

# Minnesota's Modeling of Circuit Breaker Expansions

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## Revenue Estimating Issues for Circuit Breaker Expansions

- ❑ Several proposals for major expansions of the homeowner circuit breaker program were made in the 2007 Legislative session
- ❑ Background for proposals and current program
- ❑ Difficult revenue estimating issues due to data and modeling limitations for major expansions

## State Tax Notes Article

- The Property Tax Circuit Breaker: A Survey of Current Programs by Karen Lyons, Sarah Farkas, and Nicholas Johnson (April 23, 2007)

### Rebates for Homeowners and Renters as Percent of **Total** Property Tax Collections (2004)

State	Percent
Michigan	6.52%
Minnesota	6.03%
New Jersey	4.15%
Vermont	3.30% / 8.06%*
Missouri	2.22%
Wisconsin	1.69%
Montana	1.27%
Maine	1.11%
Pennsylvania	0.99%
Dist. Of Columbia	0.94%
Illinois	0.77%
Maryland	0.71%
New Mexico	0.46%
Rhode Island	0.34%
Massachusetts	0.22%
New York	0.09%
Oregon	0.06%
Oklahoma	0.02%

\*PT Rebate/Education PT Payment

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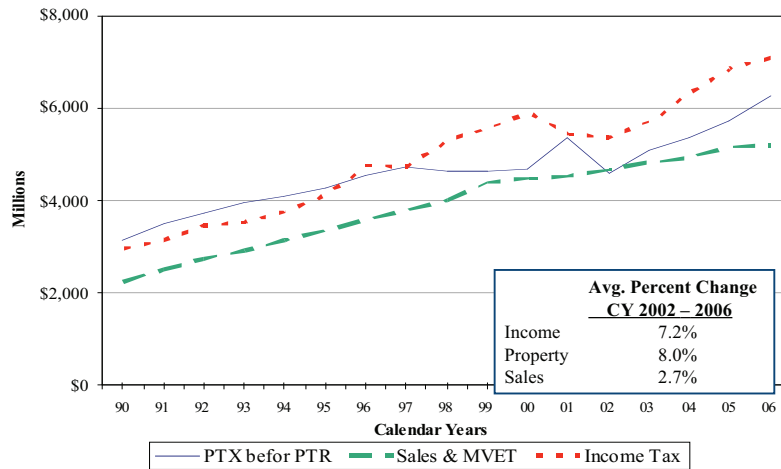
## Homeowner Property Taxes in Minnesota

- Ranked 25<sup>th</sup> - 29<sup>th</sup>\* (depending on example) for homeowners
- Major property tax reforms in 2001 reduced overall tax levels
- Property tax levels have risen significantly since that time particularly for homeowners

\*Source: 50 State Property Tax Comparison Study  
by Minnesota Taxpayer's Association

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### Growth in Total Property, Income, Sales & MVET Taxes CY 1990 - 2006



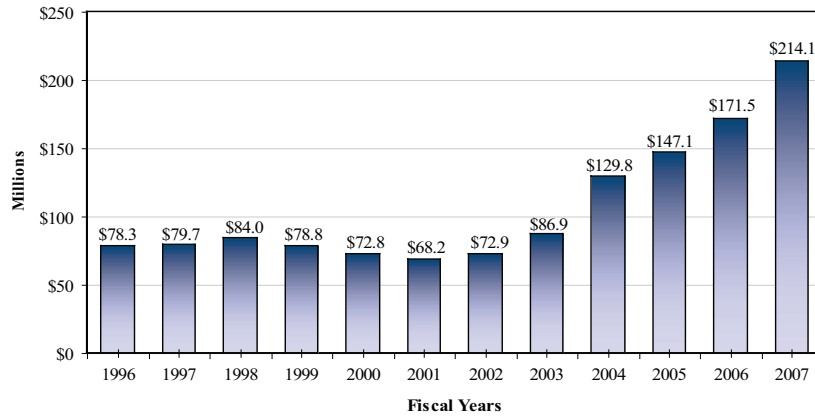
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### Change in Total Property Tax by Major Property Type: Pay 2002 and Pay 2007 (\$ 000)

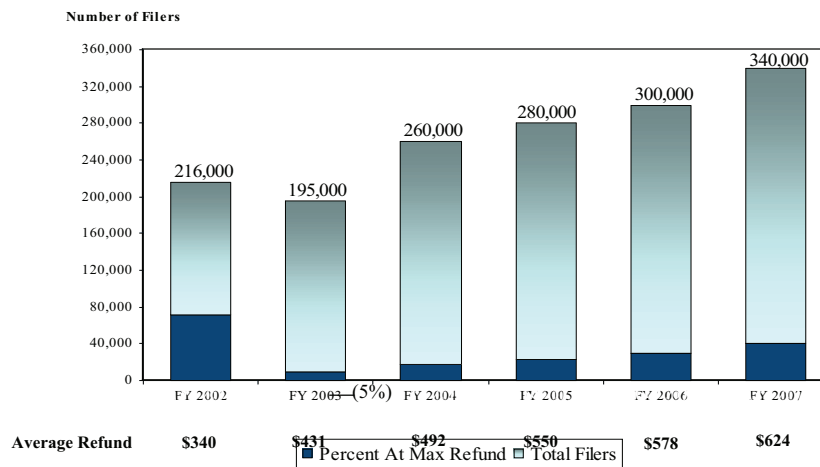
Property Class	Total Net Tax Pay 02	Total Net Tax Pay 07	Average Annual Percent Change 2002-07
Homestead	\$1,867,123	\$3,225,086	11.6%
Non-Homestead	152,571	412,531	22.0%
Apartments	262,745	276,393	1.0%
Seasonal Recreational	123,737	193,322	9.3%
Commercial/Industrial	1,683,595	2,051,211	4.0%
Public Utility	221,244	216,885	-0.4%
Agriculture	275,398	406,971	8.1%
<b>Total</b>	<b>\$4,586,413</b>	<b>\$6,782,399</b>	<b>8.1%</b>

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### Homeowner Property Tax Refund Expenditures FY 1996 - 2007



### Homeowner Property Tax Refunds Fiscal Years 2002 - 2007



## Property Tax Refund Eligibility

- ❑ Based on household income and amount of property tax paid on your principal home
- ❑ Homeowners qualify if total household income, after deductions for dependents, is less than \$91,120 for 2006 (adjusted for inflation annually)

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## Total Household Income

### **Sum of:**

- ❑ FAGI
- ❑ Nontaxable social security or railroad retirement benefits
- ❑ Deductions for payments to IRA's, Keogh, SEP plans, and contributions to 401K and deferred compensation plans
- ❑ Welfare payments, workers' compensation and veterans' benefits

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## Total Household Income (Cont.)

### Subtraction for dependents or elderly/disabled:

- ❑ Income is reduced based on number of dependents, e.g., \$4,620 for one dependent, \$8,910 for two dependents, up to \$19,800 for five or more dependents
  
- ❑ \$3,300 if age 65 or older or disabled

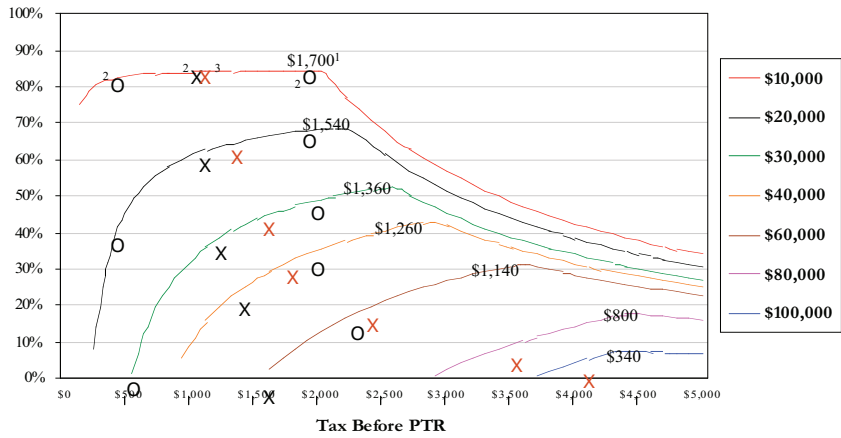
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### Homeowner Schedule for 2006 By Various Income Levels

	Step 1	Step 2	Step 3
Household Income After Subtractions Examples	Homeowner Pays 100% of Tax Up to this Percent of Income	Refund Equals this Percent of Tax (over step one)	To Maximum Refund Amount of:
\$1,000	1.0%	85%	\$1,700
\$8,000	1.5%	80%	\$1,600
\$16,000	2.0%	70%	\$1,420
\$27,000	2.5%	60%	\$1,300
\$52,000	3.0%	55%	\$1,140
\$67,000	3.5%	50%	\$920
\$80,000	4.0%	50%	\$680
\$90,000	4.0%	50%	\$340

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### Percentage of Property Tax Refund to Total Property Tax By Income With Two Dependents



<sup>1</sup>Maximum refund amounts by income.

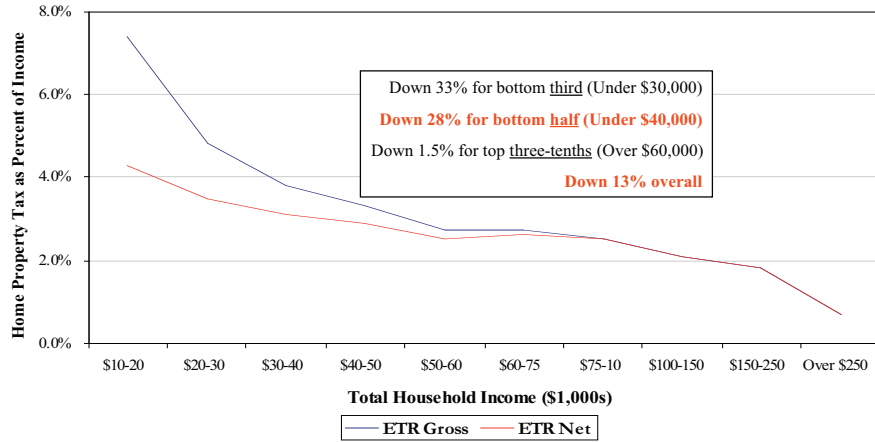
<sup>2</sup>Distribution of property tax by income level (O X O), 25<sup>th</sup> percentile (O), median (X), 75<sup>th</sup> percentile (O)

<sup>3</sup>Median property tax for homeowners receiving property tax refunds by income level (X)

### Baseline FY 2007 Homeowners Receiving Property Tax Refunds

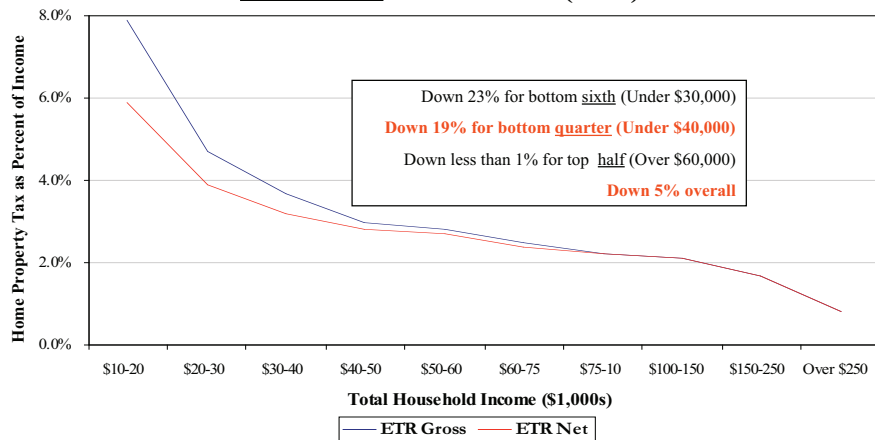
Gross Income Category	Filers	Percent of Filers	Average Tax Before PTR	Average Refund	Average Tax After PTR	PTX - Income Ratio without PTR	PTX - Income Ratio after PTR	Number at Maximum	Percent at Maximum
\$ 0 - \$ 10,000	23,400	7%	\$1,450	\$940	\$510	26.8%	9.4%	5,420	23%
\$ 10,000 - \$ 20,000	52,600	15%	1,410	800	610	9.2%	3.9%	7,860	15%
\$ 20,000 - \$ 30,000	63,600	19%	1,650	690	960	6.6%	3.8%	7,390	12%
\$ 30,000 - \$ 40,000	65,800	19%	1,890	600	1,290	5.4%	3.7%	6,080	9%
\$ 40,000 - \$ 50,000	57,400	17%	2,140	530	1,610	4.8%	3.6%	5,020	9%
\$ 50,000 - \$ 60,000	40,300	12%	2,460	480	1,980	4.5%	3.6%	3,950	10%
\$ 60,000 - \$ 70,000	23,000	7%	2,890	440	2,450	4.5%	3.8%	2,870	12%
\$ 70,000 - \$ 80,000	10,600	3%	3,520	420	3,100	4.7%	4.2%	1,860	17%
\$ 80,000 or more	6,500	2%	4,190	340	3,850	4.8%	4.4%	2,150	33%
<b>Total</b>	<b>343,200</b>	<b>100%</b>	<b>\$2,010</b>	<b>\$620</b>	<b>\$1,390</b>	<b>5.5%</b>	<b>3.8%</b>	<b>42,580</b>	<b>12%</b>

### Effective Tax Rates Before and After PTR Senior Homeowners (2004)



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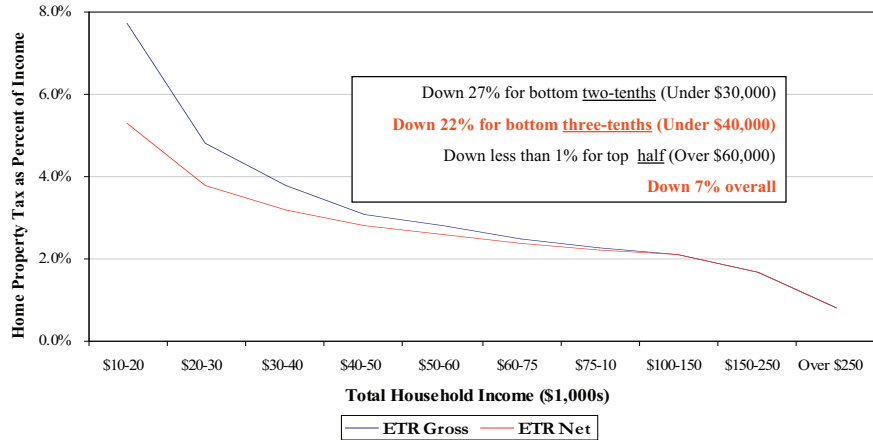
### Effective Tax Rates Before and After PTR Non-Senior Homeowners (2004)



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### Effective Tax Rates Before and After PTR All Homeowners (2004)



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## Property Tax Refund Model

### Baseline Model Includes:

- ❑ Most recent year filing data
- ❑ Formulas by household income level for percentages of income and property tax refund thresholds, and maximum refunds
- ❑ Projected growth in incomes (metro vs. non-metro, and seniors vs. non-seniors)
- ❑ Projected growth in homestead property taxes (residential homesteads vs. farm homesteads)

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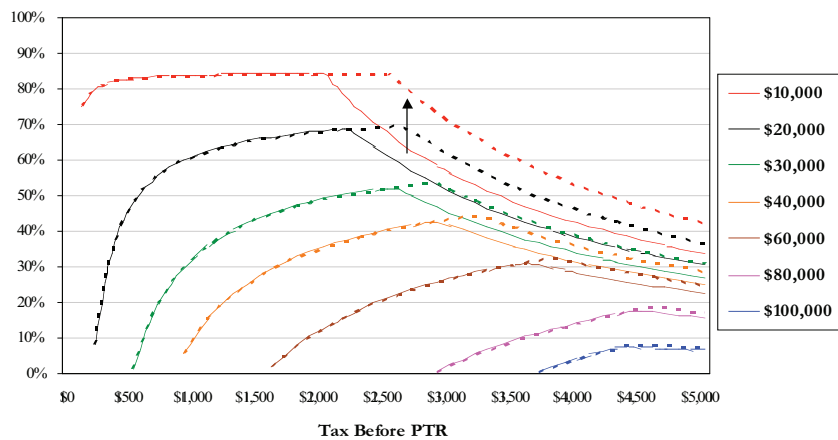
## Legislative Proposals – Two Types

### 1) Change parameters for current filers:

- ❑ Modify property tax refund percentages
- ❑ Modify maximum refund levels
- ❑ Modify senior/dependent subtractions

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### Percentage of Property Tax Refund to Total Property Tax By Income With **Two Dependents** Impact of Proposal to Raise Maximums



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## Legislative Proposals – Two Types (Cont.)

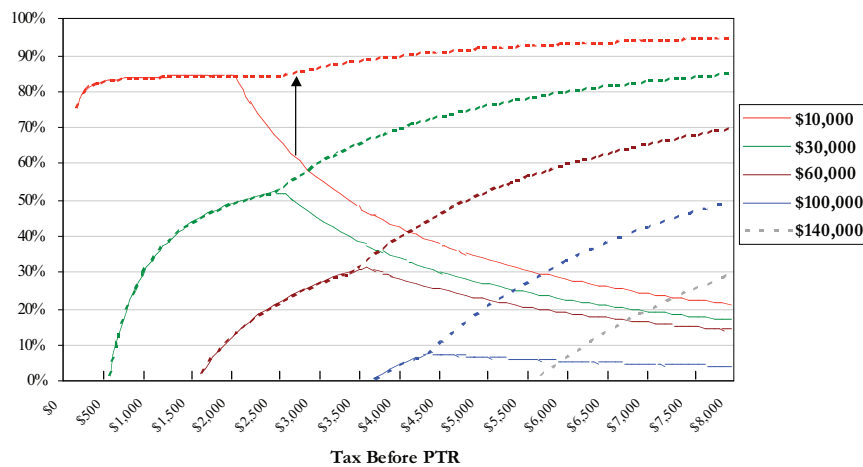
### 2) Significant expansions in eligibility and refund amounts:

**Example One:** *Additional* circuit breaker to refund property tax exceeding 4% of income

- ❑ Proposed by Senior Federation and intent is to alleviate the highest burdens of the tax relative to income
- ❑ Expensive – around 65% increase in costs
- ❑ Eligibility – around 50% increase in number of filers
  - Assumed participation would increase to 80%

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**Percentage of Property Tax Refund to Total Property Tax  
By Income With **Two Dependents**  
Impact of Proposal for 4% Cap on Net Tax As Percent of Income**



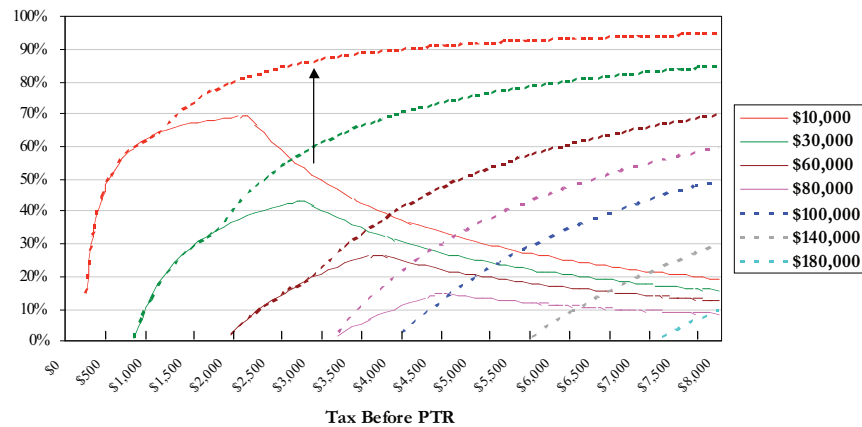
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### Example 1 (cont.)

- With 2 dependents, increases go only to those currently at the maximum PTR cap or above the income threshold.
- This is not generally true, though, as illustrated for zero dependents on the next slide.

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**Percentage of Property Tax Refund to Total Property Tax  
By Income With **No Dependents (and not senior)**  
Impact of Proposal for 4% Cap on Net Tax As Percent of Income**



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## Legislative Proposals – Two Types (Cont.)

### 2) Significant expansions in eligibility and refund amounts: (Example 1 Cont.)

Alternative proposals (less costly)

- ❑ Refund tax exceeding 5% or 6% of income
- ❑ Age limitations (over 65)
- ❑ By age and occupancy (e.g., 15 or more years of ownership)
- ❑ Income limitations

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## Legislative Proposals – Two Types (Cont.)

### 2) Significant expansions in eligibility and refund amounts: (Cont.)

**Example Two:** *New circuit breaker program extending to higher incomes (e.g., \$150,000 or \$175,000) would replace existing program. Maximum refund increased to \$2,450.*

- ❑ Income threshold of 2% for all income levels (currently 1% – 4%) and intent is to further target relief and base more on income
- ❑ Also, phases-out current market value homestead credit (now on property tax statement)

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## Legislative Proposals – Two Types (Cont.)

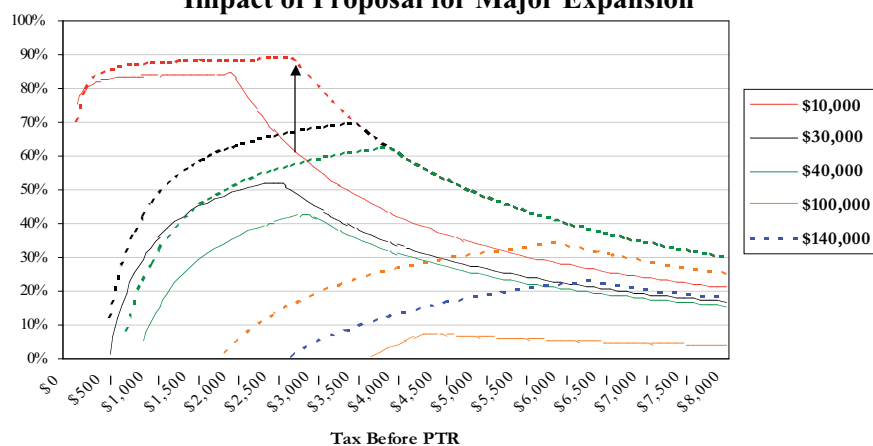
### 2) Significant expansions in eligibility and refund amounts: (Cont.)

#### **Example Two:** (Cont.)

- ❑ Creates winners and losers and expensive – over 200% increase in costs
- ❑ Eligibility – because homeowners are required to apply for the market value credit during the phase-out, participation is assumed to increase to 95%

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**Percentage of Property Tax Refund to Total Property Tax  
By Income With **Two Dependents**  
Impact of Proposal for Major Expansion**



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## Data Available for Modeling Expansions

- ❑ Parcel level property tax data for homeowners (with SSN) from counties
- ❑ File match of income tax data for homeowners to parcel level property tax data
- ❑ Tax incidence study file data (sample)
  - Includes property tax for homeowners for base year 2004
  - Total cash income for household

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## Estimation Difficulties

- ❑ Tax incidence database
  - Old 2004 base year data (2002 until 3/1/07 incidence study updates)
  - Incidence income definition less comprehensive than total household income for PTR
- ❑ Revenue estimates needed for FY 08 to FY 11

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## Estimation Difficulties (Cont.)

- ❑ Growth projections and growing data file information over numerous years
  - Merging processing information with incidence file information for program expansions
- ❑ Predicting new participation levels

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## Circuit Breaker Programs

- ❑ Efficient way to target tax relief based on ability to pay
- ❑ Particularly benefits seniors and other homeowners where need is greatest (lower incomes but relatively high property taxes)
- ❑ May become bigger issue with demographics and increased reliance on property tax

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