Fiscal Analysis Department
Minnesota House of Representatives

Senior Citizens' Property Tax Deferral Program

January 2022 Update

December 2021:

The November 2021 forecast projects an increase in program spending for Senior Deferral loans, with net loan activity totaling $978,000 in FY 2022-23, an increase of 145% over FY 2020-21 levels of $399,000. Reimbursements to counties will increase to $3.6 million (+28 percent) in FY 22-23 and thus outpace prior year loan repayments (including principle, interest and penalty revenues) at $2.6 million (+4 percent) for the biennium. Planning estimates for the FY 2024-25 biennium anticipate net loan activity to reach $996,000, a 1 percent increase over FY 22-23 levels.

	Dollars in 000's								
	FY2020	**FY2021**	**FY 20-21**	**FY2022**	**FY2023**	**FY 22-23**	**FY2024**	**FY2025**	**FY 24-25**
Senior Deferral									
Reimbursements to Counties	$1,311	$1,479	$2,790	$1,775	$1,814	$3,589	$1,853	$1,893	$3,746
Loan Repayments	(1,037)	(1,454)	(2,491)	(1,236)	(1,375)	(2,611)	(1,375)	(1,375)	(2,750)
Net Loan Activity	**$374**	**$25**	**$399**	**$539**	**$439**	**$978**	**$478**	**$518**	**$996**

Positive numbers are program expenditures; negative numbers are revenue gains.
Source: November 2021 Forecast

Program Summary: Since 1999, the Senior Citizens' Property Tax Deferral Program (Senior Deferral) allows eligible seniors, age 65 years and over, to defer payment of a portion of their homestead property taxes to a later date. Under this program found in M.S. Chapter 290B, an eligible senior who needs an alternative way to pay their property tax, pays an amount equal to just three percent of their household income from the previous year, and the remaining balance (the deferred tax) becomes a lien attached to their homestead property. The state pays the amount of the deferred tax, including special assessments and other charges that appear on the property tax statement, to the county where the property is located.

In 2019, 308 homes owned by seniors were enrolled in Senior Deferral with an average deferred tax amount of about $4,000. For 2022, enrollment has increased, as well as the average amount in deferred taxes – details are forthcoming. Deferred tax payments to the seven metropolitan counties account for 90 percent of total reimbursements.

To qualify, a taxpayer must be age 65 or older (or if a couple, one at least age 65 and the other at least age 62), have total household income of $60,000 or less, own and occupy their homestead property for at least 15 years, have no other tax liens or judgments on the property, and have total debt on the property equal to or less than 75 percent of its estimated market value. There are no limits on the market value of a homestead to participate. Homeowners using a reverse mortgage on their property are not eligible.

To apply for the upcoming calendar year, a taxpayer must submit a completed application form, a copy of the most recent property tax statement and a report detailing any mortgages, liens or judgements on the property to the Department of Revenue (DOR) by November 1. Acceptance into the program is determined by DOR prior to December 1 of each year.

Deferred taxes – Program maximum and annual amounts: When taxes are deferred, the amount becomes a lien on the property. The lien is actually a loan from the state with interest; the interest rate, equal to the prime rate charged by banks, is adjusted annually but can never exceed 5 percent. The interest rate for a loan issued in 2022 is 3 percent.

How much in property taxes (cumulatively, over multiple years) can be deferred? The maximum amount of tax deferral for a homestead property, determined at the time of initial application, is equal to 75 percent of estimated market value minus the amount of secured loans on the property minus any unpaid special assessments or past due property taxes, interest or penalties. The following table provides examples of deferred tax maximums for four hypothetical taxpayers:

Calculation of Deferred Property Tax Maximum for Senior Deferral with Examples of Hypothetical Taxpayers

	Taxpayer 1	Taxpayer 2	Taxpayer 3	Taxpayer 4
Program Maximum Allowable Deferred Tax				
Estimated Market Value	$150,000	$175,000	$200,000	$500,000
times 75% maximum	0.75	0.75	0.75	0.75
Estimated Market Value eligible for Senior Deferral	$112,500	$131,250	$150,000	$375,000
Less Secured loan - 1st Mortgage	($75,000)	($100,000)	($130,000)	($250,000)
Less Secured loan - 2nd Mortgage	$0	$0	($11,000)	$0
Less unpaid special assessment - road improvements		($10,000)	$0	$0
Less past due property taxes, interest, penalties	($2,500)	0	$0	$0
Program Maximum Allowable Deferred Property Tax	**$35,000**	**$21,250**	**$9,000**	**$125,000**

The program maximum serves as the upper limit for the cumulative total of deferred taxes plus interest that accrues over multiple years.

How much in property taxes can be deferred annually? By December 1 of each year, DOR certifies a taxpayer's annual maximum property tax (equal to three percent of total household income) and the amount of those taxes eligible for deferral in the ensuing year. In addition, if the homeowner is eligible for a property tax refund, any refund amount is first applied to the property taxes owed and then to the deferred loan balance. The following table provides sample calculations of annual deferred property taxes, plus interest, for four hypothetical taxpayers:

Calculation of Annual Deferred Property Tax for Senior Deferral

	Taxpayer 1	Taxpayer 2	Taxpayer 3	Taxpayer 4
Annual Maximum Allowable Property Tax				
Homeowner's total household income, maximum of $60,000	$40,000	$50,000	$60,000	$60,000
times 3% (maximum annual property tax)	0.03	0.03	0.03	0.03
Participant's Portion of property tax (due to the County Treasurer)	**$1,200**	**$1,500**	**$1,800**	**$1,800**
Deferred property tax amount (annual)				
Final Property Taxes + Special Assessments, current year	$2,100	$2,450	$2,800	$7,000
Calculation of Property Tax due to County Treasurer				
minus 3% Maximum Annual Property Tax (paid to County Treasurer)	($1,200)	($1,500)	($1,800)	($1,800)
minus Property Tax Refund	($200)	($150)	($100)	($100)
Balance of taxes to be deferred (as a loan from the state)	**$700**	**$800**	**$900**	**$5,100**
apply interest @ 3% (2022)	$21	$24	$27	$153
Total loan + 1st year interest	**$721**	**$824**	**$927**	**$5,253**

Loan Repayments: Participation in Senior Deferral ceases when 1) the property is sold or transferred, or 2) when all qualifying homeowners die, or 3) written withdrawal from the program is requested, or 4) the property is no longer a homestead. Upon program termination, the loan of deferred taxes plus interest becomes due. Repayment is required within 90 days if the property is sold or the homeowner dies; it's due within one year if withdrawal is voluntary or the property no longer qualifies as a homestead.

Seniors who participate in Senior Deferral can apply for property tax refunds or rebates, however any refund or rebate will first be applied as a credit toward the total deferred property tax loan.

Program Administration: Administration of the Senior Deferral program is the joint responsibility of DOR and the county auditor in the county where the homestead property is located. Generally speaking, DOR is responsible for providing applications, determining program eligibility, paying counties for deferred tax amounts and administering loans. County auditors are responsible for calculating property taxes, determining deferred tax amounts and sending notices to program participants. The table below outlines this shared state-local partnership of program administration.

Administration of Senior Property Tax Deferral Program

State - County Partnership

	Responsibility	State Department of Revenue	County Auditor
1	Distributes applications	X	X
2	Receives application	X	
3	Determines program eligibility, notifies taxpayer of program acceptance by Dec 1.	X	
4	Records taxpayer qualification as senior deferral participant	X	X
5	Certifies taxpayer maximum property tax amount and the amount of those taxes eligible for deferral by Dec 1	X	X
6	Calculates deferred property tax amount		X
7	Notifies taxpayer by March 31 the amount of taxes due and the amount deferred for the year		X
8	Certifies deferred tax amounts to DOR by April 15		X
9	Sends annual notice of loan to each participant by July 1	X	X
10	Payment of deferred amount of property tax to each county treasurer before Aug 31	X	
11	Applies interest to principle of each deferred tax loan, starting Sept 1	X	

Program statistics and state general fund tracking:

As shown in the table below, participation in the Senior Deferral program is low, hovering around 325 seniors per year. Since FY 2019, total payments for deferred taxes are rising, with a program high of $1.8 million expected in FY 2023.

Senior Deferral Annual Participation, Average Payment
FYs 2016-2023

							Nov 2021 Forecast	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Annual Program Participation								
Beginning Year Enrollment	328	309	327	336	322	315	341	375
Accepted applications	25	47	46	26	41	61	79	-
Participants Withdrawn	-44	-29	-37	-40	-48	-35	-45	-
Total Participants	309	327	336	322	315	341	375	375
Total General Fund Payments for loans issued	$1,191,263	$1,429,055	$1,258,638	$1,248,509	$1,310,576	$1,478,749	$1,774,960	$1,814,000
Average payment per participant	$3,855	$4,370	$3,746	$3,877	$4,161	$4,337	$4,733	$4,837

Source: Department of Revenue

State general fund tracking for Senior Deferral is located in the state budget forecast (General Fund Balance Analysis) under Revenues/Resources Prior Year Adjustments, Net Loan Activity. (Previous to February 2016, program spending was included in the Property Tax Aids and Credits expenditure section of this report.) Program activity includes both appropriations made to reimburse counties for deferred property taxes and loan repayments for Senior Deferral received by the state.

Over the years, net spending has been mostly positive, with reimbursements to counties exceeding loan repayments in every year save FY 2019.

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