MN HOUSE RESEARCH

Bill Summary

H.F. 2303

As amended by H2303DE1

Subject	**Homestead credit refund income definition changed to reference adjusted gross income**
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Summary

Under current law, the homestead credit refund program uses a definition of income that is significantly broader than the state's income tax. This income definition is sometimes referred to as "household income." Much like the income tax, the definition of income begins with adjusted gross income, but requires taxpayers to add back "all nontaxable income." The list of nontaxable income added back to household income is very long, but it includes:

- Nontaxable Social Security benefits
- Government assistance payments
- Elective contributions to deferred compensation plans
- Deductions for individual retirement account contributions
- Nontaxable debt discharges
- Nontaxable scholarship and fellowship grants
- Contributions to dependent care and health flex spending accounts and health savings accounts
- Nontaxable capital gains on the sale of a primary residence
- Worker's comp and disability benefits

Household income also provides special treatment to Roth-style retirement accounts. A portion of contributions to Roth-style accounts are subtracted from household income, but distributions from those accounts are added to household income. The treatment of Roth-style accounts is intended to treat them the same as traditional individual retirement accounts.

Taxpayers who are seniors, who have a disability, or who have a dependent are allowed to deduct a fixed amount based on the Minnesota dependent exemption.

H.F. 2303 would change the measure of income used for the homestead credit refund. Under the bill, the credit would be calculated based on adjusted gross income, minus the adjustment for dependents and seniors.