

MINNESOTA · REVENUE

February 25, 2013

PROPERTY TAX REFUND Property Tax Refund Modifications

	Yes	No
DOR Administrative Cost/Savings	X	

Department of Revenue
Analysis of H.F. 0002 (Davnice) as introduced

	Fund Impact			
	FY2014	FY2015	FY2016	FY2017
	(000's)			
Renter Property Tax Refund	\$0	(\$14,400)	(\$14,700)	(\$15,000)
Homeowner PTR Formula Changes	\$0	(\$91,600)	(\$94,600)	(\$97,800)
Notification of Potential Eligibility	\$0	\$0	\$0	\$0
Homeowner PTR Participation Increase	\$0	(\$74,000)	(\$114,000)	(\$116,000)
General Fund Total	\$0	(\$180,000)	(\$223,300)	(\$228,800)

Effective beginning with claims based on rent paid in 2013 and property taxes payable in 2014.

EXPLANATION OF THE BILL

The bill makes modifications to both the renter and homeowner property tax refund programs.

For purposes of the renter property tax refund (PTR) program, current Minnesota statutes allow a renter to claim 17% 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 17% to 18% starting with tax year 2013 (fiscal year 2015).

For the homeowner property tax refund program, the current percentage of income threshold ranges from 1.0% to 3.5% based on household income. The bill would reduce the homeowner percentage of income threshold to between 2.0% and 2.5% for household incomes above \$19,500. Household income ranges below \$19,500 would remain between 1.0% and 2.0%.

The bill would also require the state to notify individual homeowners who may be eligible for a refund but have not filed. In determining whether to notify a homeowner, the commissioner of revenue would consider the property tax information reported by county auditors and the income information reported by the taxpayer on their income tax return. The notification must be delivered by August 1 of each year and include information on how to file for the refund and the range of potential refunds the homeowner could qualify to receive.

REVENUE ANALYSIS DETAIL

Renter Property Tax Refund

- The estimates are based on the November 2012 forecast.
- Increasing the percentage of rent constituting property taxes would increase refunds to almost every claimant. Approximately 2,500 additional renters, or about 1%, would become eligible for a refund beginning in FY 2015.
- Under the proposal, the average renter property tax refund increase would be \$45.

Homeowner Property Tax Refund

- The estimates are based on the November 2012 forecast.
- Reducing the income thresholds would increase the amount of property tax eligible for refund. Approximately 315,000 current filers, or about 75%, would have an increased amount of property tax eligible for refund. It is assumed that approximately 116,000 new claimants would become eligible and file for a refund due to the reduced percentage of income threshold.
- Under the proposal, the average refund increase would be approximately \$212.

Notification of Potential Eligibility

- Current participation for the homeowner property tax refund program is estimated to be approximately two-thirds, leaving one-third of potentially eligible refunds unclaimed.
- Assuming one-half of the unclaimed refunds would be claimed in the first year of notification, the increased state cost would total approximately \$74 million in FY 2015.
- In the second year and thereafter, assuming an additional one-half of the remaining unclaimed refunds would be claimed would increase total state costs by approximately \$114 million in FY 2016 and \$116 million in FY 2017.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral	
<i>Efficiency & Compliance</i>	Increase	More homeowners would claim refunds they are eligible to receive.
	Decrease	Additional administrative costs would be incurred to determine eligibility and provide notifications to all potentially eligible homeowners. Some ineligible homeowners may receive notifications because certain nontaxable income data would not be available when determining eligibility.
<i>Equity (Vertical & Horizontal)</i>	Increase	Increases progressivity by increasing refunds to renters with household income under \$57,060 and homeowners with income between \$19,500 and \$105,300.
<i>Stability & Predictability</i>	Neutral	Short term instability in the first year with adjusted refunds.
<i>Competitiveness for Businesses</i>	Neutral	
<i>Responsiveness to Economic Conditions</i>	Neutral	

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
www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx

hf0002_pt_1/nrg