



**INDIVIDUAL INCOME TAX  
PTR as Income Tax Credit**

March 10, 2022

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	X	

*Revised to Show Detailed Revenue Impacts*

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

	<b>Fund Impact</b>			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
Repeal Homestead Property Tax Refund	\$0	\$0	\$640,200	\$665,300
Repeal Renter Property Tax Refund	\$0	\$0	\$231,600	\$234,700
Repeal Special Property Tax Refund	\$0	\$0	\$5,300	\$5,400
Homeowner Income Tax Credit	\$0	(\$1,154,700)	(\$1,200,500)	(\$1,244,400)
Renter Income Tax Credit	\$0	(\$372,600)	(\$378,200)	(\$386,100)
Special Homeowner Income Tax Credit	<u>\$0</u>	<u>(\$16,500)</u>	<u>(\$16,800)</u>	<u>(\$17,100)</u>
General Fund Total	\$0	(\$1,543,800)	(\$718,400)	(\$742,200)

The repeal of the property tax refund is effective beginning for refunds based on rent paid in 2022 and property taxes payable in 2023.

The new income tax credit is effective beginning in tax year 2022.

**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 repeals the property tax refund and replaces it with a refundable income tax credit. The bill also changes the definition of income for calculating the new credit 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 file form M1 generally by April 15 to claim the credit.

**REVENUE ANALYSIS DETAIL**

- Based on the February 2022 forecast, the current property tax refunds are projected to total \$640.2 million for homeowners, \$231.6 million for renters, and \$5.3 million for special homeowner refunds for fiscal year 2024.
- 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.

## **REVENUE ANALYSIS DETAIL (Cont.)**

- 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 the proposed income tax credit, tax year 2022 payments are estimated to be \$1,155 million to homeowners, \$373 million to renters, and \$16.5 million for special homeowner credit.
- Fiscal year 2024 will be the first full year impact from the repeal.

### 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 be \$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 homeowners 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.

**REVENUE ANALYSIS DETAIL (Cont.)**

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 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>

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