

Citizens League
530 Syndicate Building
Minneapolis, MN 55402

STATEMENT

TO: Members, Board of Directors

FROM: Tax and Finance Task Force of Community Information Committee
John Cairns, Chairman

SUBJECT: Circuit-breaker monitoring

I. BACKGROUND

The 1975 Legislature adopted a new approach to property tax relief for renters and homeowners. It is commonly known as the income-adjusted property tax or the "circuit-breaker." This law provides that if property taxes exceed a certain percentage of household income (for example, 1.5% for incomes from \$2,500 to \$19,999), the state will provide a refund, to a maximum of \$475.

The Citizens League has followed property tax developments for several years. Prior to the passage of the circuit-breaker, the League recommended the Legislature exercise caution on new proposals which would relate the property tax to household income for the vast majority of taxpayers.

The circuit-breaker will go into effect for taxes payable in 1976. The Minnesota Department of Revenue has not yet been given funds to audit the implementation of the circuit-breaker, although the Legislature is likely to give serious consideration to such an appropriation in its 1976 session.

II. RECOMMENDATIONS

1. We recommend that the 1976 Legislature provide the Minnesota Department of Revenue with sufficient funds to enable a thorough analysis of the implementation of the circuit-breaker. It is our understanding that such funds were not authorized in 1975 largely because of an oversight. In the absence of an analysis, the Department will be unable to report to the Legislature and the public on distribution of benefits, which, in turn, would mean no one would have factual information on whether the circuit-breaker is functioning as intended or whether certain anticipated problems or undesirable side effects have resulted.

2. We recommend that the analysis be fully as detailed as the Department of Revenue's annual reports in recent years on property tax relief for senior citizens. These reports have included data on relief by (a) size of income, (b) size of property tax, (c) size of credit, (d) age, and (e) location. Specifically, we recommend that the circuit-breaker analysis include:

** Median and distribution of net homestead property tax payable for each household income class, by county and major city. (This is net tax before the circuit-breaker credit.) This should be broken down

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November 6, 1975

I just wanted to be sure you knew about, and had a personal invitation to attend, this 'annual meeting' program of the Citizens League. Paul Ylvisaker is an unusually stimulating and perceptive person. I think you might find the discussion interesting and important, in relation to your own work.

I hope you can come. Do, please, give the office a call and leave your name, if you can come.

Thanks . . .

by farm, non-farm and elderly homestead categories. In addition, the total amount of property taxes payable by each of these categories should be reported.

The above information is essential for determining the impact of the circuit-breaker on homeowners in different situations.

- ** Median and distribution of rent paid for each household income class, by county and major city. (This is net tax before the circuit-breaker credit.) This information, too, should be broken down by farm, non-farm and elderly household categories.

This information is essential for determining the impact of the circuit-breaker on renters in different situations.

- ** Circuit breaker credit (total payable, plus median and distribution) for each income class by county and by major city, for renters and homeowners, and non-farm, farm, and elderly.

This information, of course, is at the heart of the analysis, because it will indicate just where the benefits of the new legislation are being distributed, and will provide a basis for estimating costs in coming years.

- ** Combined circuit-breaker and regular homestead credit (total payable, plus median and distribution) for each income class, by county and by major city, for non-farm, farm and elderly.

This will indicate the combined benefit of the circuit-breaker and the homestead credit.

- ** Percentage of homeowners and renters (broken down by non-farm, non-elderly, farm and elderly) receiving different amounts of circuit-breaker credit and homestead credit combined in each locality. That is, for example, the information should reveal the percentage receiving the \$475 maximum, along with the percentage at various intervals below the maximum, just as is done now with the homestead credit.

This information will help reveal how many taxpayers in a given community will be affected by changes in the local mill rate.

- ** Percentage distribution of household income by different sources of income for each income class. The circuit-breaker will require reporting of new categories of income, since it is based on total household income, not just taxable income.

This information will provide, for the first time, a truer picture of the income situation of taxpayers. Moreover, it is essential information for reaching judgments on whether, in the aggregate, taxpayers are reporting all income, as required.

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