

**PROPERTY TAX
Modifying the homestead
market value exclusion**

March 15, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3192 (Rest) / H.F. 3629 (Morrison) as introduced

Fund Impact

	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
Property Tax Refund Interaction	\$0	\$0	\$0	\$1,610

Effective beginning with assessment year 2023.

EXPLANATION OF THE BILL

Under current law, the homestead market value exclusion reduces the taxable market value for all homesteads valued below \$413,800. The exclusion is 40% of the first \$76,000 of market value, yielding a maximum exclusion of \$30,400. For homestead value between \$76,000 and \$413,800, the exclusion is \$30,400 minus 9% of the value over \$76,000. Homesteads valued at \$413,800 or more do not receive the exclusion.

The proposal would increase the homestead market value exclusion for most homesteads. The exclusion would equal 40% of the first \$80,300 of market value, yielding a maximum exclusion of \$32,120. For homesteads valued between \$80,300 and \$437,100, the exclusion would be \$32,120 minus 9% of the value over \$80,300. Homesteads valued at \$437,100 or more would not receive the exclusion.

REVENUE ANALYSIS DETAIL

- The estimate is based on the February 2022 forecast.
- Under current law, 1.32 million homesteads qualify for the homestead market value exclusion for taxes payable 2022. The total exclusion statewide is \$23.58 billion.
- Under the proposal, all homesteads over \$76,000 and less than \$413,800 of market value would receive an increased homestead market value exclusion. This represents 95% of homesteads that currently receive the exclusion.
- An additional 37,000 homesteads would qualify for the homestead market value exclusion under the proposal due to the increase in maximum qualifying market value from \$413,800 to \$437,100.
- The total homestead market value exclusion would increase by \$2.65 billion statewide.
- The proposal would reduce the taxable market value and net tax capacity for homesteads newly qualifying for the exclusion and those receiving a larger exclusion. Property taxes would shift away from these homestead properties and onto all other properties, including other homesteads.

- The net impact of property taxes shifting away from and onto homesteads would be a \$14 million decrease in homestead taxes statewide.
- As a result of property taxes shifting away from homesteads, property tax refunds paid by the state would decrease by \$1.61 million beginning in fiscal year 2025.

Number of Taxpayers: Approximately 1.29 million homesteads would newly qualify or receive a larger homestead market value exclusion under the proposal.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral
<i>Efficiency & Compliance</i>	Neutral
<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
<https://www.revenue.state.mn.us/revenue-analyses>

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