

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

March 7, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 45 (Klein) as proposed to be amended by SCS0045A-1

	Fund Impact			
	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
	(000's)			
Renter Income Tax Credit	(\$373,600)	(\$378,600)	(\$382,300)	(\$386,000)
Repeal Renter Property Tax Refund	\$0	\$242,400	\$245,500	\$247,300
General Fund Total	(\$373,600)	(\$136,200)	(\$136,800)	(\$138,700)

The repeal of the property tax refund is effective beginning for refunds based on rent paid in 2023. The new income tax credit is effective beginning in tax year 2023.

EXPLANATION OF THE BILL

Current Law: Property tax refunds (PTR) 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 renter 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 2023 forecast, the current renter property tax refund is projected to total \$242.4 million for fiscal year 2025.
- Changing the definition of household income to FAGI would narrow the measure of income used for calculating renter property tax refunds. On average, FAGI is estimated to be approximately 14% lower than household income as currently defined. As a result, more renters 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% shift to the previous fiscal year.
- The analysis assumes that 100% of current renter PTR filers would file M1 to get the credit.

- Among people who did not file for renter 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 renter income tax credit, tax year 2023 payments are estimated to be \$373.6 million.
- Fiscal year 2025 would be the first full year impact from the repeal.

Current PTR Claimants

- Under the proposal, just under half of current renter 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.
- Approximately half of renter 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. These 50% of renters currently receiving a refund would receive an average credit that is \$204 higher than their current refund.
- A smaller percentage of current renter 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 5% of renters currently receiving a refund would be estimated to receive a credit that is \$64 lower than their current refund.
- In fiscal year 2025 the total increase in property tax refund credits to current renter claimants would be \$32 million.

Additional Filers Receiving the PTR Credit

- It is assumed that approximately 119,000 renters currently eligible but not claiming a property tax refund would receive the proposed income tax credit totaling approximately \$85 million.
- The change in the definition of income would increase the numbers of renters qualifying for a credit, with an additional 33,000 renters estimated to receive a credit. Newly eligible renters are estimated to receive \$14 million.

Number of Taxpayers: Approximately 325,000 taxpayers would be affected.

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

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