

MINNESOTA • REVENUE

PROPERTY TAX 2010 Aid and Credit Cuts Made Permanent

January 18, 2011

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 129 (Davids) as proposed to be amended

	Fund Impact			
	F.Y. 2012	F.Y. 2013	F.Y. 2014	F.Y. 2015
	(000's)			
Local Government Aid Reduction				
Local Government Aid Reduction	\$100,663	\$100,663	\$100,663	\$100,663
Residential Market Value Credit Reduction	\$43,225	\$43,245	\$43,265	\$43,307
Agricultural Market Value Credit Reduction	<u>\$23</u>	<u>\$23</u>	<u>\$23</u>	<u>\$23</u>
General Fund Total	\$143,911	\$143,931	\$143,951	\$143,993
County Program Aid Reduction				
County Program Aid Reduction	\$32,519	\$32,000	\$32,000	\$32,000
Residential Market Value Credit Reduction	\$52,500	\$52,500	\$52,500	\$52,500
Agricultural Market Value Credit Reduction	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	\$85,019	\$84,500	\$84,500	\$84,500
Township Market Value Credit Reduction				
Residential Market Value Credit Reduction	\$0	\$0	\$0	\$0
Agricultural Market Value Credit Reduction	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
General Fund Total	\$0	\$0	\$0	\$0
Interactions for Aid Reductions				
PTR Interactions from Levy Changes	\$0	(\$12,680)	(\$6,330)	(\$6,330)
Income Tax Interactions from Levy Changes	\$0	(\$12,820)	(\$6,570)	(\$6,570)
Renter Property Tax Refunds	\$52,600	\$53,300	\$54,000	\$54,600
Sustainable Forest Incentive Act - Cap Incentive Payments	\$8,100	\$8,400	\$8,700	\$9,000
Repeal Political Contribution Refunds	\$5,400	\$6,400	\$5,500	\$6,500
GENERAL FUND TOTALS	\$295,030	\$271,031	\$283,751	\$285,693

Various Effective Dates

EXPLANATION OF THE BILL & REVENUE ANALYSIS DETAIL

Local Government Aid and Market Value Credit Reduction

The proposal would reduce local government aid (LGA) and extend 2010 market value credit reductions for cities. The reduction amounts would be as follows:

Fiscal Year	LGA Reduction	MV Credit Reduction
2012	\$100.7m	\$43.3m
2013	\$100.7m	\$43.3m
2014	\$100.7m	\$43.3m
2015	\$100.7m	\$43.3m

For aids payable in 2011, the LGA reduction would be calculated as 91.53216% of each city's local government aid reduction for aids payable in 2010. For aids payable in 2012 and thereafter, the reduced appropriation would be distributed through the local government aid formula.

The 2010 market value credit reductions from 477A.0134 would be made permanent similar to the current reductions under 477A.0133.

No city could receive a reduction greater than their certified LGA or market value credit.

- Effective for aids payable in 2011 and thereafter.
- Annual reductions to LGA and city market value credits would total approximately \$144 million.
- It is assumed that cities receiving a reduction would increase property tax levies for a portion of the reduction. This would increase property taxes on all property classes including homesteads.

County Program Aid and Market Value Credit Reduction

The proposal would reduce county program aid (CPA) and extend 2010 market value credit reductions for counties. The CPA reduction amounts would be as follows:

Fiscal Year	CPA Reduction	MV Credit Reduction
2012	\$32.5m	\$52.5m
2013	\$32.0m	\$52.5m
2014	\$32.0m	\$52.5m
2015	\$32.0m	\$52.5m

As proposed to be amended, for aids payable in 2011, the CPA reduction would be calculated as 48.85358% of each county's total county program aid reduction for aids payable in 2010. For

aids payable in 2012 and thereafter, the reduced appropriation would be distributed through the county program aid formula.

The 2010 market value credit reductions from 477A.0134 would be made permanent similar to the current reductions under 477A.0133.

No county could receive a reduction greater than their certified CPA or market value credits.

- Effective for aids payable in 2011 and thereafter.
- Annual reductions to CPA and county market value credits would total approximately \$85 million.
- It is assumed that counties receiving a reduction would increase property tax levies for a portion of the reduction. This would increase property taxes on all property including homesteads.

Township Market Value Credit Reduction

Under current law, townships have a permanent market value credit reduction of approximately \$5 million under 477A.0133. The proposed permanent extension of reductions under 477A.0134 would not change credit distributions for townships because they received no reduction under this statute.

- There would be no impact on township market value credit reimbursements due to the proposed permanent extension of 477A.0134.

PTR and Income Tax Interactions for Aid Reductions

The proposal changes several property tax aid and credit programs. The proposed reductions in aids and credits cause increases in local property taxes, resulting in an increase in property tax refunds paid directly to homeowners and an increase in deductions claimed on individual and corporate income tax forms.

- Effective for taxes payable 2012 and thereafter.
- Levies increase \$302 million for FY 2013, \$151 million for FY 2014, and \$151 million for FY 2015.
- It is assumed that local government spending reductions or other non-property tax revenues will be used to address the balance of aid or credit reductions that are not levied back.
- Net taxes would be affected by the levy change. A portion of those levies would be paid by homesteads. Property tax refunds would be proportionately affected by homestead net tax changes. Property tax refunds would increase \$12.7 million in FY 2013, \$6.3 million in FY 2014, and \$6.3 million in FY 2015.
- Individual income tax receipts are expected to decrease \$9.5 million in FY 2013, \$4.9 million in FY 2014, and \$4.9 million in FY 2015.
- Corporate income tax receipts are expected to decrease \$3.3 million in FY 2013, \$1.7 million in FY 2014, and \$1.7 million in FY 2015.

Sustainable Forest Incentive Act - Cap Incentive Payments

Under current law, land enrolled in the sustainable forest resource management program is eligible for an annual per acre incentive payment. The payment rate in 2010 was \$15.67 per acre, and cannot be less than \$7.00 per acre in any year. The proposal would cap the maximum annual sustainable forest incentive payment per taxpayer identification number at \$100,000.

- Effective beginning with payments made in 2011.
- An estimated six claimants would receive an incentive payment in 2011 greater than \$100,000. These payments account for 58% of the total incentive payments.
- State general fund savings would be realized beginning in FY 2012.

Renter Property Tax Refunds

For purposes of the property tax refund (PTR) program, current Minnesota statutes allow a renter to claim 19% of the rent paid for the year as the amount of property tax paid by the renter. This figure is used, along with the renter's income, to determine eligibility for and the amount of the property tax refund. The proposal would change the percentage from 19% to 15% starting with tax year 2010 (fiscal year 2012).

Note: returns submitted for tax year 2010 would require an adjustment after the claim has been filed by the taxpayer to reflect the reduced refund amount. This would result in increased administrative costs.

- Effective beginning with 2010 returns filed in 2011.
- The estimates are based on the November 2010 forecast.
- Lowering the percentage of rent constituting property taxes would reduce refunds to almost every claimant. Approximately 19,000 renters, or about 6%, would no longer be eligible for a refund beginning in FY 2012.
- Under the proposal, the average renter property tax refund would be reduced by \$170.

Repeal Political Contribution Refunds

The political contribution refund provides a refund to individuals for contributions made to qualifying political parties and candidates. The maximum refund is \$50 for an individual and \$100 for a married couple filing jointly. The refund claim must be filed no later than April 15 of the calendar year following the calendar year in which the contribution was made.

Under current law the refund provisions are eliminated for contributions made after June 30, 2009, and before July 1, 2011.

The bill would repeal the political contribution refund.

- Effective for political contribution refund claims based on contributions made after June 30, 2011.
- The annual estimates correspond to the November 2010 Minnesota Management and Budget economic forecast.

- The repeal of the inactive refund program would result in no additional claims being processed.
- Previously, about 90,000 political contribution refunds were made annually.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

<i>Transparency, Understandability, Simplicity & Accountability</i>	Aid Cuts	Decrease	Additional reductions outside of current aid and credit formulas
	Renter PTR	Neutral	
	SFIA	Neutral	
<i>Efficiency & Compliance</i>	Aid Cuts	Neutral	
	Renter PTR	Neutral	
	SFIA	Neutral	
<i>Equity (Vertical & Horizontal)</i>	Aid Cuts	Neutral	
	Renter PTR	Decrease	Reduces progressivity by reducing refunds to renters with household income below \$53,540
	SFIA	Neutral	
<i>Stability & Predictability</i>	Aid Cuts	Neutral	Short term instability with mid-year reduction
	Renter PTR	Neutral	Short term instability in the first year with adjusted refunds
	SFIA	Neutral	
<i>Competitiveness for Businesses</i>	Aid Cuts	Decrease	Business property taxes likely increase
	Renter PTR	Neutral	
	SFIA	Neutral	
<i>Responsiveness to Economic Conditions</i>	Aid Cuts	Neutral	
	Renter PTR	Neutral	
	SFIA	Decrease	Market changes (e.g. forest land values) would not be reflected in payments to recipients of capped payments

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
 Property Tax Division – Research Unit
http://www.taxes.state.mn.us/taxes/legal_policy