

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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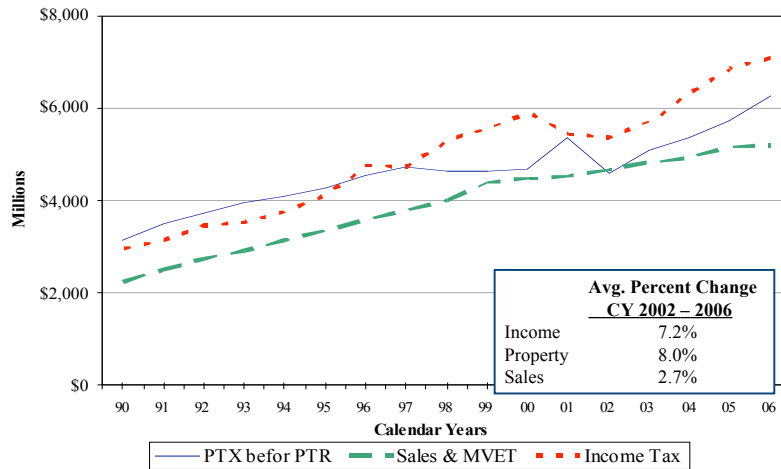
Homeowner Property Taxes in Minnesota

- Ranked 25th - 29th* (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



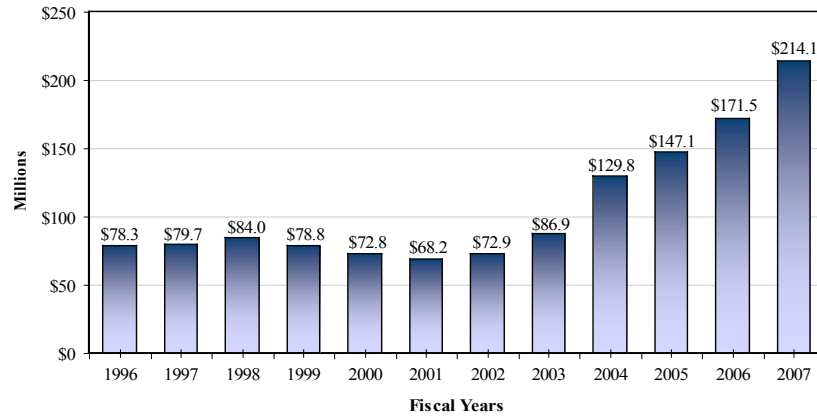
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Change in Total Property Tax by Major Property Type: Pay 2002 and Pay 2007 (\$ 000)

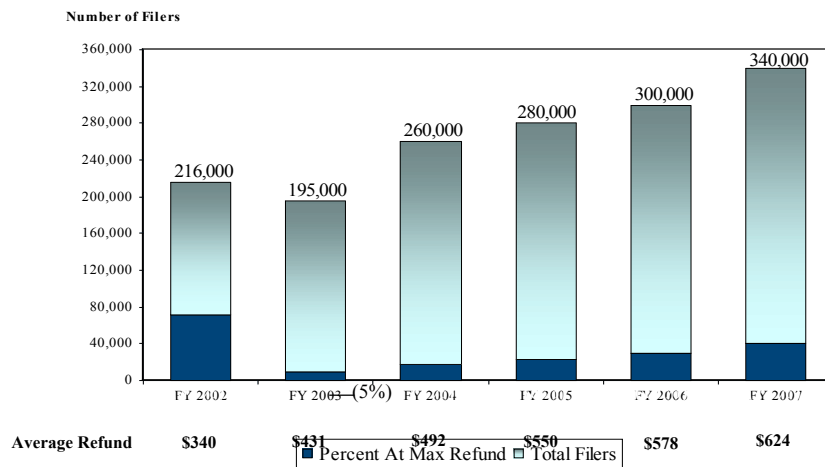
Property Class	Total Net Tax Pay 02	Total Net Tax Pay 07	Average Annual Percent Change 2002-07
Homestead	\$1,867,123	\$3,225,086	11.6%
Non-Homestead	152,571	412,531	22.0%
Apartments	262,745	276,393	1.0%
Seasonal Recreational	123,737	193,322	9.3%
Commercial/Industrial	1,683,595	2,051,211	4.0%
Public Utility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

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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

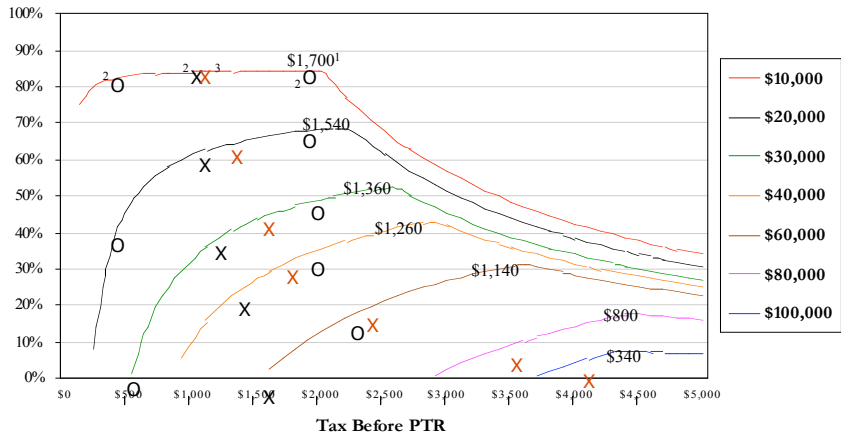
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Homeowner Schedule for 2006 By Various Income Levels

	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



¹Maximum refund amounts by income.

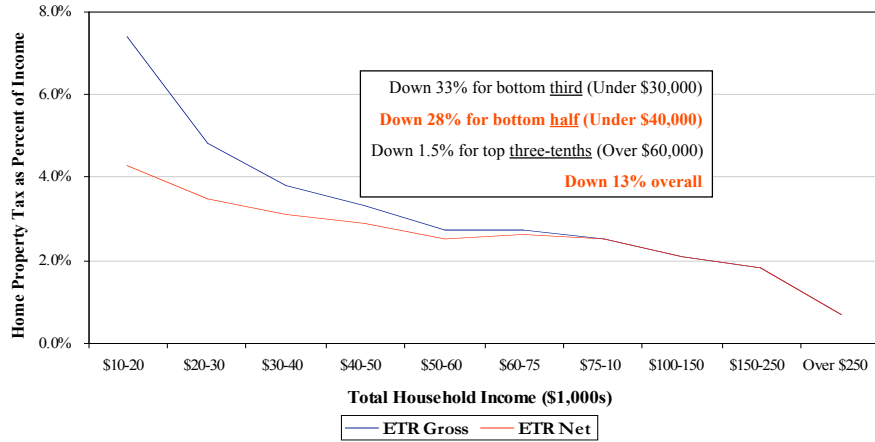
²Distribution of property tax by income level (O X O), 25th percentile (O), median (X), 75th percentile (O)

³Median property tax for homeowners receiving property tax refunds by income level (X)

Baseline FY 2007 Homeowners Receiving Property Tax Refunds

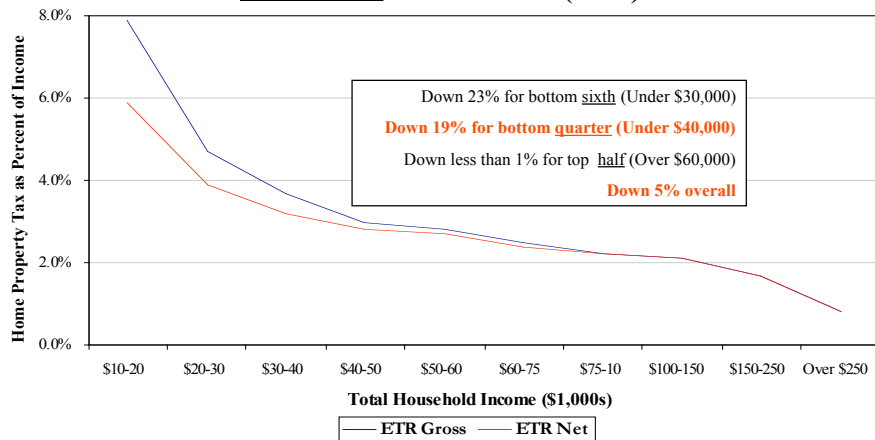
Gross Income Category	Filers	Percent of Filers	Average Tax Before PTR	Average Refund	Average Tax After PTR	PTX - Income Ratio without PTR	PTX - Income Ratio after PTR	Number at Maximum	Percent at Maximum
\$ 0 - \$ 10,000	23,400	7%	\$1,450	\$940	\$510	26.8%	9.4%	5,420	23%
\$ 10,000 - \$ 20,000	52,600	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%
Total	343,200	100%	\$2,010	\$620	\$1,390	5.5%	3.8%	42,580	12%

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



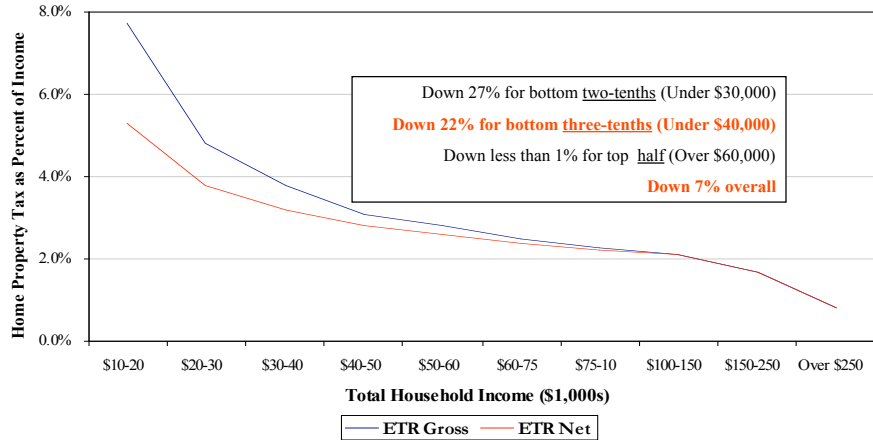
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Effective Tax Rates Before and After PTR Non-Senior Homeowners (2004)



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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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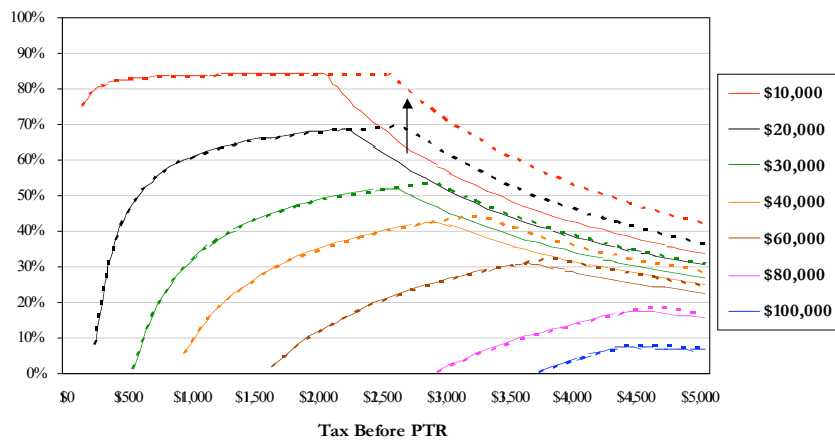
Legislative Proposals – Two Types

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.)

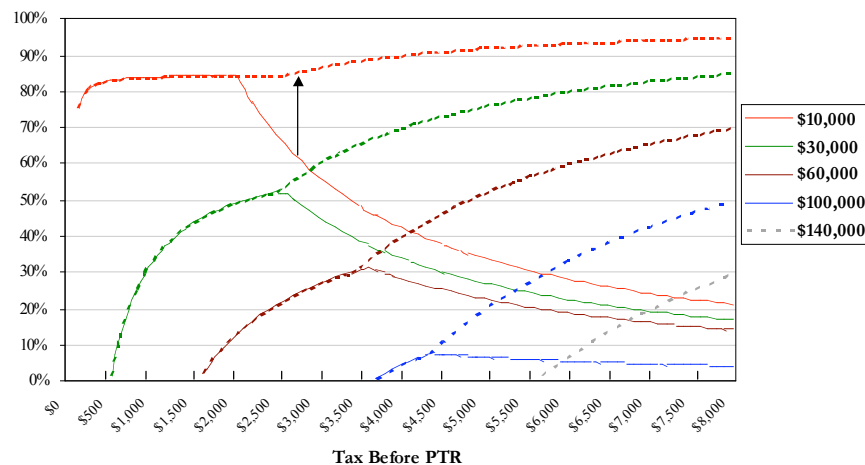
2) Significant expansions in eligibility and refund amounts:

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**



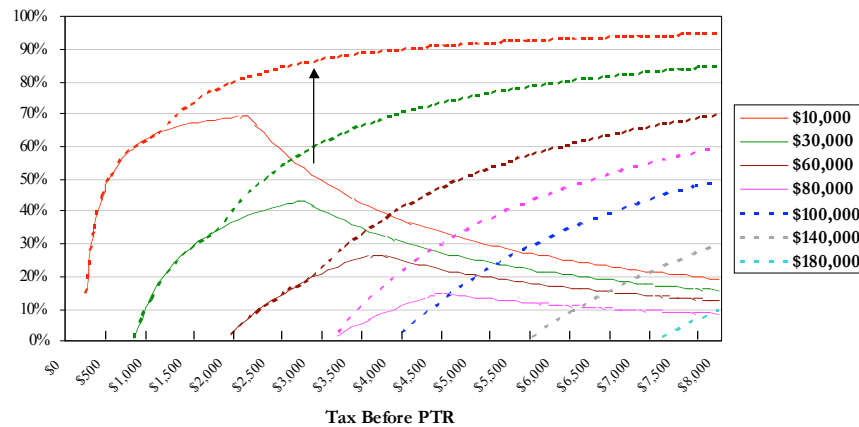
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Example 1 (cont.)

- 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.)

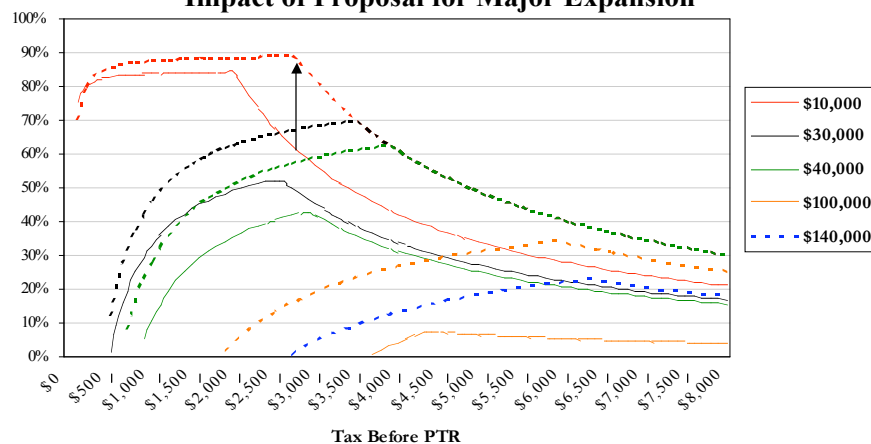
2) Significant expansions in eligibility and refund amounts: (Cont.)

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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