

HF4826 - 1A - Advance Homestead Credit for Seniors

Chief Author: **Kristin Robbins**
 Committee: **Taxes**
 Date Completed: **3/28/2024 9:08:10 AM**
 Lead Agency: **Revenue Dept**
 Other Agencies:
 Education Department

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue	X	
Information Technology	X	
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2023	FY2024	FY2025	FY2026	FY2027
Revenue Dept						
General Fund		-	-	158	118	116
State Total						
General Fund		-	-	158	118	116
Total		-	-	158	118	116
Biennial Total				158		234

Full Time Equivalent Positions (FTE)	Biennium			Biennium		
	Revenue Dept	FY2023	FY2024	FY2025	FY2026	FY2027
General Fund		-	-	1.09	.93	.91
Total		-	-	1.09	.93	.91

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

This fiscal note estimates the administrative impact of the proposed bill. Estimated tax revenue impact is shown on a companion analysis produced by the Department of Revenue Tax Research Division. Published revenue analyses can be found at <https://www.revenue.state.mn.us/revenue-analyses>.

LBO Signature: Joel Enders **Date:** 3/28/2024 9:08:10 AM
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State Cost (Savings) Calculation Details

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*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
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Revenue Dept						
General Fund		-	-	158	118	116
Total		-	-	158	118	116
Biennial Total				158		234
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Revenue Dept						
General Fund		-	-	158	118	116
Total		-	-	158	118	116
Biennial Total				158		234
2 - Revenues, Transfers In*						
Revenue Dept						
General Fund		-	-	-	-	-
Total		-	-	-	-	-
Biennial Total				-		-

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LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

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LBO Signature: Joel Enders **Date:** 3/28/2024 9:07:14 AM
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State Cost (Savings) Calculation Details

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General Fund	-	-	158	118	116	
Total	-	-	158	118	116	
Biennial Total			158		234	
2 - Revenues, Transfers In*						
General Fund	-	-	-	-	-	
Total	-	-	-	-	-	
Biennial Total			-		-	

Bill Description

This fiscal note request is on HF 4826 with the A1 amendment.

The bill as amended provides a process for eligible seniors to elect to receive an advanced property tax credit refund to be applied to the following year’s property taxes. The election to opt into the advance payment program is made when filing a claim for the regular homestead credit refund, with the advanced credit for the following year’s property taxes payable. The amount of the advance payment is 50 percent of the homestead credit refund they received for the return they filed to opt into the program but is not issued directly to the claimant. The senior’s first half property taxes will be reduced by the amount of the credit and the state will reimburse the local jurisdictions for the credit amount.

Sec. 1, subd. 1 defines eligibility for the advance homestead credit program as a homestead owned by an “eligible senior claimant” as determined in section 6 of the bill.

Sec. 1, subd. 2 sets the advance amount of the credit as 50 percent of the claimant’s prior year Homestead Credit Refund.

Sec. 1, subd. 3 requires Revenue to calculate and certify to each county auditor the payment amounts which will be credited for qualifying homesteads and requires the county auditor to apply the credit to each qualifying claimant’s first half due on the property. The county must certify any applied reductions by July 1. Total tax due cannot be reduced to less than \$0.

Sec. 1, subd. 4, paragraph (a) requires that Revenue reimburse local taxing authorities, other than school districts, the amount of the advance which was applied to claimant’s property tax due on October 31 of the year for which the taxes were payable. Reimbursements related to tax increments must be made annually on December 26.

Sec. 1, subd. 4, paragraph (b) requires that Revenue certify the total tax reductions for each taxes payable year within each school district and that the commissioner of Education make payment to reimburse school districts for those amounts.

Sec. 1, subd. 5 appropriates amounts from the general fund sufficient for both Revenue and the Minnesota Department of Education to make the required payments.

Section 1 is effective beginning with property taxes payable in 2026.

Sections 2, 3, 4, and 5 add the advance homestead credit for seniors to the payment to school districts in MN Statute, section 273.1392, the list of items which reduce the computation of net property taxes in MN Statute, section 273.1393, the information which must be included on notices of proposed property taxes in MN Statute, section 275.065, subd. 3, paragraph (d), clause (2), and to the information which must be included on property tax statements in MN Statute, section 276.04, subd. 2, paragraph (c), clause (6).

The A1 amendment creates a section which is not numbered which would exclude the advance homestead credit refund from the property tax credits used to determine property taxes payable in MN Statute, section 290A.03, subd. 13, paragraph (a), clause (2).

Sections 6 and 7 add "Eligible senior claimant" and "Homestead credit refund" to the property tax refund definitions in MN Statute, section 290A.03. These sections are effective for advance payment elections after December 31, 2024, for credits applied to property taxes payable in 2026 and thereafter.

Sec. 8, subd. 1 requires that Revenue establish a process for eligible claimants to elect to receive the advance credit.

Sec. 8, subd. 2 states that a claimant must elect to receive the advance credit toward the next year's property taxes payable when filing their property tax refund for the current year.

Sec. 8, subd. 3 requires a claimant to reduce the amount of their homestead credit refund by any amounts which were advanced and to repay any amounts received in excess of the total credit amount for which they are eligible. This subdivision would also require a claimant to file a return for the property taxes payable year in which the advanced credit was received.

Section 8 is effective for advance payment elections after December 31, 2024, for credits applied to property taxes payable in 2026 and thereafter.

Assumptions

The Department of Revenue (Revenue) assumes approximately 250,000 claimants will be eligible to receive an advance property tax payment for tax year 2026 in 2025. Revenue assumes that all would opt into receiving advanced payments so as to not underestimate the administrative impact as we have no history or experience yet with advance credits. Revenue will send a letter to each of the advanced payment recipients which will summarize the total amount of advanced payments received so they can accurately complete their reconciliatory tax return. Based upon prior year-to-year data, we assume approximately 3 percent of claimants (7,500) will no longer qualify for a credit after filing their reconciliatory return and will have to repay at least a portion of the credit already received.

Revenue also assumes it will certify the credit amount to the county where the senior's property is located. The county will submit their PRISM (Property Record Information System of Minnesota) submission 3 data with the final credit amounts listed. Revenue will then send reimbursement payments to counties, who will distribute it to local jurisdictions.

The process of individuals opting into the program is expected to proceed as follows. When an individual files a claim for a homeowner's property tax refund, they can opt into the advance homestead credit program by attesting they will reside in the same home in the following year. The current year return is then processed by Revenue and a credit issued to the claimant.

Prior to January 2 of the following year Revenue will certify to county auditors' information about the eligible senior claimant and the credit amount which should be applied toward their property's first half payment. By July 1, the county auditors must then certify back to Revenue the amounts applied to the claimant's first half payment. Revenue will reimburse each local taxing district on October 31 for the amounts they have credited claimants. Reimbursements related to tax increments will be paid on December 26.

After Revenue confirms the accuracy of the information from the counties, Revenue will send a letter to each claimant which notifies them of their requirement to file a current year return, the amount of their credit which was already credited toward their property taxes due in the current year, and instruction to reduce the amount of their current year homestead credit by the amount which was advanced.

When the individual files their return, they can then choose whether to opt into the advance program again for the following

year. Individuals who qualify for a total credit greater than the amount already advanced will receive their additional refund. Individuals who do not qualify for a total credit at least equal to the amount already advanced will file a return indicating a balance due.

The Income Tax and Withholding (ITW) Division assumes it will need .02 FTE in FY25 to update forms to include an "opt-in" for the periodic payments, add new website content regarding the credit and opt-in option, and create and send a Gov Delivery message regarding the opt-in for the new credit. This includes a new line on the M1PR property tax form that will be needed to include the advanced payment amount the claimant already received, a new line which will allow an M1PR to be filed with a balance due, and a new checkbox to allow claimants to opt into the advance program.

ITW assumes a rate of 3 percent of the 250,000 potential claimants (7,500) will call or email, with a standard rate of 10 minutes per call or email message. This equates to .6 FTE beginning in FY26 and ongoing. Beginning in FY26, ITW assumes a letter will be sent to each of the 250,000 advanced payment recipients which will summarize the total amount of advanced payments received so they can accurately complete their reconciliatory tax return. ITW assumes it will need less than .01 FTE in FY26 and ongoing to develop and update the payment summary letter. ITW will provide a list of qualifying claimants who opted into the advance along with the total amount eligible for advance payment to the Property Tax Division for certification prior to January 2.

The Collection Division assumes that 50 percent of the 7,500 claimants (3,750) who no longer qualify for a credit and will need to repay at least a portion of the credit already received will result in a bill being sent. Of those 3,750 claimants, we assume 10 percent (375) will require manual collector review. We assume each manual collector review takes 30 minutes.

$375 \text{ cases} * 30 \text{ minutes} = 11,250 \text{ minutes or } 187.5 \text{ hours (.09 FTE)}$ beginning in fiscal year 2026 and ongoing.

Collection assumes that advanced payments for this credit will continue to offset because there is not any language included about offset.

The Communication Division assumes it will need .04 FTE in FY25 to modify form M1PR and M1PRX to have the election checkbox for this provision, review, edit and publish new webpages for Property Tax Refund and Property Tax Administrator areas of the site, review and edit a new letter, issue one press release, review, edit and send GovDelivery email bulletins, and post social media updates.

Communications assumes it will need .03 FTE in FY26 to update Form M1PR and M1PRX to also provide the reconciliatory return needed for this provision, review, edit and publish new and updated web content, review and edit a new letter, issue one press release, review, edit and send GovDelivery email bulletins, and post social media updates.

Communications assumes it will need .01 FTE in FY27 and ongoing to issue one press release, review, edit and send GovDelivery email bulletins, and post social media updates. Any form, letter, or website updates needed in FY27 and later would occur as part of the agency's annual changes process.

MN.IT assumes it will need \$14,000 in system development costs in FY25 and \$1,400 in system support costs in FY26 and ongoing. There will be changes to the M1PR return, updates to existing letters, financials and payments, and a new letter.

The Property Tax Division assumes it will receive the necessary information from ITW regarding claimants and credit amounts and will use that information to certify the credit amount to the counties. The division assumes the counties will submit their PRISM submission 3 data with the final credit amounts listed and the division will send reimbursement payments to the counties based on that data. It is assumed this will take 0.01 FTE and be an ongoing cost beginning in FY25.

Property Tax assumes it will need to add the new credit to PRISM and update PRISM instructions, edit reports, and communicate these PRISM changes to counties and vendors. The division assumes it will need .01 FTE in FY25 for this work.

Property Tax assumes it will need to update the Auditor/Treasurer manual with the new credit information. The division also assumes it will update the Truth-in-Taxation and Property Tax Statement instructions and samples to reflect the new credit. The division assumes it will need .01 FTE in FY25 for this work.

Property Tax assumes it will answer questions from seniors, including seniors currently in the senior deferral program, and speak to them about eligibility and any ramifications of opting into the advanced credit program. The division currently

handles one senior citizen property tax program (Senior Citizen Property Tax Deferral Program) and receives many phone calls on the program. It is assumed that this program will take .01 FTE and be an ongoing cost starting in FY25.

Property Tax assumes it will need .01 FTE at the supervisor level in FY25 and less than .01 FTE at the supervisor level in FY26 and ongoing to sign off on certifications and credit amounts as well as handling more complex questions.

The Tax Operations Division assumes it will need .24 FTE for system analysis and testing in FY25. This includes 22 hours to add additional lines to the XML, 44 hours to add lines to return and file in e-services, 8 hours to add new lines to MeF, 12 hours to update the return in GenTax (the Integrated Tax System), 4 hours to update GenTax work items, 12 hours to update GenTax upload, 8 hours to update GenTax imaging, 4 hours to add new ERCs, 4 hours to update existing letters, 80 hours to update payments in GenTax, 100 hours to update GenTax financials, 80 hours to update GenTax reports, 40 hours to update GenTax work items, and 80 hours to update penalty and interest financials in GenTax. Tax Operations assumes our standard 20 percent of initial development hours for ongoing maintenance. For FY26 and beyond we assume .05 FTE for ongoing testing and maintenance.

Tax Operations assumes it will need .14 FTE for FY25 for review and processing of returns. Tax Operations assumes that Early Audit would review 15 percent of the identified population of 7,500 of filers who may owe a repayment of their advanced credit. For FY26 and ongoing, Tax Operations will need .09 FTE for Early Audit to review the standard of 10 percent of returns.

Tax Operations assumes it will need .05 FTE in FY26 and ongoing for increased payment processing as a result of repayments needing to be made for advance payments. This is based on the standard assumption of 12 payments to be processed per hour.

FTE Impact

FTEs	FY 2024	FY 2025	FY 2026	FY 2027
Collection staff (MAPE)			.09	.09
Communications staff (MAPE)		.04	.03	.01
Income Tax and Withholding staff		.62	.60	.60
AFSCME		.60	.60	.60
MAPE		.02	<.01	<.01
Property Tax staff		.05	.02	.02
MAPE		.04	.02	.02
MMA		.01	<.01	<.01
Tax Operations staff		.38	.19	.19
AFSCME			.05	.05
MAPE		.38	.14	.14
Total FTE Impact		1.09	.93	.91

Note: Totals may vary slightly due to rounding.

Expenditure and/or Revenue Formula

This bill may have an impact on state tax revenues. An estimate of revenue impact is not included in this fiscal note. The Department of Revenue prioritizes revenue estimate requests for bills before Tax Committee and will provide one for this bill when it is before Tax Committee.

Administrative Impact

Administrative Costs (Savings)	FY 2024	FY 2025	FY 2026	FY 2027
Employee Compensation		144,189	116,960	114,176
Systems Development		14,000		
Systems Support			1,400	1,400
Total Administrative Costs (Savings)		158,189	118,360	115,576

Note: This table uses whole numbers. Totals may vary slightly due to rounding.

Long-Term Fiscal Considerations

Claimants would continue to file returns beyond FY27. Revenue would continue to process returns, engage in collection action, and require contact center staff to handle calls and emails beyond FY27.

Local Fiscal Impact

Counties would be responsible for adjusting tax statements to include the credit, then matching up the Revenue-provided lists to apply the credit, changing PRISM reporting to include the credit, and making the reimbursement payments to other local governments. This process is similar to what they do with other credit programs.

The counties would also provide the credit amount up front since they would not receive the revenue from the first half payments in May. Instead, they would have to wait until October 31 to receive the reimbursement from the state.

References/Sources

Agency staff provided information for this fiscal note.

If information technology costs are included, my agency's Chief Business Technology Officer has reviewed the estimate.

I have reviewed the content of this fiscal note and believe it is a reasonable estimate of the expenditures and revenues associated with this proposed legislation.

Agency Contact:

Agency Fiscal Note Coordinator Signature: Chelsea Magadance

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Chief Author: **Kristin Robbins**
 Committee: **Taxes**
 Date Completed: **3/28/2024 9:08:10 AM**
 Agency: **Education Department**

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

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Total	-	-	-	-	-	-
Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium		
		FY2023	FY2024	FY2025	FY2026	FY2027
Total	-	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Alyssa Holterman Rosas **Date:** 3/26/2024 8:46:41 PM
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Biennial Total				-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Total		-	-	-	-	-
Biennial Total				-		-
2 - Revenues, Transfers In*						
Total		-	-	-	-	-
Biennial Total				-		-

Bill Description

Section 1 creates an advance homestead credit for seniors beginning with property taxes payable in 2026. The credit amount for qualifying claimants applies to the first half property tax payment and is equal to 50 percent of the amount of the homestead credit refund the property owner received in the previous year. It requires the commissioner of revenue to certify the total of the tax reductions within each school district to the commissioner of education. The commissioner of education must pay the reimbursement amounts to each school district. It appropriates an amount sufficient to make the annual payments for school districts from the general fund to the commissioner of education.

Section 2 adds the new advance homestead credit for seniors to the list of property tax credits that school districts are reimbursed for. It makes the section effective beginning July 1, 2026.

Assumptions

MDE assumes that there will be no state costs for the advance homestead credit for seniors. The Department of Revenue will annually calculate the credit, and MDE will pay the credit to school districts through IDEAS, which is how other credits are currently paid.

Expenditure and/or Revenue Formula

This bill has no state costs for MDE.

Long-Term Fiscal Considerations

The homestead credit for seniors would be an ongoing credit.

Local Fiscal Impact

This bill has no impact to local school districts.

References/Sources

Agency Contact: Betsy Hjelseth 651-582-8242

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