

Renter's Credit Conversion

PRESENTATION BY HOUSE RESEARCH

Presentation to Taxes Committee

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Renter's Credit Conversion

- Chapter 64 converted the renter's credit from a standalone refund program to a refundable income tax credit.
- Income measure changed to adjusted gross income from broader "household income," which included most nontaxable income.
- Change in administration effective for tax year 2024:
 - August 2024: renter's credits distributed in accordance with old law
 - Spring 2025: renter's credits filed and claimed as part of the income tax during tax filing season in January-April
 - August 2025: no credits paid (except for late income tax returns)
- Legislature appropriated funds for "tax credit outreach," which could be used in part to promote the availability of the new credit

Household Income

- Old law household income definition included “all nontaxable income,” but specified a number of exceptions.
- Largest category of nontaxable income (~60%) was Social Security benefits.

Line 5 — Additional Nontaxable Income

You must use Schedule M1PR-AI, *Additions to Income*, to report the total amount of nontaxable income to include on line 5. Write the type of income received in Column A and the amount of income in Column B. If you need more lines, include a separate statement with the type of income and amounts received. Include Schedule M1PR-AI with your Form M1PR.

Common examples include:

- Acquisition or abandonment of property gain, reported on 1099-A, not included in your federal income
- Adoption assistance – subsidy payments as well as employer-paid expenses
- Alimony received to the extent not included in adjusted gross income
- Canceled, discharged, or forgiven debt not included in your federal adjusted gross income
- Community Access for Disability Inclusion Waivers
- Contributions to deferred compensation plans such as 401(k), 403(b), 457 deferred compensation, or SIMPLE/SEP plans
- Contributions to dependent care accounts and medical expense accounts
- Disability benefits (do not include veterans disability benefits)
- Distributions from a ROTH or traditional IRA not included on line 1, including qualified charitable distributions made to charity
- Employer paid education expenses
- Federal adjustments to income for contributions to IRA, Keogh, and SIMPLE/SEP plans
- Federally nontaxed interest and mutual fund dividends, including amortized bond premiums paid
- Foreign earned income exclusion
- Foster care payments, including adult foster care
- Gain on the sale of your home excluded from your federal income
- G.I. Bill funding, including scholarships
- Housing allowance for military or clergy
- Income excluded by tax treaty
- Long-term care benefits not used for medical expenses
- Lump-sum distribution reported on line 1 of Schedule M1LS
- Medicaid Home & Community-Based Services Waiver program payments (from Line 8s of federal Schedule 1)
- Medicare Part B Premiums not included in lines 1 or 2
- Nontaxable Compensated Work Therapy (CWT) payments

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Line Instructions (cont.)

- Nontaxable employee transit and parking expenses
 - Nontaxable military earned income, such as combat zone pay
 - Nontaxable pension and annuity payments, including disability payments
 - Nontaxable personal injury or settlement income (to the extent not used for medical expenses)
 - Nontaxable scholarships, fellowships, grants for education, including those from foreign sources, and tuition waivers or reductions
 - Post-9/11 Veteran Service Bonus payments (to the extent not included in adjusted gross income)
 - Public Safety Officer medical insurance exclusion
 - Reduction in rent for caretaking responsibilities (include the amount shown on your CRP)
 - Sick pay (to the extent not used for medical expenses)
 - Strike benefits
 - VEBA contributions made by the employee
 - Worker’s compensation benefits (to the extent not used for medical expenses)
- Also include these losses and deductions to the extent they reduced federal adjusted gross income:**
- Capital loss carryforward (use Worksheet 4 on page 30 to compute amount)
 - Educator expenses
 - Health savings account and Archer MSA deductions
 - Net operating loss carryforward or carryback
 - Passive activity losses in current year in excess of current year passive activity income, including rental losses, even if actively involved in real estate
 - Prior-year passive activity loss carryforward claimed in 2023 for federal purposes
- Do not include:**
- Amounts from a Section 1035 annuity exchange
 - Annuity payments that are a return of after-tax contributions
 - Bonus depreciation addition or subtraction
 - Car insurance settlement payments used to pay medical bills
 - Certain federal adjustments to income such as moving expenses, student loan interest deduction, penalty on early withdrawal, ½ self-employment tax, self-employment health insurance, and alimony paid
 - Child care assistance
 - Child support payments
 - COVID-19 federal economic stimulus payments
 - Dependent’s income, including Social Security
 - Dependent’s indemnity compensation
 - Employee’s mandatory contributions to a retirement plan
 - Employer’s contributions to filer’s deferred compensation or pension plan
 - FEMA emergency grants for disaster victims
 - Foster care adoption bonus
 - Gifts and inheritances
 - Gulf War bonus
 - Health and dental insurance contributions paid by employee or employer
 - IRA rollovers
 - HSA funding distributions (distributions from a traditional IRA or a Roth IRA, made to an individual’s Health Savings Account as a contribution)
 - IRS stimulus/rebate
 - Long-term care benefits used to pay medical expenses
 - Loss on sale of rental property
 - Minnesota property tax refunds
 - Nontaxable Holocaust settlement payments
 - Payments by someone else for your care by a nurse, nursing home, or hospital
 - Payments from life insurance policies
 - Premium tax credit
 - Reimbursements by employer for expenses paid, such as gas, meals, and lodging
 - Return of capital or investment
 - Reverse mortgage proceeds
 - Special needs welfare benefits
 - Spouse’s Social Security income when filing separately
 - State income tax refunds not included on line 1
 - Veteran’s disability compensation paid under U.S. Code, title 38