

**PROPERTY TAX  
Exclusion for Veterans with a  
Disability Increased**

March 2, 2023

Department of Revenue  
Analysis of H.F. 236 (Freiberg) 1st Engrossment

	Yes	No
DOR Administrative Costs/Savings	X	

**Fund Impact**

	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
PTR Interaction – Veteran Homesteads	\$0	\$2,820	\$3,760	\$4,420
PTR Interaction – Other Homesteads	<u>\$0</u>	<u>(\$850)</u>	<u>(\$1,060)</u>	<u>(\$1,210)</u>
General Fund Total	\$0	\$1,970	\$2,700	\$3,210

Effective beginning with assessment year 2023.

**EXPLANATION OF THE BILL**

**Exclusion Amounts Modified**

Under current law, the market value exclusion for the homestead of a veteran with a disability is:

- \$150,000 for a veteran with a 70% or greater disability, and
- \$300,000 for a veteran with a total (100%) and permanent disability.

Under the proposal, the exclusion amounts would be determined by first establishing a base amount that adjusts for inflation:

- For assessment year 2023, the base amount would be \$400,000.
- For all subsequent years, the base amount would equal the prior year's base amount adjusted for inflation.
- The adjustment for inflation would equal the rate of increase, if any, in the implicit price deflator for state and local government consumption expenditures and gross investment for the 12-month period ending March 31 of the prior assessment year.

Under the proposal, the base amount would be applied as follows:

- For the homestead of a veteran with a total (100%) and permanent disability (or the homestead of a surviving spouse), the exclusion would equal the base amount.
- For all other homesteads, the exclusion would equal the base amount multiplied by the disability rating percentage of the eligible veteran.

**Surviving Spouse Eligibility Modified**

Under current law, a surviving spouse may file a first-time application for the 100%-permanent-disability exclusion within two years of:

- 1) the death of an armed forces service member who died due to a service-connected cause while serving honorably in active service, or
- 2) the death of an eligible veteran.

Under current law, the surviving spouse of an eligible veteran was also allowed to file a first-time application by June 1, 2019 if the veteran died any time after December 31, 2011.

Under the proposal, a first-time application for the 100%-permanent-disability exclusion may be filed at any time by:

- 1) the surviving spouse of an armed forces service member who died due to a service-connected cause while serving honorably in active service, or
- 2) the surviving spouse of an eligible veteran, even if the veteran died at a time when the exclusion did not yet exist.

**Surviving Spouse Reapplication Allowed**

Under current law, the number of years that a surviving spouse may continue receiving the exclusion is not limited. However, prior to legislation passed in 2019 for taxes payable in 2020, the surviving spouse benefit was limited to no more than eight years. Any surviving spouse that received the exclusion for taxes payable in 2019 was eligible for the extension to a lifetime benefit.

The proposal would allow a surviving spouse to reapply for the exclusion if the exclusion expired prior to assessment year 2019 (for taxes payable in 2020) due to the eight-year limit that was in effect at the time.

**REVENUE ANALYSIS DETAIL**

The Homestead Exclusion for Veterans with a Disability was created by the 2008 Legislature and was first available for property taxes payable in 2009.

Tax year impacts are allocated to the following fiscal year.

**Exclusion Amounts Modified**

- In assessment year 2022, approximately 21,000 homesteads received the exclusion.
- In assessment year 2023, an estimated 14,000 homesteads would benefit under the proposal.
- In subsequent years, the number of benefitting homesteads is estimated to increase by about 1,000 homesteads per year (due to rising homestead values as well as new applicants).
- For assessment year 2024 only, the inflation adjustment is estimated to be 6%. The inflation adjustment is assumed to be 3% thereafter.
- Under the proposal, the exclusion amounts would change as follows for assessment year 2023 (taxes payable in 2024):

<b>Veterans with a Disability Exclusion Amounts - AY 2023</b>		
<b>Disability Rating</b>	<b>Current</b>	<b>Proposed</b>
100% permanent	\$300,000	\$400,000
100% temporary	\$150,000	\$400,000
90%	\$150,000	\$360,000
80%	\$150,000	\$320,000
70%	\$150,000	\$280,000

- The proposal would result in a net savings to the state of \$1.94 million in fiscal year 2025 due to a reduction in state-paid property tax refunds (PTR) to qualifying homesteads.
  - For taxes payable in 2024, the proposal would reduce PTR to qualifying homesteads by an estimated \$2.78 million, resulting in a savings to the state general fund.
  - At the same time, the proposal would shift an estimated \$15.5 million in property taxes onto other properties, including other homesteads, increasing PTR by \$840,000. The overall savings to the state general fund is net of this cost.

Number of Taxpayers: Approximately 14,000.

### **Surviving Spouse Eligibility Modified**

- It is estimated that at the time the exclusion was created, there were approximately 1,000 surviving spouses of deceased veterans whose homesteads would have met the qualifications for the 100%-permanent-disability exclusion.
- By assessment year 2023, it is estimated that under the proposal approximately 200 surviving spouses would still be eligible for the exclusion.
- A 50% participation rate is assumed for assessment year 2023 (taxes payable in 2024).
- The proposal would result in a net savings to the state of \$30,000 in fiscal year 2025 due to a reduction in state-paid property tax refunds (PTR) to qualifying homesteads.
  - For taxes payable in 2024, the proposal would reduce PTR to qualifying homesteads by an estimated \$40,000, resulting in a savings to the state general fund.
  - At the same time, the proposal would shift an estimated \$280,000 in property taxes onto other properties, including other homesteads, increasing PTR by \$10,000. The overall savings to the state general fund is net of this cost.
- In addition, it is assumed that fewer than ten applications would be filed by surviving spouses of armed forces service members who died due to a service-connected cause while in active service, resulting in a net savings to the state of less than \$5,000 in fiscal year 2025.

Number of Taxpayers: Approximately 100.

### **Surviving Spouse Reapplication Allowed**

- The exclusion has been in existence since taxes payable year 2009.
- For some homesteads, the surviving spouse benefit may have been in its eighth year as early as taxes payable year 2017 or 2018, resulting in the exclusion being removed for taxes payable in 2018 or 2019, respectively.
- Under the proposal, it is assumed that fewer than ten homesteads would reapply for the exclusion, resulting in a net savings to the state of less than \$5,000 in fiscal year 2025.

Number of Taxpayers: Assumed to be fewer than ten.

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

<i>Transparency, Understandability, Simplicity &amp; Accountability</i>	Decrease	Determining the exclusion amount would become more complex.
<i>Efficiency &amp; Compliance</i>	Neutral	
<i>Equity (Vertical &amp; Horizontal)</i>	Neutral	
<i>Stability &amp; Predictability</i>	Neutral	
<i>Competitiveness for Businesses</i>	Neutral	
<i>Responsiveness to Economic Conditions</i>	Increase	The exclusion amount would be adjusted for inflation.

*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>

hf0236(sf0772) Veterans Exclusion Increased\_pt\_2/jtb