

*Property
Tax Refund*

II. HISTORY OF MAJOR CHANGES

Minnesota's circuit-breaker program has not remained static over the years. Instead, the program has evolved and changed in a manner which reflects primarily either shifts in public policy or changes in the amount of state money available for this purpose. While all of the major changes made to the program are the result of legislative action, the legislature has not always acted in a vacuum. In regard to the circuit-breaker specifically, there have been three main sources of impetus for change: 1) the legislature itself; 2) the governor and the executive branch in general; and 3) the taxpaying public.

In retrospect, the main theme of the changes made through 1981 seems to be the perceived need to provide increasing amounts of property tax relief for Minnesota taxpayers. The counter-theme, which has become more important in recent years, is that; since the circuit-breaker payments to individual taxpayers are made from the state's general fund, these expenditures must be limited or reduced so that state expenditures in total do not exceed total state revenues.

<u>Tax Year</u>	<u>Change</u>
1967	- "Circuit-breaker" enacted as senior citizens income/property tax credit.
1973	- "Circuit-breaker" expanded by making all disabled or blind persons eligible.
1975	- Both the senior citizens and disabled persons income/property tax credit and the renter's credit were repealed and replaced with the "income-adjusted homestead credit." a) All homeowners and all renters eligible. b) Maximum gross credit ranged from \$475 to \$325 (\$200 higher for senior or disabled claimants). c) Renter's property tax equivalent was 20% of rent for occupancy. d) Credit amounts for non-senior, non-disabled renters limited to first step maximums.
1977	- Name change, from "income-adjusted homestead credit" to "property tax refund." - "Senior citizen special property tax (freeze) credit" repealed and incorporated into the circuit-breaker. a) Maximum gross refund amounts increased to range of \$800-\$325 (\$200 higher for senior or disabled claimants). b) Renter's property tax equivalent increased to 22% of rent for occupancy.
1979	- Maximum gross refund amounts increased to range of \$1,000-\$550 (\$1,000-\$750 for senior and disabled claimants). This change generally did not increase net relief per claimant for homeowners since the homestead credit, a subtraction in computing net refund amount for homeowners, also increased by \$225 generally. For renters this change did produce generally higher net refund amounts. - Renter's property tax equivalent increased to 23% of rent for occupancy and refund amounts for non-disabled renters no longer limited to first step maximums.

- 1981 - Renters residing in all tax-exempt units except licensed nursing homes no longer eligible for property tax refunds. Also, renters with any portion of rent paid by Supplemental Security Income, supplemental aids, medical assistance, or federal assistance receive refunds reduced by the proportion of income from those sources to total income.

III. FILING REQUIREMENTS

1982 - removed exception for licensed nursing homes. - removing option to claim as an income tax credit.

In order to qualify for the property tax refund for tax year 1981, claimants must have been full or part-year residents of Minnesota during 1981 and must have owned on January 2, 1982, the homestead in which they resided; or have leased or rented the unit in which they resided during some part of 1981. Homeowners may not have owed delinquent real estate or property taxes and all renters, must have resided in a unit which was subject to property taxes or for which "in lieu of" property tax payments were made except for residents of tax-exempt, licensed nursing homes, who were still allowed to file for a refund for tax year 1981. In addition, claimants must have been the only member of a household filing for the refund and must not have received title or tenancy to a homestead primarily for the purpose of claiming the refund.

If a homestead was jointly owned or rented by two qualified married individuals; or, if a homestead was jointly owned by two or more unrelated individuals, only one claim per household was allowed. If a portion of the claimant's homestead was rented to another person the property tax payable on the rented portion was not included in the calculation of the claimant's refund amount. In cases where there was more than one household member who would qualify as the claimant and only one claim was allowed, and if the members were unable to determine among themselves which would be the claimant, the matter was submitted to the Commissioner of Revenue for determination. If a rental unit was occupied by two or more unrelated renters, the rent was considered to have been paid equally by each and separate claims were filed with the income of each filer being used as his total combined household income in the determination of his refund amount.

Senior citizen and disabled homeowners and all renters had the option of claiming the property tax refund as a refundable credit against their income tax liability on the individual income tax return (Form M-1), or of filing for a separate refund on the property tax refund return (Form M-1PR). Homeowners who were neither disabled nor age 65 or over were required to file for a separate refund on Form M-1PR.

The deadline for filing claims was August 31, 1982, except for those persons claiming the refund as a credit on their individual income tax return. Claims made for a credit against the income tax were required to be filed on or before April 15, 1982. Claims are accepted until one year after the applicable due date, subject to a maximum 25% reduction for lateness.

All claimants of the the property tax refund were required to compute their combined household income for use in determining the amount of refund receivable. This amount included the income of the claimant and that of others residing in the homestead. The amount did not, however, include the income of dependent children or adults, or the income of roomers or boarders on contract or under a rental agreement. In addition to income that was taxable under the Minnesota income tax law, claimants were required to include certain non-taxable income amounts that they may have received during 1981 including exempt interest income, dividends, and long-term capital gains excluded from federal adjusted gross income, worker's compensation, unemployment benefits, all social security benefits, veteran's and most other pension payments, and cash public assistance or relief payments. Some income amounts that claimants are not required to include are: the value of gifts or inheritances; the value of items received from government agencies such as food stamps; scholarships; educational grants; veteran's education benefits; and amounts paid directly to others by someone else for the claimant's care, such as amounts paid to a nursing home.

After computing their combined household income, it was necessary that each claimant determine the amount of property tax, or property tax equivalent for renters, to be used in the determination of the gross property tax refund amount. Homeowners used the qualifying property tax amount recorded on their property tax statements for taxes payable in 1982, and were required to document the qualifying property tax amount used in the refund computation by supplying a copy of their statement. The qualifying property tax amount for a homeowner is defined as the gross amount of property taxes payable on the first 240 acres for agricultural property and the first 10 acres for non-agricultural property, less any special assessments or penalties and after reductions for the Agricultural Aid Credit and the Taconite Homestead Credit if applicable. Renters claiming the refund were required to document the amount of rent paid for occupancy by supplying a Certificate of Rent Paid completed by the claimant's landlord. The property tax equivalent of renters is then computed by multiplying the amount of rent paid for occupancy in 1981, as recorded on the Certificate of Rent Paid (excluding the rental value of furnishings and utility costs), by a statutory factor of 23 percent. Beginning in tax year 1981, any portion of rent paid by a governmental assistance program resulted in a refund reduced by the proportion of that assistance to the renter's total income.

Claimants who sold their home and purchased another during 1981 used the qualifying tax amount of the dwelling owned on January 2, 1982. If the claimant sold a home during 1981 and moved into a rental unit, he was required to use only the rent paid for occupancy during 1981 to compute his credit. Claimants who purchased a home during 1981 and who resided in a rental unit during 1981 prior to the purchase, used both the property tax equivalent of the rent paid for occupancy in 1981 and the qualifying property tax amount for taxes payable in 1982 relating to the homestead owned on January 2, 1982. Mobilehome owners were allowed to use the qualifying property tax amount on their home as well as the amount of property tax equivalent of the rent paid for their lot, if applicable, in determining their refund. In the statistical reports which make up Appendix A of this bulletin we have included those claims which were based on both a rent amount paid for occupancy in 1981 and a qualifying property tax amount for taxes payable in 1982 as homeowners. This is because these combination homeowner/renter claimants are either mobilehome owners or persons whose latest status is as a homeowner. In 1976 and prior bulletins these claimants were included in the statistical reports as renters.

Claimants were provided with tables for use in determining the allowable amount of gross property tax refund using the total combined household income and either the qualifying property tax or property tax equivalent amounts previously defined. These tables, reproduced in Appendix C, are based on the following formula, as prescribed by Minnesota Statutes; the gross property tax refund is equal to the amount by which property taxes payable, or the property tax equivalent for renters, exceeds the specified percentage of income up to the specified first maximum amount, plus 50% of the remaining property taxes or property tax equivalent up to the specified second maximum amounts. (See table on next page.)

Makes entire levy limit article effective for taxes levied in 1983, payable in 1984, and thereafter.

Article 4
PROPERTY TAX REFUND

1983
Omnibus
chpt 342

Section 1.

Provides that the definition of homestead property in the property tax refund conforms to the changes made in article 2, section 11 for noncontiguous property. Property tax refund claims are limited to the claimant's principal residence. This will prohibit the claiming of a homestead credit and a renter's credit for the same period of time. A claimant who is a part year renter and part year homeowner would be unaffected.

Section 2.

Provides that if a claimant resided in a nursing home, intermediate care facility or long term residential facility for only a portion of the year, the claimant may choose to file for a property tax refund based only upon the rent or property taxes for the portion of the year when he did not reside in that institution. The household income for the entire year must be used.

Section 3.

Provides that the property tax refund of renters will be based on the actual property tax paid, rather than 23 percent of rent. Section 8 tenants and other individuals receiving rent supplements will receive refunds based on 20 percent of gross rent.

Section 4.

Requires use of actual property tax in computing the property tax refund for mobile homes.

Section 5.

Defines "net tax" for purposes of calculating the property tax refund based on rent. If the property contains multiple uses, the tax will be allocated.

Sections 6 to 9

Establish a new property tax refund schedule. Initially the claimant pays a specified percentage of his household income for rent constituting property taxes or for property taxes payable. Above that amount the state pays an equivalent amount. The maximum state's share declines for claimants with household incomes above \$30,000.

If the rent or property taxes exceeds the total of the amounts paid in the claimant and the state (section 7), then the claimant is eligible for an

additional refund. The additional state refund is equal to the remaining amount of the rent or property taxes less a specified percentage paid by the claimant up to a specified maximum. The resulting refund is reduced by the amount of homestead credit. This coinsurance is from 5% to 50% depending upon the claimant's income. A separate coinsurance schedule is provided for claimants who are 65 or disabled. The seniors and disabled share is roughly one-half the regular rate.

The maximum property tax refund is increased to \$1,125 for all claimants. The present maximum is \$1,000.

No refund is allowed if the claimant's household income is \$40,000 or more.

Section 10.

Provides an additional property tax credit for homesteads with tax increases exceeding 20 percent. The amount of the credit is equal to one-half of the increase in tax up to a maximum credit of \$200. The credit phases-out for incomes between \$30,000 and \$40,000. A maximum of \$11 million is appropriated to fund the credit.

Section 11.

Provides an additional property tax credit for homes with effective tax rates of 2.25 percent or more which receive tax increases of 10 percent or more. The credit equals one-half of the increase over 10 percent with a maximum credit of \$200.

Section 12.

Eliminates obsolete language.

Section 13.

Provides that property tax refunds for homeowners will be paid by September 15. Present law provides for payment of property tax refunds to homeowners by October 15.

Section 14.

Provides that estates of decedents who are not survived by a spouse or dependent may not receive a property tax refund.

Section 15.

Requires owners or managing agents to supply renters with a statement of rent constituting property taxes. A mechanism is provided to permit the statement to be provided to a part year renter at the time the renter terminates his tenancy. The statement must include the property tax parcel identification number and any additional information which the commissioner determines is appropriate.

Section 16.

1984 Omnibus Chpt 502 Article 3

Sections 10 to 12. Provide that Title II, Minnesota Housing Finance Agency, Farmers Home Administration, or Section 8 housing projects will qualify for the 20 percent classification rate on the entire unit if any of the following conditions are met:

- (1) Construction or rehabilitation commenced prior to January 1, 1984;
- (2) The project had been approved by the municipality's governing body prior to June 30, 1983; or
- (3) Financing had been approved by a federal or state agency prior to June 30, 1983.

Sections 13 and 14. Provide that beginning with taxes payable in 1985:

- (a) Homestead triplexes will be treated as homestead duplexes are now treated (homestead benefits to entire structure)
- (b) A single rented or leased dwelling unit located on the homestead premise or attached to a homestead will receive homestead benefits on the entire structure (e.g., garage apartments)
- (c) Property which is both homestead and non-homestead, except for (a) and (b) above, shall receive the homestead classification ratio on the first tier or the value of the homestead portion, whichever is greater. Homestead credit shall be applied to the entire property.

Section 15. Exempts hydropower sites operated under a tax exempt lease from the usual provision that if they are leased for a period of three years or more they become taxed as though they were private property.

Section 16. Requires that property tax statements include the following statement: "The State of Minnesota does not receive any property tax revenues. The State of Minnesota reduces your property tax by paying credits and reimbursements to local units of government."

Section 17. Provides that the penalty for unpaid property taxes shall not apply until June 1 in the case of commercial-seasonal-recreational property or commercial property provided that over 60 percent of the gross income earned by the property is earned during the months of May, June, July and August.

Sections 18 and 19. Extend the confession of judgment to all property except vacant land, mineral property, employment property and commercial or industrial property. It further provides that confession of judgment is granted only after county board approval.

Section 20. Provides that 30 days before the sale of tax forfeited land at public auction, the county auditor shall publish in a newspaper of general circulation the notice of the sale. The auditor shall also mail notice to all adjoining land owners and all owners of land whose boundaries are within 300 feet of the parcel to be sold.

Section 21. Provides that the targeting credit will be equal to 100 percent (instead of the current 50 percent) of the amount by which the property taxes

payable in 1984 increase over 1983 by more than 20 percent. Also eliminates the \$200 maximum targeting credit for taxes payable in 1984. The maximum refund will be reduced by one-tenth for each \$1,000 of claimant's household income in excess of \$40,000. No refund is allowed if the claimant's household income exceeds \$50,000. (Current law provides a \$30,000 to \$40,000 phase-out.)

Section 22. Eliminates the \$200 credit maximum for the special targeting provision based on effective tax rate.

Section 23. Provides for a targeting credit for property taxes payable 1985. The credit equals 50 percent of the increase over 12.5 percent up to \$400 maximum. This credit applies only to property taxes paid in 1985. There are no income restrictions on this provision.

Section 24. Assures that only a hydropower site developed and operated under this article is exempt from property taxation.

Section 25. Provides that effective for taxes levied in 1985 payable 1986 and thereafter, the state will provide a property tax reimbursement within the seven metro counties for the difference between the metropolitan transit's levy based upon full peak service and the limited peak service in certain cities and towns. The amounts will be computed by the county auditor and certified to the commissioner of revenue. The commissioner will pay the transit board the reimbursement amounts.

Section 26. Phases out the offset which provides that the consolidated conservation area funds need to be subtracted from the in lieu payments made to the counties for state DNR land. The phase-out is 75 percent, July 15, 1984; 50%, July 15, 1985; 25% July 15, 1986; and 0% subtracted thereafter.

Sections 27 and 28. Directs the Department of Revenue to consider alternative methods of determining the production value of farm property. The Department must make a recommendation to the legislature in 1985 for use in determining the production value to be used in the 1985 assessment.

Section 29. Directs the department of revenue to prepare and issue guidelines (not subject to the administrative procedures act) to all county assessors by 1984, on:

- (a) the proper assessment methods which should be used when valuing land which is irrigated or capable of being irrigated, and
- (b) the proper method for adjusting sales price for financing terms and other conditions of a sale in determining true market value.

Section 30. Provides that the county auditor will recompute the property tax statements on any property subject to the \$4,000 maximum ag aid credit and mail amended tax statements by May 11, 1984. State reimbursement of \$5 per amended tax statement is provided to defray the counties' administrative expenses. The auditor will recertify the agricultural aid amounts to the commissioner of revenue.

If property taxes payable in 1984 have been paid in full prior to this change, the taxpayer will receive a refund. If property taxes payable in 1984 have been partially paid, the auditor shall reduce the remaining taxes due by the amount