PROPERTY TAX REFUND
Federal Adjusted Gross Income as Definition of Household Income

March 1, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 3472 (Sandstede) / S.F. 3182 (Klein) as introduced

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
	(000's)			
Homestead Credit Refund	$0	$0	($156,200)	($162,700)
Renter Property Tax Refund	$0	$0	($51,800)	(53,200)
General Fund Total	$0	$0	($208,000)	($215,900)

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

EXPLANATION OF THE BILL

Under 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.

The proposal would change the definition of income for calculating property tax refunds to be FAGI. Current law income subtractions and exclusions would be eliminated, except the subtractions for dependents, disability, and age 65+ would be preserved.

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.
- 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, and thus would have no change to their refund amount.
- Most property tax refund claimants would have a lower net income amount for calculating refunds and would receive an increased refund compared to current law. Over 70% of homeowners and renters currently receiving a refund would be estimated to receive an average refund increase of $270.
- A smaller percentage of current refund claimants would have a higher net income amount for calculating refunds due to the elimination of certain income subtractions and exclusions, including those for retirement contributions and paid alimony, and would receive a lower refund compared to current law. Approximately 7% of homeowners and renters currently receiving a refund would be estimated to receive an average refund decrease of $120.

- The change in the definition of income would increase the number of homeowners and renters qualifying for a refund. It is assumed that approximately 92,000 new claimants would become eligible and file for a property tax refund under the proposal.
- By changing the measure of income, state-paid property tax refunds to homeowners and renters would increase by $208.0 million beginning in FY 2024.

Number of Taxpayers: For homeowner and renter PTR claimants, 627,000 would receive an increased refund, 209,000 would have no change in their refund, and 58,000 would receive a decreased refund. Approximately 92,000 newly eligible claimants would also claim a refund.

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

Transparency, Understandability, Simplicity & Accountability	Neutral	Determining total household income for taxpayers would require accounting for fewer sources of income.
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Neutral	
Responsiveness to Economic Conditions	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
https://www.revenue.state.mn.us/revenue-analyses

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