2012 House Tax Bill Would Severely Cut Renters' Property Tax Refunds

The Renters' Credit refunds a portion of the property taxes that renters pay through their rents. This year, 315,000 low- and moderate-income Minnesota households are eligible for this tax refund, 28 percent of which include seniors or people with severe disabilities.[1] Seventy-nine percent of participating households have incomes under $30,000.

The 2012 House omnibus tax bill (House File 2337) includes a stunning 38 percent cut to the Renters' Credit, a $67 million reduction in FY 2013. If this proposal becomes law, 66,200 Minnesota households would no longer qualify for a property tax refund – one in five currently eligible households. The average refund would be cut by $213, a noticeable loss for people with modest incomes.

House File 2337 proposes a substantial restructuring of the Renters' Credit. Two changes would impact all participating households. First, the bill cuts the share of rent that is considered the renter's share of property taxes, which is the starting point for calculating the Renters' Credit. The bill would reduce it from 17 percent to 15 percent.[2] Second, the value of the Renters' Credit would be eroded over time, because it would no longer be indexed to inflation.

The bill makes additional cuts to the Renters' Credit, but treats households that include seniors and people with severe disabilities differently from other households.

For households including seniors and people with disabilities:

- The maximum household income for eligibility is reduced from $53,539 to $40,000.
- The maximum refund is cut for households with incomes between $26,010 and $40,000.
- As a result of these changes, the average credit for these households is cut by $103 and 4,100 of these households would lose their entire refunds.

The other households, 41 percent of which have at least one dependent and close to a quarter of which have at least two dependents, face even deeper cuts:

- The maximum household income is cut to $25,000 – less than half of its current level.
- The maximum refund is cut from $1,550 to $1,000, and refund amounts are reduced at all income levels.
- As a result of these changes, the average credit for these households is cut by $256 and 62,100 of these households would lose their entire refunds.

The Proposed Cuts Are Unnecessary

The 2011 tax bill cut the Renters' Credit by $26 million in FY 2013, or 13 percent. The cuts in House File 2337 would be on top of those passed last year, and would reduce refunds in the 2012 calendar year.

Last year's cuts were made as the state struggled to address a large budget deficit. But this year, the state does not face a deficit. Instead, in the 2012 House omnibus tax bill, deep cuts to the Renters' Credit would be used to pay for tax cuts, primarily a cut in the statewide property tax paid by businesses and cabins.

The pain from these cuts will be felt by Minnesota's renters, but will also have a ripple effect. Helping low- and moderate-income families maintain their incomes – and their buying power – ensures that they can continue to spend those dollars in their local communities. The proposed Renters' Credit cut would take $67 million out of Minnesota's still-struggling economy.

Given the harm to Minnesota's renters and our fragile economy, policymakers should not cut the Renters' Credit.

[1] The data in this analysis comes from Minnesota Department of Revenue, Property Tax Research.
[2] The 2011 omnibus tax bill reduced this percentage from 19 percent to 17 percent.