

MINNESOTA • REVENUE

PROPERTY TAX Property Tax Rebate

April 20, 2006

Department of Revenue
Analysis of H.F. 4142 (Krinkie)

	Yes	No
DOR Administrative Costs/Savings	X	

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
		(000's)		
Transfer from Tax Relief Account	\$316,716	\$0	\$0	\$0
Property Tax Rebate	(\$307,300)	\$0	\$0	\$0
Income Tax Offset	<u>\$0</u>	<u>\$13,600</u>	<u>\$0</u>	<u>\$0</u>
General Fund Net Impact*	\$9,416	\$13,600	\$0	\$0

* The bill also includes unspecified FY 2006 appropriations to the Departments of Revenue and Finance for administrative costs.

Effective the day after final enactment

EXPLANATION OF THE BILL

The bill authorizes a property tax rebate to homeowners equal to 10% of their payable 2006 property taxes. Rebates must be paid on or before October 1, 2006, by the Commissioner of Revenue. Counties are to provide address, tax, delinquency, and social security information to the department. Other qualifications and procedures for special circumstances are described. Checks may be cashed and claims for unpaid rebates filed until July 1, 2008. The commissioner may contract with vendors and may make electronic payments.

The commissioner may decrease proportionately the rebates if forecast revenues are not realized. The rebate is contingent on the Minnesota Supreme Court reversing the lower court's order finding the health impact fee unconstitutional and in violation of the tobacco settlement agreement.

The balance in the tax relief account is transferred to the general fund.

REVENUE ANALYSIS DETAIL

Property Tax Rebate

- The bill authorizes \$307,300,000 for rebates.
- The direct appropriations to the Departments of Revenue and Finance for administration of the rebate program are left blank in the bill.
- There is no impact on other property tax aids, credits, or the property tax refund.
- There are approximately 1.5 million homesteads that would receive the rebate.

REVENUE ANALYSIS DETAIL (Continued)

Income Tax Offset

- Taxpayers who itemize deductions would need to reduce the real estate taxes deducted on Schedule A for tax year 2006 by the amount of the rebate.
- Simulation results were obtained using the House Income Tax Simulation (HITS 5.4) model. The simulations assume the same economic conditions used by the Minnesota Department of Finance for the forecast published in February 2006. The model uses a stratified sample of 2003 individual income tax returns compiled by the Minnesota Department of Revenue. The simulation was run for Minnesota residents only.
- Real estate taxes deducted on Schedule A can include taxes on property other than a homestead, such as a cabin or land held for investment. (Taxes on property used in a trade or business are a business expense that is deducted on Schedule C, E, or F and would not be deducted on Schedule A.) The estimate was reduced by 7% to reflect the real estate taxes deducted on Schedule A that are for property other than homesteads.
- The impact for tax year 2006 was allocated to fiscal year 2007.
- An estimated 799,000 income tax returns would be affected, with an average state income tax increase of \$17.

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