



State Homeowner Property Tax Relief Programs 101

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There are three property tax relief programs aimed at homeowners offered by the state of Minnesota: the Homeowner's Property Tax Refund Program, the Targeting Property Tax Refund, and the Senior Citizen Property Tax Deferral Program. This document is intended to provide a basic description of each of these three programs, including eligibility criteria and sample calculations of the benefits. It also offers sources for more detailed information about each of the programs.

Homeowner's Property Tax Refund Program

The Homeowner's Property Tax Refund Program is sometimes referred to as the circuit breaker. Eligibility is determined by comparing a homeowner's property taxes to household income. The program works by refunding a portion of the property taxes that exceed a certain percentage of household income (the threshold percentage). Homeowners pay the full amount of their property tax bill and file for the refund with their state income tax return. For those homeowners who receive a refund, the total out-of-pocket property taxes paid equal the property taxes up to the threshold amount plus a portion of the excess property taxes (referred to as the co-pay).

At higher levels of household income, the threshold percentage of eligibility and the share of the total property tax due that the homeowner must pay both increase. The 2008 Legislature increased funding for this refund program and raised the maximum income for eligibility. For taxes payable in 2009, homeowners whose household income is greater than \$96,940 are not eligible for this refund program. For taxes payable after December 31, 2009, the 2009 Legislature changed the definition of federal adjusted gross income to include the federal deduction for unemployment compensation. There is a maximum refund amount of \$2,310 for refunds claimed for taxes payable in 2009. The program does allow for deductions to household income for dependents and for those homeowners who are over age 65 or disabled.

In 2006, slightly more than 301,000 homeowner refunds were filed for a total of \$190 million in refunds paid out by the state. Additional information and the required forms are available in the property tax section of the Minnesota Department of Revenue's website:

<http://www.taxes.state.mn.us/taxes/>

Sample calculation: Property Tax Refund

Household gross income = \$50,000
Property tax bill = \$3,200
Threshold percentage (set in statute) = 2.8%
Threshold percentage x Income = 2.8% x \$50,000 = \$1,400
Property tax in excess of threshold = \$3,200 - \$1,400 = \$1,800
Percentage of excess that homeowner must pay (set in statute) = 45%
Homeowner portion of excess (co-pay) = 45% x \$1,850 = \$810
Remaining property tax excess = \$1,800 - \$810 = \$990
Maximum refund allowed at this income level (set in statute) = \$1,550
Refund = \$990
Total property taxes paid by homeowner after receiving refund =
\$1,400 (amount up to threshold) + \$810 (co-pay) = \$2,210

The Targeting Property Tax Refund directs property tax relief to homeowners who experience a large increase in the amount of property taxes due from one year to the next. This program does not consider a homeowner's income. Homeowners who are not eligible for the "circuit breaker" refund described above, therefore, may qualify for this targeting refund.

Qualifying homeowners are those whose property taxes increase more than 12 percent and more than \$100 over the previous year's taxes. The refund is 60 percent of the increase in excess of the greater of a) 12 percent or b) \$100. The maximum refund amount is set at \$1,000. To be eligible, homeowners must own and live in the same house for both years.

For those homeowners who make improvements to their homes, the portion of the property tax attributable to the improvements is subtracted when calculating the refund amount. In other words, increases in property taxes that result from increases in assessed value following improvements are not considered when determining eligibility for this refund.

In 2006, the state paid out \$13.6 million in targeting refunds to Minnesota homeowners. Additional information and the required forms are available in the property tax section of the Department of Revenue's website: www.taxes.state.mn.us/taxes/

An example of how this refund is calculated is below:

Sample calculation: Targeting Property Tax Refund

Taxes due in 2007: \$2,000
Taxes due in 2008: \$2,400
Increase in taxes due: \$400 (a 20% increase and at least \$100 so it meets criteria for refund)
Taxpayer portion (first 12% of the excess) = 12% x \$400 = \$48
Remaining excess = \$400 - \$48 = \$352
Refund is 60% of excess = 60% x \$352 = \$211.20
Balance is paid by taxpayer: \$352 - \$211.20 = \$140.80
Total property taxes paid by homeowner after receiving refund =
\$2,000 (amount up to excess) + \$48 (first 12% of excess) + \$140.80
(balance after refund) = \$2,188.80

Senior Citizen Property Tax Deferral Program

The Senior Citizens Property Tax Deferral Program allows qualifying homeowners over age 65 to defer a portion of their property taxes into the future. The goal of the program is to assist older homeowners whose property taxes are high relative to their incomes to stay in their homes. In order to qualify, a homeowner must be at least 65 (if married, only one spouse must be at least 65 years old while the other must be at least 62 years old) and household income must be equal to or less than \$60,000. Further, the home must have been owned by the applicants for 15 years before applying for the deferral through this program. Homeowners must complete an application form and submit it to the Minnesota Department of Revenue.

Under the deferral program, the homeowner (s) pays the first three percent of the taxes owed. The balance of property taxes owed is paid to the county by the state and a lien is placed on the home. The amount of taxes deferred is administered as a loan to the homeowner (s) on which the interest rate cannot exceed five percent. If the owner wishes to sell the home at any given point, he/she must pay the deferred tax plus any interest that has accrued.

Other important points about this program include:

- If household income exceeds the \$60,000 threshold in any year after the homeowner starts participating in the program, the homeowner cannot defer payment of property taxes owed during that year. The homeowner does remain in the program and simply needs to notify the state once household income falls back below \$60,000 so that the deferral can be restarted.
- Additional eligibility criteria relate to the amount of debt outstanding on the property and other state or federal tax liens.
- Deferral is terminated when one of several events occurs, including the death of the homeowner (s), sale or transfer of the property, notification in writing of the homeowners wish to discontinue the deferral or the property's disqualification as a homestead. Even with termination, the lien remains outstanding on the property.

In 2005, taxes were deferred on about 100 homes through this program. Reimbursements to counties for the deferred taxes totaled slightly more than \$180,000 that year. Additional information and the application forms are available in the property tax section of the Minnesota Department of Revenue's website: www.taxes.state.mn.us/taxes/

Details of the eligibility criteria and the reasons for termination are available from the House Research memo on the deferral program at <http://www.house.leg.state.mn.us/hrd/issinfo/ssscptdp.htm>

Sample calculation: Tax Deferral Program

Taxes owed: \$3200

First 3% paid by homeowner: $3\% \times \$3200 = \96

Balance of taxes owed = \$3104, as a loan to homeowner
(interest rate of up to 5% applies)