

Cuts to Renters' Credit Would Increase Unfairness of Property Taxes

The Issue

The Renters' Credit is an important source of tax fairness that impacts 1 in 9 Minnesota households. The House omnibus tax bill (HF 785) cuts the Renters' Credit by 44% in FY 2007, or by \$66.4 million. Governor Pawlenty's budget recommends cutting the Renters' Credit by 20% in FY 2007 or \$30.4 million. (Under the Governor's proposal, the cut would increase to a 25% reduction in FY 2008, or \$41 million). The Senate makes no changes to the Renters' Credit.¹

Background

The Renters' Credit is only available to low- and moderate-income Minnesota households with high housing costs. The Renters' Credit recognizes that, although the owners of rental properties are legally responsible for paying property taxes, this cost is passed on to renters in their rents. In calculating the Renters' Credit, 19% of total rent paid is considered the renter's share of property taxes. In 2004, the Renters' Credit provided an average credit of \$554 to nearly 275,000 Minnesota households.

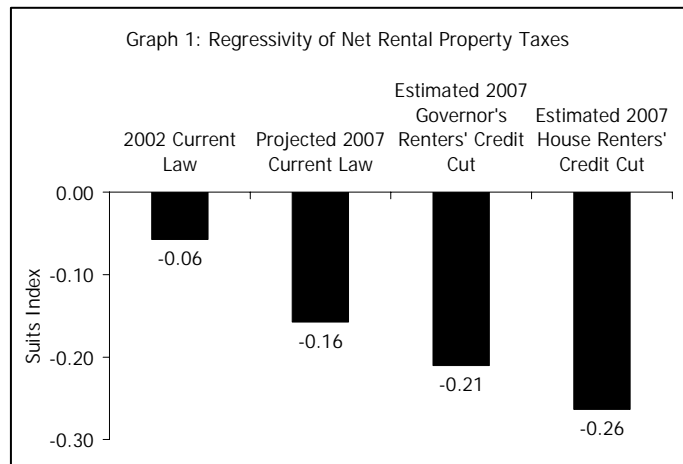
What's At Stake for Tax Fairness

In addition to the significant negative impact on individual taxpayers, proposals to cut the Renters' Credit would increase the lack of fairness in rental property taxes. Low- and middle-income Minnesotans already contribute a larger share of their incomes in total state and local taxes than higher-income Minnesotans do.² This situation is projected to get increasingly worse from 2002 to 2007 under current law, and the trend will be amplified if the Renters' Credit is cut.

A tax is said to be **regressive** if households with lower incomes pay a higher percentage of income for that tax than those with higher incomes do. In contrast, if those with higher incomes pay a higher percentage of income for a tax than do those with lower incomes, that tax is said to be **progressive**. The degree to which a tax is regressive or progressive is measured by the Suits Index, which is a number between -1.0 and 1.0. A progressive tax has Suits Index greater than zero and a regressive tax has a Suits Index less than zero.

As shown in graph 1, rental property taxes in Minnesota are already regressive, and have a Suits Index of -0.06 even after the Renters' Credit is taken into account. Net rental property taxes are projected to become significantly more regressive by 2007 even if no changes are made by the 2005

Legislature. This trend would be made even worse if cuts are made to the Renters' Credit, with the Suits index reaching -0.21 under the Governor's proposal and to -0.26 under the House's budget, according to estimates by the



¹ For more information about the Renters' Credit and proposals to change it, visit Minnesota Budget Project, www.mncn.org/bp/renterscredit.htm.

² Minnesota Department of Revenue, *2005 Minnesota Tax Incidence Study*, www.taxes.state.mn.us/legal_policy/research_reports/content/incidence.shtml.

Minnesota Budget Project.³ (The impact of the Governor's proposal would grow in 2008, although it would still be less than the House's proposal.)

Under the changes proposed by either the Governor or the House, the **net rental property tax would become one of the most regressive taxes in Minnesota**, being surpassed in regressivity only by MinnesotaCare taxes, gambling taxes, and cigarette and tobacco taxes.

As the 2005 Legislature continues to meet in special session, lawmakers must decide whether basic notions of fairness valued by Minnesotans are violated by a tax proposal that asks low- and moderate-income renters to shoulder so much responsibility for balancing the state's budget.

³ The Suits Indices under the House and Governor's proposal were estimated by the Minnesota Budget Project using information from the 2005 Minnesota Tax Incidence Study and projections of tax changes prepared by legislative staff. All Suits Indices in this analysis are based on population deciles.