

March 9, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3558 (Marquart)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
Homestead Income Tax Credit	\$0	(\$1,172,000)	(\$572,000)	(\$591,000)
Renter Income Tax Credit	\$0	(\$373,000)	(\$147,000)	(\$151,000)
General Fund Total	\$0	(\$1,545,000)	(\$719,000)	(\$742,200)

Effective beginning for refunds based on rent paid in 2022 and property taxes payable in 2023.

EXPLANATION OF THE BILL

Current Law: Under the current law, property tax refunds are calculated based on a definition of household income that includes federal adjusted gross income (FAGI) and adds other non-taxable income sources including social security, contributions to retirement plans, and government assistance payments.

Claimants file form M1PR by August 15 to claim the refund.

Proposed Law: The bill proposes to change the refund to a refundable income tax credit and change the definition of income for calculating property tax refunds to be FAGI. Current law subtractions and exclusions would be eliminated, except the subtractions for dependents, disability, and age +65 would be preserved.

Taxpayers would generally file form M1 by April 15 to claim the credit.

REVENUE ANALYSIS DETAIL

- The estimates are based on the February 2022 forecast.
- Changing the definition of household income to FAGI would narrow the measure of income used for calculating property tax refunds. On average, FAGI is estimated to be approximately 14% lower than household income as currently defined. As a result, more people would become eligible for the proposed credit compared to the current law refund.
- Changing the refund to an income tax credit would shift the timing in which the payment is made. The analysis assumes a 100% revenue shift to the previous fiscal year.
- The analysis assumes that 100% of current PTR filers would file M1 to get the credit.
- Among people who did not file for PTR but were eligible for the refund under current law and for the credit under proposal, the analysis assumes 10% would not file M1 to claim the credit.
- Under current law, tax year 2022 property tax refunds (for fiscal year 2024) are projected to total \$645.5 million to homeowners (regular and special) and \$231.6 million to renters.
- Under the proposed income tax credit, tax year 2022 payments are estimated to increase \$526 million to homeowners and \$141 million to renters.

REVENUE ANALYSIS DETAIL (Cont.)

Current PTR Claimants

- Under the proposal, about one-quarter of current property tax refund claimants would have no change in the net income amount used to calculate refunds. The credit they would receive would be equal to the current refund.
- Most property tax refund claimants would have a lower net income amount for calculating refunds and would receive a credit that is higher than the current refund under current law. Over 70% of homeowners and renters currently receiving a refund would receive an average credit that is \$270 higher than their current refund.
- A smaller percentage of current refund claimants would have a higher net income amount for calculating credits due to the elimination of certain income subtractions and exclusions, including those for retirement contributions and paid alimony, and would receive a credit smaller than the existing refund under current law. Approximately 7% of homeowners and renters currently receiving a refund would be estimated to receive a credit that is \$120 lower than their current refund.
- In fiscal year 2024 the total increase in property tax refund credits to current homeowner claimants would be \$122 million and current renter claimants would \$40 million.

Additional Filers Receiving the PTR Credit

- It is assumed that approximately 425,000 taxpayers currently eligible but not claiming a property tax refund would receive the proposed income tax credit. An estimated 305,000 homeowners would receive a credit totaling \$340 million, and an estimated 120,000 renters would receive \$86 million.
- The change in the definition of income would increase the numbers of homeowners and renters qualifying for a credit, with an additional 93,000 homeowner and 36,000 renters estimated to receive a credit. Newly eligible homeowner are estimated to receive \$53 million and newly eligible renters are estimated to receive \$15 million.
- Under current law, the special homeowner property tax refund is projected to total \$5.3 million. Under the proposal, an additional \$11.2 million in credit is estimated to be paid.

Fiscal Year Shift

- The impact in the initial fiscal year reflects the fiscal year 2024 payment of property tax refunds being shifted into the previous fiscal year 2023. The impact of the shift in subsequent years is calculated as the difference between forecasted amounts to be paid under as a refund under current law and the effect of shifting the amounts to the previous fiscal year as an income tax credit.

Number of Taxpayers: Approximately 1,263,000 taxpayers would be affected.

Minnesota Department of Revenue
Tax Research Division
<https://www.revenue.state.mn.us/revenue-analyses>