HOUSE RESEARCH

Bill Summary

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Overview

H.F. 2142 includes the following provisions:

- Increases the market value qualifying for a reduced class rate for the homestead of a blind or disabled person from $32,000 to $50,000

- Reinstitutes the "this old house" program, which allows the increase in value due to a new improvement made to an older home to be excluded from the property's taxable value for 10 years

- Establishes a new classification for rural lands to differentiate them from agricultural property and seasonal recreational property, with the same class rate as agricultural nonhomestead property

- Authorizes counties to establish procedures to allow homeowners to pay their property taxes in eight monthly installments from May through December of each year

- Establishes a property tax deferral program for owners of seasonal-recreational property, which would defer 50 percent of the property tax amount in excess of the tax amount in the year of application for the program, payable upon transfer of the property or the death of the owner

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- Extends the deadline for filing for a property tax refund by three years

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1 **Agricultural lands.** Provides that when agricultural land is sold and the purchaser changes its use that would result in a classification change, the sales ratio study must take it into account as soon as practicable.

Effective for the first sales ratio study prepared following the day following final enactment.

2 **Certificate of value; requirement.** Requires that the certificate of value include any proposed change in use of the property known to the person filing the certificate that could change the classification of the property. A certificate of value must be filed when property is sold. and it is the basis for the sales ratio study prepared by the department of revenue in equalization of values.

3 **Valuation exclusion for certain improvements.** Re-establishes the "This old house" program that was in effect from 1993 to 2003. This program excludes up to $75,000 of qualifying value of new improvements provided that:

(1) house is at least 50 years old at the time of the improvement, and

(2) the assessor's estimated market value of the house on January 2 of the current year does not exceed $400,000.

The improvements for a single project or in any one year must add at least $15,000 to the value of the property to be eligible for the exclusion, but no more than two separate improvements may be made to the homestead. The exclusion is for 10 years, and shall be added back to the property as follows;

(1) 50 percent in the two subsequent assessment years if the qualifying value is equal to or less than $20,000 market value; or

(2) 33 1/3 percent in the three subsequent assessment years if the qualifying value is greater than $20,000.

The owner must file an application with the assessor. Various provisions are specified in the bill for filing the application (its timing, etc) for property located both in jurisdictions requiring and not requiring building permits. Most of the language is identical to what was in effect under the former "This old house program."

Valuation exclusion terminates whenever; the (1) property is sold; or is (2) reclassified to a class that does not qualify.

Effective for improvements made after January 2, 2008.

4 **Disabled homestead class; class 1b.** Increases the market value eligible for the 1b classification from $32,000 to $50,000. This class, which has a class rate of 0.45 percent, includes homestead property of persons who are blind, paraplegic veterans, and any person

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that is permanently and totally disabled.

Effective for assessment year 2007 and thereafter, payable 2008 and thereafter.

5 **Class 2.** Establishes a new rural vacant land classification that was recommended by the Department of Revenue and the task force to help uniformity in valuing and classifying this type of rural land. (The 2005 Legislature asked the DOR to review this topic.) The new subclass includes unplatted real estate that is rural in character and consists of at least ten acres, including land used for growing trees for timber, lumber, and wood products but not used for agricultural products. An ancillary nonresidential structure (i.e., a hunting shack) does not disqualify the property from this classification. The establishment of this new subclass will aid assessors in classifying this rural vacant land that is now being classified differently.

The other changes made in the section are changes to references due to the addition of the new subclass in clause (1).

Effective for assessment year 2007 and thereafter, payable in 2008 and thereafter.

6 **Class 4.** Contains a technical change due to the changes in section 5.

7 **Classification of unimproved property.** Contains a technical change due to the changes in section 5.

8 **Homestead property; monthly payment option.** (a)Allows any owner of homestead property (residential, agricultural, and homestead resorts) to make their property tax payments in eight equal monthly installments from May 15th to December 15th (rather than the current two payments). Requires homeowners desiring that option of payment to apply to the county by April 15th of the year the taxes are payable.

(b) Requires counties to establish procedures allowing homeowners the option of paying current year's taxes on an 8 monthly basis. The counties procedures must address how homeowners can participate, payment plans, including the possibility of automatic bank withdrawals, payment due date notifications, whether to require annual applications, how to modify the settlement process, and any other procedures the county board deems necessary to implement this new payment process.

(c) Requires that the application procedure must be included in the property tax statement mailing.

(d) Provides that the penalties on unpaid taxes under the monthly payment program are the same as under current law by equating the number of days that any of the monthly payments are overdue, corresponding to the current two payment dates.

Effective for taxes payable in 2008 and thereafter.

9 **Property tax refund claims.** Extends the time period for filing property tax refund claims from one year to three years. The time period for filing the special property tax refund (i.e., targeting) remains at one year.

Effective for property taxes payable in 2006 and thereafter, and rent paid in 2005 and thereafter.

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10 **Seasonal recreational property tax deferral program.** Establishes the "seasonal recreational property tax deferral program" (sections 10 to 18).

11 **Terms.**

Subdivision 1. Terms. Defines the terms used in this section.

Subd.2. Primary property owner. "Primary property owner " means a person (1) who has been the owner, or one of the owners, of the eligible property for at least 15 years prior to filing the application to be in the program; and (2) applies for the deferral of the property taxes.

Subd. 3. Secondary property owner. "Secondary property owner" means any person, other than the primary property owner, who has been an owner of the eligible property for at least 15 years prior to the year the initial application is filed for deferral of property taxes.

Subd. 4. Eligible property. "Eligible property" means a parcel of property or contiguous parcels of property under the same ownership and classified as noncommercial seasonal residential recreational property (i.e., cabins).

Subd. 5. Base property tax amount. "Base property tax amount" means the total property taxes levied by all taxing jurisdictions, including special assessments, on the eligible property in the year prior to the year that the initial application is approved and payable in the year of that application.

Subd. 6. Special assessments. "Special assessments" mean any assessment, fee, or other change that may be made by law, and that appears on the property tax statement for the property for collection under the laws and enforcement of real estate taxes.

Subd.7. Commissioner. "Commissioner" means the commissioner of revenue.

12 **Qualifications for deferral.** Defines the criteria needed for a property to qualify for deferral:

(1) the property must have been owned by the primary owner for at least 15 years prior to enrolling in the deferral program.

(2) there can be no state or federal tax liens or judgment liens on the property;

(3) there can be no mortgages or other liens on the property except for those subject to the credit limits under clause (4); and

(4) the total amount of secured debt on the property, including mortgages and other liens, delinquent special assessments, and delinquent property taxes, but not including the current year's property taxes, may not exceed 60 percent of the property's estimated market value.

13 **Application for deferral.**

Subdivision 1. Initial application. (a) Requires an owner of a qualified property to file an application on or before July 1 of any year in order for property taxes payable in the forthcoming year to qualify for deferral. The application must include:

(1) the name, address and social security number of the primary owner and any

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secondary owners;

(2) a copy of the current year's property tax statement;

(3) the initial year of ownership of the primary owner and any secondary owners;

(4) information on all loans secured by mortgages or other liens on the property; and

(5) the signature of the primary owner and all other owners, stating that they agree to having the property enrolled in the program.

The application must state that program participation is voluntary, including authorization for the annual deferred amount. Provides that the deferred tax amount is public data.

(b) Allows the commissioner of revenue to ask for a report by a licensed abstracter in the case of abstract property seeking enrollment in the deferral program.

Subd. 2. Approval; recording. Requires the commissioner of revenue to notify applicants of enrollment prior to December 1 for taxes payable in the following year, and to file a notice of qualification for deferral with the county recorder.

Subd. 3. Penalty for failure; investigations. Requires the commissioner to assess a penalty equal to 20 percent of the deferred tax in the case of a false application, or 50 percent in the case of the taxpayer knowingly filing a false application.

Subd. 4. Annual certification to commissioner. Requires the primary property owner to certify annually by July 1 that the property continues to qualify for the program. Requires that if the primary owner has died or has transferred the property, the primary owner's spouse or a secondary owner may make the certification, and in that case that person will become the primary owner. Provides that if neither the primary owner, the primary owner's spouse nor a secondary owner are eligible to file the annual certification, the property's participation in the program will terminate and payment of the deferred taxes must be made.

Subd. 5. Annual notice to primary owner. Requires the commissioner of revenue to annually notify the primary owner of the total amount of deferred taxes for each participating property.

14 Deferred property tax amount.

Subd. 1. Calculation of deferred property tax amount. Provides that the deferred tax amount for a qualifying property each year is 50 percent of the amount by which the current year's property tax (including special assessments) exceeds the property taxes in the base year (year of application). Provides that any tax attributable to improvements made to the property since the base year are not subject to deferral. Also provides that the deferred tax amount is to be shown on the tax statement.

Subd. 2. Certification to commissioner. Provides that the county auditor shall annually certify the amount of deferred taxes to the commissioner of revenue for each qualifying property.

Subd. 3. Limitation on amount of deferred taxes. Provides that the total amount of deferred taxes on a property, when added to any unpaid special assessments and/or property taxes and the balance owed on any mortgages at the time of application and

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the amount of other secured liens at the time of application, must not exceed 60 percent of the property's estimated market value.

15 **Lien; deferred portion.** (a) Provides that interest on the deferred taxes will accrue at a rate not to exceed two percent more than the interest rate on deferred taxes under the senior deferral program in chapter 290B.

(b) Provides that the deferred taxes become a lien on the property. Contains standard language pertaining to what happens when the property taxes are not paid on the property participating in the program.

16 **Termination of deferral; payment of deferred taxes.**

Subdivision 1. Termination. (a) Provides for program termination whenever:

(1) the eligible property is transferred to someone other than the primary owner's spouse or a secondary owner;

(2) the primary owner dies, or in the case of a married couple both spouses die, provided that there is not a secondary owner eligible to become a primary owner;

(3) the owners notify the commissioner of revenue that they no longer wish to participate in the program; or

(4) the property no longer qualifies under section 0.

(b) Provides that a property is not terminated from the program just because no taxes are deferred in any given year.

(c) Provides that if an eligible property becomes the homestead of one of the owners, and if the homeowner qualifies for the senior deferral program, the deferred tax under the seasonal-recreational deferral program will be rolled-over to the senior deferral program.

Subd. 2. Payment upon termination. Provides that the deferred taxes become due and payable within 90 days of termination if the primary owner dies or transfers the property, or within one year if the owners opt-out of the program or if the property ceases to remain eligible.

17 **State reimbursement.** Provides that the state will pay the deferred tax amount to each county treasurer by August 31 of each taxes payable year. Appropriates to the commissioner of revenue annually a sum sufficient to pay the deferred tax amounts.

18 **Effective date.** Provides that sections 10 to 17 are effective for applications filed July 1, 2008, and thereafter.