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# THE HOMESTEAD CLASSIFICATION

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## Identifying the Scope and Nature of Improper Claims for the Homestead Classification

*A Report to the 1993 Minnesota Legislature*

Prepared by  
The Minnesota Department of Revenue  
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## Improper Claims for Homestead Classification

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A law passed in the 1992 legislative session (Chapter 511, Article 2, Section 55, Laws of 1992) directs the Department of Revenue to study:

- *alternative methods for identifying improper claims for homestead classification, and*
- *the extent to which improper claims have been made.*

The law requires the Department to issue the results of its study to the chairs of the House and Senate Tax Committees in January 1993.

The requirement for the study is an outgrowth of another law change by the 1992 legislature. Under the law change, counties are permitted at their discretion to require property owners to make application for renewal of their homestead classification once every four years instead of annually. This legislation was intended to reduce counties' costs of processing homestead applications. At the same time, however, the legislature was concerned that the shift from annual applications to quadrennial applications could lead to an increase in the number of property owners who receive the homestead classification for properties which do not qualify for it. Accordingly, the legislature directed this study.

### **The extent to which improper claims have been made**

In 1986 the legislature passed a law requiring applicants for the homestead classification to put their Social Security numbers on their applications for the classification. The purpose of the law is to enable the identification of property owners who apply for the homestead classification for more than one property.

The same 1986 law also requires counties each year to provide the Department with a list of the Social Security numbers of all applicants who have received the homestead classification. The law requires the Department to examine the lists of all counties and identify the Social Security numbers which are reported more than once -- indicating the possibility of an error or fraud on the part of the applicants.

After identifying the Social Security numbers that appear on more than one application for the homestead classification, the Department is required to provide counties where the property is located with a list of the Social Security numbers, the names of the applicants and the property identification number of the properties for which the homestead classification was obtained.

Under the law, the counties, in turn, are required to investigate the duplicate Social Security numbers and the applications on which they appear within 90 days. The law does not require the counties to report the results of their investigations to the Department.

While counties are not required by law to report the results of their investigations to the Department, in 1989 the Department asked counties to voluntarily report the results of their investigations into applications filed in January 1988. To facilitate the reporting, in 1989 the Department developed a form for reporting the results and mailed it to counties. Each year since 1989 the Department has asked counties to provide a report, and has mailed report forms to the counties.

The report form mailed to counties in 1992 asks counties to provide:

- the number of duplicate Social Security numbers resulting from errors made on records of this county;
- the number of duplicate Social Security numbers resulting from errors made on records of another county;
- the number of Social Security numbers found where the homeowner had claimed more than one homestead and the homestead is now disallowed in this county; and
- the number of Social Security numbers found where the homeowner had claimed more than one homestead and the homestead is now disallowed in another county.

It should be noted that the report does not ask counties to distinguish between homestead applications disallowed because of errors made in good faith on the part of the applicant and those disallowed because of apparent fraud on the part of the applicant. It is probably safe to assume, however, that the majority of homeowners who applied for the homestead classification for more than one property did so knowingly.

In any case, only some counties have been complying with the Department's request to report the results of their investigations of duplicate Social Security numbers. As a result, the Department is not able to provide a complete picture of the incidence of duplicate Social Security numbers on homestead applications.

In response to its 1992 survey of homestead applications filed in 1991, the Department received reports on duplicate Social Security numbers from 56 of the state's 87 counties. Thus 31 counties did not file a report. Those counties not filing reports include counties with significant urban populations, such as Ramsey, St. Louis, Stearns and Olmstead counties -- containing the cities of St. Paul, Duluth, St. Cloud and Rochester. Furthermore, of the 56 counties which filed a report, information from 38 counties was incomplete, including the information from Hennepin county.

Thus, for homestead applications filed in 1991 the Department received a complete report from only 18 counties. The information for 1991 from the 18 counties which provided complete information is presented in the table below. The table also includes the total number of homesteads in each of the reporting counties.

county of applicant	total homesteads	total applicant SS numbers	applicant duplicate SS numbers	results of assessor investigation of duplicates			total disallowed
				duplicate SS numbers due to errors	duplicates disallowed in county	duplicates disallowed in other county	
Aitkin	3,614	7,753	45	37	4	4	8
Becker	6,270	13,584	212	211	1	0	1
Benton	5,262	10,629	40	39	1	0	1
Blue Earth	9,988	20,065	54	52	0	2	2
Brown	6,384	13,234	42	22	6	14	20
Carlton	7,529	14,893	62	59	2	1	3
Clay	6,809	17,924	148	142	5	1	6
Crow Wing	12,908	22,539	67	53	2	12	14
Dakota	70,229	126,822	417	357	36	24	60
Douglas	6,786	14,822	42	17	1	24	25
Faribault	4,032	8,142	19	19	0	0	0
Freeborn	8,465	15,962	95	92	2	1	3
Houston	4,090	9,214	15	15	0	0	0
Hubbard	4,249	8,488	27	24	0	3	3
Jackson	2,312	6,473	6	4	0	2	2
Lac Qui Parle	1,727	4,477	20	19	0	1	1
Le Sueur	5,684	11,060	86	81	3	2	5
Marshall	1,855	5,530	23	23	0	0	0

When studying the figures from this table, it should be recognized that the number of applications for the homestead classification which are disallowed is considerably less than the number of Social Security numbers disallowed because most property is jointly owned. Most applications contain two Social Security numbers, and each number is reported as a duplicate. As a result, it may be fair to assume that the number of homestead applications disallowed is about half the number of Social Security numbers disallowed.

In addition, the number of duplicate Social Security numbers may be further increased by the fact that, although they are asked not to do so, some counties report half-year homesteads to the Department. A homeowner who properly obtains homestead classification for his or her home as a result of occupying it on January 2 may appear to have improperly applied for a homestead for another property. This situation arises if the homeowner moves within the six months after January 2 and applies for a half-year homestead for their new home. In doing so, the homeowner's Social Security number appears on both homestead applications. In fact, however, such cases do not represent an attempt to obtain homestead classification for two properties simultaneously.

The figures in this table appear to justify two principal conclusions:

- the great majority of duplicate Social Security numbers result from errors -- either by applicants or in processing by counties.
- the number of Social Security numbers (applications) disallowed is an extremely small percentage of the total number of Social Security numbers appearing on applications. The greatest number of disallowed Social Security numbers from the reporting counties above is 36 from Dakota county. This represents .03 percent -- or three one-hundredths of one percent -- of the total number of Social Security numbers.

While the number of counties represented in this table represents less than one-fourth of all counties in the state, the figures appear so uniform from county to county that it may be safe to assume that unrepresented counties would show similar trends.

#### **Fraud in applying for the homestead classification**

The fact that applicants have knowingly applied for the homestead classification for more than one property does not necessarily mean that the applicant intended to file a fraudulent application. Applications for homestead classification for more than one property may represent a misunderstanding on the part of the applicants made without intent to defraud. Also, the fact that the law permits half-year homesteads may lead to the appearance of applicants filing for the homestead classification for more than one property.

It is also important to recognize that fraud can be accomplished without filing for the homestead classification for two properties. Thus the identification of duplicate Social Security numbers on homestead applications is not a guaranteed method for turning up all cases of fraud in applying for the homestead classification. For example, fraud may be accomplished when the applicant resides in rental property and applies for the homestead classification for :

- a property which he or she owns but rents to someone else;
- a seasonal-recreational property which he or she owns; or
- a Minnesota property although he or she is a resident of another state.

Because of the lack of response from a majority of the counties in supplying information on duplicate Social Security numbers to the Department, and because there are ways of fraudulently obtaining the homestead classification other than those revealed by duplicate Social Security numbers, the Department has undertaken a study which will determine the incidence of improper claims for the homestead classification by other means.

Meanwhile, although homestead applications will now be made once every four years instead of once every year, homestead applications will continue to be filed at all times for newly-purchased properties. The Department will check the Social Security numbers listed on all applications for the homestead classification against its records of the Social Security numbers on all properties statewide, regardless of when the applications are filed.

**Alternative methods for identifying improper claims**

The Department has collected a sample of 0.1 percent -- one thousand -- of the state's approximately one million homesteads. The sample was collected by first sorting the approximately two million Social Security numbers listed on homeowners applications according to the last digit of the number. Next, every two-thousandth number was selected, resulting in the sample of one thousand homesteads. This sampling technique has produced a broad selection of homesteads located throughout the state, in rural, urban and suburban areas, and of diverse market values.

The Department is now in the process of examining the 1991 applications for homestead classification for these properties. Using the sources listed below, the Department is checking the applications to determine:

<b>Item checked</b>	<b>Source</b>
• valid Social Security numbers	Social Security Administration
• Minnesota residency	applicant's Minnesota income tax return for previous five years, property tax refund returns, drivers license records, voter registration records
• primary residence	applicant's Minnesota income tax return for previous five years, property tax refund returns as a homeowner, property tax refund returns as a renter, drivers license records, voter registration records
• duplicate Social Security numbers	Social Security numbers provided by all counties, assessors of counties where duplicate numbers appear on applications

In addition to checking the sources above, the Department is relying on county assessors to verify the following items

<b>Item checked</b>	<b>Source</b>
• ownership	deed to property
• primary residence	application mailed to property with no forwarding permitted. If no response, the assessor visits the property.

If these checks cannot confirm whether the property is eligible for the homestead classification, the Department will send a letter to the property owners asking for additional information which can be used to determine whether the owner is a Minnesota resident and whether the owner occupies the property as his or her primary residence.

The Department anticipates that it will complete this study and report the results to the legislature by March 31, 1993.