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THE HOMESTEAD CLASSIFICATION

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

*A Follow-up Study to a Report Issued to
the Minnesota Legislature in January, 1993*

Prepared by
The Minnesota Department of Revenue
March 30, 1993

Introduction

In January the Department of Revenue submitted a report to the legislature which identified the nature and scope of improper claims for the homestead classification. The Department was required to prepare and submit the report by a law passed in the 1992 legislative session -- Article 2, Chapter 511, Section 55.

The report -- submitted to the chairs of the House and Senate tax committees in January 1993 -- described the procedures used by the Department and county assessors to identify homeowners who applied for the homestead classification for more than one property. In addition, the report gave the results of a survey of county assessors which was conducted by the Department in 1992 to determine the extent to which homeowners applied for the homestead classification for more than one property.

Based on the records of 18 counties, the report concluded that the incidence of the filing of applications for the homestead classification for more than one property is very low. (The Department was unable to obtain a view of the problem statewide because 69 of the state's 87 counties did not respond to the Department's inquiry about duplicate Social Security numbers which the Department identified in examining the homestead records of all counties.) Of the 18 counties which provided information, the greatest number of duplicate Social Security numbers was reported by Dakota county -- 18, or three-tenths of one percent of the total homesteads in the county.

Because 69 counties did not provide adequate information for the report, and because fraud can be accomplished in ways other than by filing applications for more than one property, the Department described in the report another study it was about to undertake. The report explained that the Department was selecting a sample of the homestead records from all 87 counties to determine the incidence of improper or fraudulent homestead applications in the state. It also explained that as a follow-up to the report being submitted at that time, it would submit the findings of this study by March 31, 1993.

Qualifications for the homestead classification

To qualify to obtain the homestead classification for a property, the person applying for the homestead classification must meet the following requirements under state law:

- be an owner of the property, or a qualifying relative of an owner,
- occupy the property as his or her primary residence, and
- be a Minnesota resident.

The county assessor is responsible for determining whether:

- the property is owned by the applicant.
- the applicant occupies the property as his or her principal residence.
- the applicant is a Minnesota resident.

To determine whether the applicant for the homestead classification is an owner of the property, the assessor examines the deed to the property or the contract for the deed to the property.

To determine whether the property is the principal residence of the applicant, and to determine whether the applicant is a Minnesota resident, the assessor may require the applicant to provide evidence that the address of the property is also the address listed on the owner's:

- voter registration records,
- Minnesota drivers license,
- Minnesota income tax return,
- Minnesota property tax refund application,
- childrens' school records,
- financial records -- such as bank statements and credit cards -- and,
- Social Security records and payments.

How the study was conducted

In conducting the study to determine the incidence of fraudulent homestead applications, the Department collected and examined a sample of 0.1 percent -- or one thousand -- of the state's approximately one million homesteads. This sample was drawn from the 1991 homestead records of all 87 county assessors.

The sample was selected by first sorting the approximately two million Social Security numbers listed on the homestead applications of all home owners according to the last digit of the number. Next, about every two thousandth homeowner was selected, resulting in the sample of one thousand homesteads. This sampling technique produced a broad selection of homesteads located throughout the state, in rural, urban and suburban areas, and homesteads of diverse market values.

In examining each of the 1,000 homestead records in the sample, the Department searched for:

- applications filed by persons who are not owners of the property.
- fraudulent homestead classifications obtained by filing applications for more than one property.
- applications filed for a property which was not the applicant's principal residence.
- applications filed by a resident of another state.

Determination of ownership

In determining whether the applicant for the homestead classification was an owner of the property, the Department made the assumption that assessors had examined the deeds to all of the properties in the study and that the assessors had determined that the applicants in all cases were in fact owners of the property.

Applications filed for more than one property

The Department checked the Social Security number of the owner listed on each of the 1,000 homestead records in the sample against its records of the Social Security numbers of all applicants for the homestead classification in all 87 counties to determine if the owner filed for more than one property. The Department's examination revealed that none of the 1,000 applicants for the homestead classification in the study had used the same Social Security number to file for the homestead classification for more than one property.

Determining Minnesota residency and principal residence

The determination of whether the applicant was a Minnesota resident and whether the property listed on the application was the applicant's principal residence can be made by examining the same records. Thus both issues can be resolved simultaneously. To determine if the applicant was a Minnesota resident and if the applicant resided in the property the Department examined Minnesota income tax records, property tax refund records, Minnesota drivers license records, voter registration records, and the records of the Minnesota Department

of Health. In some cases, the Department used more than one type of record to verify the principal residence of the applicants.

Income tax and property tax refund records

To verify whether the property's owner was a Minnesota resident and whether the property was his or her principal residence, the Department began by checking state income tax records to determine if he or she had filed a state income tax return. These records also show the address of the taxpayer. To locate the income tax records, the Department searched for records of returns bearing the same Social Security number as that listed on the homestead records.

For each owner, the Department checked its records of Minnesota income tax returns filed to determine if the owner of the property had filed a return for 1991. If the examination of the records showed that the owner had filed a return for 1991 and that the address of the taxpayer was the same as the address of the property shown on the homestead records, the Department concluded that the owner of the property was a Minnesota resident and that the property was his or her primary residence.

If the Department's records showed that no income tax return had been filed by the owner of the property for 1991, the Department then used the owner's Social Security number to check its records of applicants for the state property tax refund to determine if the property's owner had filed an application for the refund for 1991. These records also show the address of the taxpayer.

If the examination of the records for 1991 showed that a Minnesota property tax refund application was filed, and that the address of the applicant was the same as the address of the property shown on the homestead records, the Department concluded that the owner of the property was a Minnesota resident and that the property was the occupant's primary residence.

After concluding the search of its income tax and property tax refund records, the Department found that there were no records for 1991 of the filing of income tax returns or property tax refund applications by 75 of the 1,000 persons in the sample.

In addition, the property tax refund records showed that one applicant for the homestead classification had applied for a property tax refund as a renter for the year in which she had also applied for the homestead classification -- and that she had done so for the year before the study and the year after the study as well. (Through a later examination of Minnesota drivers license records, the Department was able to confirm that the owner of the property for which the homestead application had been filed in fact lived at another property.)

Drivers license records and voter registration records

Next, the Department searched for the names of these 75 persons among names listed on Minnesota drivers license records. From this search, the Department was able to locate the names of 47 of the 75 persons in state records of drivers license applications. The addresses listed on the drivers license records of the 47 persons were the same as those listed on the homestead records. Therefore, the Department concluded that the applicants for the homestead classification were Minnesota residents and that the address shown on their homestead records was the address of their primary residence.

In the process of identifying the names, the Department routinely compared the Social Security numbers listed in the drivers license records with the Social Security numbers listed on the homestead records. In this effort, the Department discovered that the Social Security numbers of 14 of the 47 names it located were incorrect. In all 14 cases the incorrect number resulted from an error made by the applicant in filling in the number on the homestead application or an error made by the county in its data-entry process. This was determined by using the Social Security number listed on the drivers license records to find matching numbers in the Department's income tax and property tax refund application records. In all 14 cases, the Social Security number listed on the drivers license records matched with the number listed in the income tax and property tax refund records.

(It is worthwhile to note again that out of the Social Security numbers listed on 1,000 homestead records, 14 -- or 1.4 percent -- were found to be incorrect. Thus, in any endeavor the state undertakes to detect the filing of fraudulent homestead applications -- by means of comparing Social Security numbers -- there is a 99 percent likelihood that 1.1 percent to 1.7 percent of the numbers on the homestead application records will be incorrect.)

After verifying the accuracy of 47 applications for the homestead classification through state drivers license records, 28 applicants remained to be verified.

Voter registration records

The Department searched for the names of the remaining 28 applicants in the voter registration records maintained by the office of Secretary of State. In searching these records, the Department was able to find the names of 24 of the applicants and verify that the addresses listed on their homestead records were correct. From this information the Department concluded that the owners of the property were Minnesota residents and that the address shown on their homestead records was the address of their primary residence.

After verifying the accuracy of 24 homestead applications through state voter registration records, 4 homestead applications remained to be verified.

Records of the Minnesota Department of Health

The Department searched for the names of the four applicants in the data base of the Minnesota Department of Health. In searching these records, the Department was able to find the names of two of the applicants. The records indicated that the two applicants were deceased. The Department considered that it was likely that the two applications were filed by surviving spouses of the deceased persons.

The Department contacted the county assessor's office in the two counties where the properties were located, and the assessor's office confirmed that the applications had been filled out and signed by the surviving spouse. In each case, the surviving spouse had signed the deceased person's name on the application. Regardless of the death of the spouse, the property was entitled to receive the homestead classification. Thus, these two applications were not considered to be fraudulent.

After verifying the accuracy of two homestead applications through the records of the state Department of Health and by contacting the office of the county assessor where the property was located, two homestead applications remained to be verified.

The Department contacted the office of the county assessor where each of the properties was located to verify whether the person listed on the application was the owner of the property, and whether the property was the primary residence of one of the owners.

In one case, the homestead application listed two names. The name selected for the Department's study was the name of a relative of an owner who resided in the property with the owner. The relative incorrectly thought that each occupant of the property was required to sign his or her name on the application and fill in their Social Security number. The owner's signature and Social Security number were correctly included on the application. Thus the application was not considered to be fraudulent.

In the other case, no income tax, property tax, voter registration, driver's license or state Health Department records listed the name or Social Security number of the person whose name was selected for the study. The Department asked the office of county recorder where the property was located to provide the names of all owners of the property from the record of the deed to the property. The name of the person who was selected for the study was listed as one of three owners, all relatives. However, this information could not confirm whether the person was a Minnesota resident and lived in the property as principal residence. But, by contacting the county assessor's office, the Department was able to confirm that the person selected for the study occupied the property as her principal residence. According to county assessor's office a directory of residents of the area listed the telephone number of the person selected for the study at the address of the property receiving the homestead classification, and revealed that this person was retired. Thus the Department concluded this property qualified to receive the homestead classification, and the application was not considered to be fraudulent.

Conclusions and recommendations

The results of the Department's study show that only one homestead application out of 1,000 was fraudulent. This amounts to only one-tenth of one percent of all the 1,000 applications. Based on these results, the Department concludes that the number of fraudulent homestead applications filed in Minnesota is minuscule.

(Based on the Department's sample of 1,000 applicants for the homestead classification, standard statistical tests performed on the sample reveal that there is a 99 percent likelihood that the incidence of fraudulent applications is between zero and two-tenths of one-percent.)

The number of errors found in verifying the homestead applications -- 20 out of 1,000, or 2 percent -- is more significant. Three-quarters of the errors were incorrect Social Security numbers filled in by applicants on the homestead application form, or errors made by counties in data-entering the numbers.

(Standard statistical tests performed on the Department's sample of 1,000 applicants for the homestead classification show that there is a 99 percent probability that between 1.7 percent and 2.3 percent of all homestead application records are in error.)

In conducting this study, the Department had wide access to income tax records, property tax refund records, drivers license records and voter registration records.

This information is not available to assessors for use in determining whether a homestead is proper. In addition, the proofs required to confirm that a property is the principal residence of the owner are virtually the same as the proofs required to confirm Minnesota residency.

The Department recommends that it continue to conduct the checks it now performs to determine if a homeowner is applying for more than one homestead. It should also perform an additional check of determining if anyone applying for the homestead classification is also applying for the property tax refund as a renter. In the Department's opinion, these measures are sufficient to detect fraudulent applications and serve as a deterrent to attempts to obtain the classification fraudulently.

In addition, the Department recommends it select a sample of 1,000 applicants for the homestead classification once every three years to determine the increase, if any, in the incidence of improper or fraudulent applications for the homestead classification. Such a study would be particularly useful as a result of the legislature's decision -- after the period covered by this study -- to:

- permit counties to verify the accuracy of homestead applications once every four years instead of every year; and
- to extend the homestead classification to properties occupied by the qualifying relatives of an owner.

Distribution of sample homestead records per county

| County | Number of Records in Sample | County | Number of Records in Sample |
|--------------------------------|-----------------------------------|------------------|-----------------------------------|
| AITKIN | 7 | LAKE OF THE WOOD | 3 |
| ANOKA | 73 | LE SUEUR | 10 |
| BECKER | 8 | LINCOLN | 3 |
| BELTRAMI | 6 | LYON | 3 |
| BENTON | 3 | McLEOD | 10 |
| BIG STONE | 3 | MAHNOMEN | 3 |
| BLUE EARTH | 11 | MARSHALL | 0 |
| BROWN | 7 | MARTIN | 6 |
| CARLTON | 3 | MEEKER | 5 |
| CARVER | 13 | MILLE LACS | 6 |
| CASS | 2 | MORRISON | 4 |
| CHIPPEWA | 5 | MOWER | 11 |
| CHISAGO | 9 | MURRAY | 2 |
| CLAY | 5 | NICOLLET | 4 |
| CLEARWATER | 3 | NOBLES | 6 |
| COOK | 0 | NORMAN | 3 |
| COTTONWOOD | 5 | OLMSTED | 30 |
| CROW WING | 13 | OTTER TAIL | 9 |
| DAKOTA | 83 | PENNINGTON | 4 |
| DODGE | 5 | PINE | 10 |
| DOUGLAS | 7 | PIPESTONE | 3 |
| FARIBAULT | 2 | POLK | 9 |
| FILLMORE | 0 | POPE | 3 |
| FREEBORN | 8 | RAMSEY | 103 |
| GOODHUE | 4 | RED LAKE | 2 |
| GRANT | 0 | REDWOOD | 3 |
| HENNEPIN | 144 | RENVILLE | 4 |
| (not including Minneapolis) | | RICE | 7 |
| City of Minneapolis | 61 | ROCK | 1 |
| HOUSTON | 3 | ROSEAU | 3 |
| HUBBARD | 3 | ST. LOUIS | 43 |
| ISANTI | 8 | SCOTT | 19 |
| ITASCA | 4 | SHERBURNE | 12 |
| JACKSON | 2 | SIBLEY | 4 |
| KANABEC | 2 | STEARNS | 22 |
| KANDIYOHI | 8 | STEELE | 8 |
| KITTSOON | 2 | STEVENS | 1 |
| KOOCHICHING | 4 | SWIFT | 2 |
| LAC QUI PARLE | 3 | TODD | 9 |
| LAKE | 2 | TRAVERSE | 1 |
| | | WABASHA | 6 |

Distribution of sample homestead records per county

| <u>County</u> | <u>Number of Records in Sample</u> |
|-----------------|--------------------------------------------|
| WADENA | 5 |
| WASECA | 5 |
| WASHINGTON | 33 |
| WATONWAN | 1 |
| WILKIN | 1 |
| WINONA | 10 |
| WRIGHT | 13 |
| YELLOW MEDICINE | 4 |
| <u>TOTAL:</u> | <u>1000</u> |