

MINNESOTA ▪ REVENUE

MEMO

Date: June 30, 2008

To: County Assessors and County Auditors

From: Information and Education Section
Property Tax Division

Subject: 2008 Legislative Changes to the PE20 Form (CRV) and Sales Review Process

This memorandum will provide county assessors and county auditors with important information regarding changes related to the PE20 - Certificate of Real Estate Value (CRV) and the sales review process resulting from the recently-concluded legislative session. Since county auditors serve an important function in the CRV process, we are asking county assessors to share this information with them.

Introduction

The first tax bill of this past legislative session, Chapter 154, included provisions related to the filing, administration, and analysis of CRVs. The changes require those filing a certificate to provide additional information, including any involvement with a 1031 exchange. Certain filers also no longer need to provide their Social Security Number when involved in specific conveyances. Finally, the new legislation describes current practice for assessors, requiring indicated changes to a property's use to be accounted for in the analysis of the sale. These changes will be discussed individually in detail.

Legislative Changes

- **Legislative Change: Analysis and Review of Sales**
(For additional information, see Chapter 154, Article 2, Section 2)

This legislation requires the assessor, when completing the assessment sales ratio study, to take into account any change in the purchased property's use when it results in a change of classification. The assessor is directed to consider this change as soon as practicable. It does not apply to changes to homestead or nonhomestead status.

In essence, this legislation reiterates current assessor practice. Assessors, during the course of sales review and analysis, should already be considering the impact of property use (classification) changes as indicated on the CRV and verifying that with the actual use of the property on the assessment date. Assessors and the Department of Revenue (DOR) will continue to reject most sales resulting in use changes in the ratio studies.

This change was effective the day following final enactment.

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- **Legislative Change: CRV Filing Requirements**
(For additional information, see Chapter 154, Article 2, Section 6)

This legislation requires CRV filers to indicate any proposed change in use of the property that may result in a change in the property’s classification on the CRV. This information will be utilized by assessors and DOR when verifying sale eligibility for the ratio studies.

The legislation also requires the CRV to be changed so filers can indicate if the property acquisition was part of a like-kind exchange under section 1031 of the Internal Revenue Code of 1986 as amended through December 31, 2006. These transactions are more commonly known as “1031 Exchanges” and are more common for certain property types (commercial and agricultural land).

The PE20 Form has been revised to account for this legislative change and is currently being printed. A new checkbox has been added in “Question 6: Type of acquisition” for filers to indicate the 1031 Exchange. As illustrated below, the box is located next to other information pertinent for the sale, but it is not an automatic rejection reason.

| | | |
|--|--|---|
| 6. Type of acquisition (check all that apply) | | |
| <input type="checkbox"/> 1031 exchange | <input type="checkbox"/> Buyer purchased partial interest only | <input type="checkbox"/> Property received as gift or inheritance |
| <input type="checkbox"/> Buyer and seller are relatives or related businesses | <input type="checkbox"/> Contract paid off or resold | <input type="checkbox"/> Property received in trade |
| <input type="checkbox"/> Buyer or seller is religious or charitable organization | <input type="checkbox"/> Name added or removed from deed | <input type="checkbox"/> Purchase agreement signed over two years ago |
| <input type="checkbox"/> Buyer or seller is unit of government | <input type="checkbox"/> Property condemned or foreclosed upon | |

These changes are effective for all CRVs filed after June 30, 2008. The indication of proposed use changes can adequately be reported on the current forms. However, filers will be expected to indicate the presence of a 1031 Exchange to fulfill this legislative requirement even if the revised forms are not yet available. This will require filers to add text to every CRV, either handwritten or typed, near the Question 6 section similar to this:

- This sale is part of a 1031 Exchange.
- This sale is NOT part of a 1031 Exchange.

Auditors, during their verification for completeness and accuracy of a CRV submission, must ensure filers provide this information. If it is not present, the filer should be asked to add the appropriate statement. Auditors may wish to notify large-volume filers of CRVs (closing companies, law firms, etc.) of this legislative change in an attempt to be proactive.

Assessors, during the course of CRV review and analysis, must also ensure this information is indicated on the CRV in order to comply with the legislation.

Information regarding the availability of the revised PE20 Forms has been provided by the division’s Sales Ratio Section in a June 25, 2008 email. Software companies that provide electronic versions of the CRV will also need to update their programs; until that is complete, the filer will need to add the required indication.

- **Legislative Change: Social Security Number Requirements**
(For additional information, see Chapter 154, Article 13, Section 23)

This legislation removes the requirement of providing a Social Security Number for every grantor and grantee party to the transaction in certain situations. When a spouse of the owner of record of the property has no ownership in the property and is only signing the

conveyance for the purpose of releasing and conveying his/her marital interest, if any, in the real property, that spouse's Social Security Number is not required to be included on the CRV.

In order for the auditor to accept a CRV without all grantor and grantee Social Security Numbers, the deed must include a statement substantially similar to the following:

"[Name] claims no ownership interest in the real property being conveyed and is executing this instrument solely to release and convey a marital interest, if any, in that real property."

This legislation is effective for any CRV filed after June 30, 2008. It is not expected to see widespread utilization because it is only applicable to specific conveyances of marital interest. In instances where the spouse is an owner of record for the property, his/her Social Security Number must be included.

Conclusion

These provisions in law affecting the PE20 – Certificate of Real Estate Value – and the sales review process affect both the filers of the CRVs and the county officials responsible for processing them. With the effective date already passed for the provision requiring assessors to take into account any change in the purchased property's use when it results in a change of classification, assessors should continue current practice that adheres to this legislation. With an effective date of July 1 for the new CRV reporting requirements (including indication of 1031 Exchanges and use changes, and the Social Security number exception), auditors and assessors should work together to ensure this legislation will be enforced.

The Department of Revenue is available to answer any additional questions you may have. Please direct them to proptax.questions@state.mn.us. Counties may also contact the Sales Ratio Section for more information regarding the revised PE20 forms.