

MINNESOTA • REVENUE

PROPERTY TAX Special (Targeted) Refund Changes

April 28, 2006

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 4089 (Thissen)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
			(000's)	
General Fund*	\$0	\$0	(\$30,600)	(\$26,500)

* The bill also contains an unspecified direct appropriation to the Commissioner of Revenue to reimburse counties for administrative costs.

Effective for refunds for property taxes payable in 2007 and thereafter.

EXPLANATION OF THE BILL

Under current law, homeowners may apply to the Department of Revenue for a special (targeted) property tax refund if their property tax increased more than 12% from the previous year. The refund equals 60% of the property tax increase in excess of 12%. The difference in tax must be greater than \$100. The maximum special refund a homeowner may receive is \$1,000. The refund is paid by the Department of Revenue to the homeowner.

The proposal would make the special property tax refund a deduction on a homeowner's property tax statement, and the state would reimburse local units of government to compensate for lower tax revenues. The county auditor would calculate the amount of refund for each qualifying homestead under the current formula. The county auditor would also certify annually to the Department of Revenue the total amount of the refund apportioned by taxing jurisdiction. The certified amounts for non-school jurisdictions would be paid by the Department of Revenue in equal installments on October 31 and December 26 of each year. The Department of Education would pay school aid amounts.

The bill includes a fiscal year 2007 appropriation to the Commissioner of Revenue to reimburse counties for implementation costs. The amount of the appropriation is left blank.

REVENUE ANALYSIS DETAIL

- The estimates are based on the February 2006 forecast.
- The special refund cost increases under this proposal, since the refund is automatic, rather than applied for by individuals. Under current law, about 20% of homeowners who qualify apply for a special refund. The additional amount of special refund is estimated to be \$31.2 million in pay 2007 and \$27 million in pay 2008. School payments are adjusted for fiscal years.
- There may be a small impact on property tax refunds, but it is assumed that most new recipients of the special refund would not be eligible for the property tax refund.

Number of Taxpayers Affected: An estimated 350,000 additional homeowners.

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