

File Number: H.F. 4183
Version: As introduced

Date: April 16, 2018

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Subject: Dependent exemption and inflation adjustments for the Homestead Credit Refund and Renter's Refund programs

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The federal tax act signed into law in December—commonly referred to as the Tax Cuts and Jobs Act (TCJA)—repealed the dependent exemption that was previously part of the federal income tax code. Minnesota's Homestead Credit and Renter's Refund programs allowed households to subtract from their income an amount for each dependent in the family. The amount of the subtraction was based on the federal dependent exemption amount. Conforming to the TCJA without making any other changes would eliminate the dependent exemption for the purposes of the property tax refund programs, which would decrease refund amounts.

H.F. 4183 would conform to the TCJA for the purposes of the property tax refund programs and reinstate the dependent exemption at the tax year 2018 amount (\$4,150).

The bill additionally retains the inflation indexing for the purposes of the property tax refund programs that the Department of Revenue used under current law. Currently, the formula parameters for the program are indexed for inflation using the Consumer Price Index for All Urban Consumers (CPI-U). Under the TCJA, federal government switched to using the Chained Consumer Price Index for All Urban Consumers (C-CPI-U). Conforming to the TJCA without making other changes would switch the inflation indexing for the property tax refund programs to C-CPI-U.