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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