

MINNESOTA • REVENUE

PROPERTY TAX Property Tax Rebate

May 5, 2006

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | X | |

Department of Revenue
Analysis of H.F. 4142 (Krinkie), 3rd Engrossment

| | Fund Impact | | | |
|----------------------------------|--------------------|------------------|------------------|------------------|
| | F.Y. 2006 | F.Y. 2007 | F.Y. 2008 | F.Y. 2009 |
| Transfer from Tax Relief Account | \$316,716 | \$0 | \$0 | \$0 |
| Property Tax Rebate | (\$276,570) | \$0 | \$0 | \$0 |
| Income Tax Offset | \$0 | \$12,200 | \$0 | \$0 |
| State Land Sales | \$0 | \$1,100 | \$0 | \$0 |
| Appropriations for Admin. Costs | (\$1,094) | (\$55) | \$0 | \$0 |
| General Fund Net Impact | \$39,052 | \$13,245 | \$0 | \$0 |

Effective the day after final enactment

EXPLANATION OF THE BILL

The bill authorizes a property tax rebate to homeowners equal to 9% 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 and tax 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 of Revenue may contract with vendors. For administration of the rebate, \$907,900 is appropriated in fiscal year 2006 from the general fund to the Commissioner of Revenue, and \$186,000 is appropriated to the Commissioner of Finance for costs related to the rebate checks. The commissioner may decrease proportionately the rebates if forecast revenues are not realized.

The Commissioner of Administration is required to sell at least \$1,100,000 of state land. Proceeds from the sales go to the general fund. In fiscal year 2007, \$55,000 is appropriated from the general fund to the Commissioner of Administration for the expenses of selling the land. From the proceeds of the land sales, the Commissioner of Administration must cancel the \$55,000 appropriation to the general fund.

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. Also, if this contingency is not met, the land sales and administrative appropriations in the bill would be canceled.

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

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REVENUE ANALYSIS DETAIL

Property Tax Rebate

- The bill authorizes \$276,570,000 for rebates.
- 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.

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 \$15 per return.

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

hf4142_3/lm, mjr, cc