



# GREATER MINNESOTA Advocate

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The Nov. 5 edition of the Greater Minnesota Advocate looked into the work done by the Legislature to reform the Local Government Aid program. This issue continues to examine property tax aids and credits with a look into the Homestead Credit Refund program.

## Changes in Homestead Credit Refund Result in Significant Increase in Funding for Program

Part of the Legislature's efforts to provide property tax relief during the 2013 session came through providing property taxpayers more money--\$130 million--through the Homestead Credit Refund ("HCR," formerly the Property Tax Refund). However, what is probably not as well understood is how these dollars were added or who the beneficiaries were.

The HCR provides property tax relief to individual homeowners, especially those whose property taxes are high compared to their incomes. "If property tax exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum amount" (according to September 2013 House Research "Short Subject" publication on the Homestead Credit Refund program).

The HCR has seen significant growth (see chart) over the

past decade, compared to both general fund spending and other property tax aids and credits such as LGA.

There are several components to a taxpayer's refund calculation that can be manipulated to direct more money into the program. The total dollars spent and program eligibility expands if legislators:

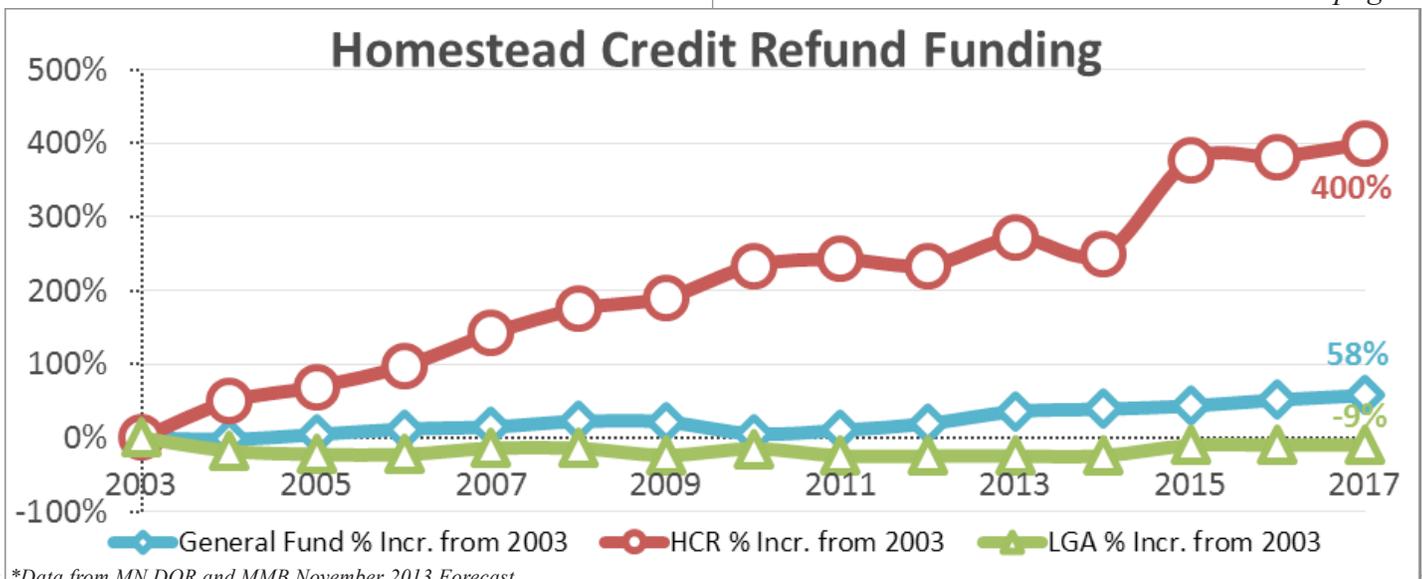
- Lower the threshold percentage at which the credit kicks in;
- Increase the maximum refunds;
- Increase the maximum income eligible for a refund.

## 2013 Changes to Program Resulted in Significant Increase for Higher Income Minnesotans

In 2013, the Legislature enacted several changes to the program which would theoretically provide more-direct property tax relief to homeowners whose property taxes are high relative to their incomes.

**In fact, the Legislature moved all three of the levers noted above by lowering the threshold percentage for all income groups, increasing the maximum refunds, and increasing the maximum household income that receives a refund from \$100,780 to \$105,500.**

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While the majority of refund dollars currently go to lower and middle income households, recent changes have meant significant increases for households whose income is more than \$80,000. As the chart below shows, households with incomes of \$80,000 and above saw a 138% increase in funding for FY 2015, according to end-of-session data by the Minnesota Department of Revenue and analysis by House Research. This is a stark difference compared to the lower income end of the spectrum which only saw a 5% increase.

Additionally, the average increase for current filers skews higher the further you go up the income scale, according to the same data. For instance, the average increase for a household making \$30,000 to \$40,000 is \$100. The average increase for those making \$60,000-\$70,000 is \$288. Once you get to \$90,000-\$100,000, you see an average refund increase of \$329 before it dips to \$285 for income filers above \$100,000.

Recent trends show that committing more dollars to the HCR program means higher refunds for higher income people.

### Recent Trends and Budget Forecast Call Efficacy of HCR Program into Question

The small increase at the lower end of the income spectrum would suggest that that segment of homeowners are

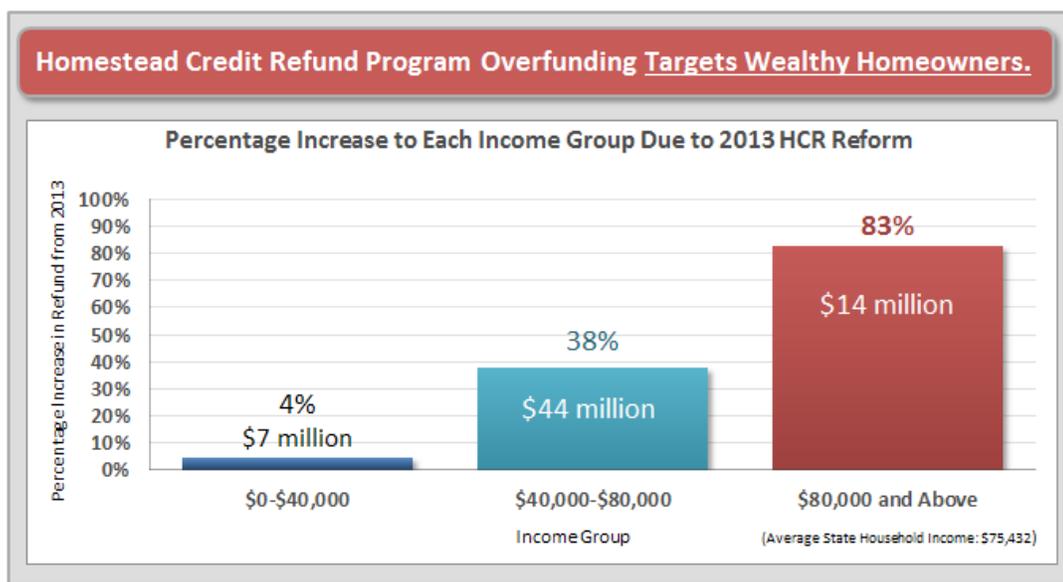
currently funded at levels deemed appropriate to offset their property tax burden. Therefore, as we have seen, efforts to provide “more property tax relief” are simply infusions of more dollars to higher income folks, for whom the additional couple hundred dollars makes for very little additional benefit -- perhaps a nice night out on the town.

### Recent trends show that committing more dollars to the HCR program means higher refunds for higher income people.

The most recent November Budget Forecast also has interesting things to say about the direction and future of the HCR program. Minnesota Management and Budget (MMB) forecasts that spending in Property Tax Aids and Credits will actually grow more slowly than projected. For the current biennium,

MMB projects a \$70 million reduction in HCR spending for 2014-15 and \$95 million less for 2016-17. According to MMB, “moderate income growth is outpacing property value growth among potential program participants--reducing the size of refund payments and the overall eligible program population.”

The weight of the anticipated HCR increase on high income earners versus lower income earners, and the fact that MMB predicts overall smaller utilization of the program, clearly shows that the HCR program is overfunded and that continued efforts to plow more money into it will decrease its original intended purpose and its effectiveness at providing true property tax relief.



\*Chart data provided by MN House Research Department and MN Department of Revenue (1/2014).

