



# Governor's Proposal to Cut Renters' Credit Would Hurt Minnesotans

The Renters' Credit is an important source of tax relief and housing assistance for low- and moderate-income persons across Minnesota. In the 2004 tax year, the Renters' Credit will provide an average credit of \$554 to nearly 275,000 low- and moderate-income Minnesota households.<sup>1</sup> In his proposed 2006-07 Biennial Budget, Governor Pawlenty recommends cutting the Renters' Credit by 20% in FY 2007 and 25% in FY 2008 and future years.

Renters' Credit recipients have household incomes less than \$45,970<sup>2</sup> and must be Minnesota residents for at least part of the year. 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. For renters, 19% of total rent paid is considered their share of property taxes. Taxpayers are eligible for the Renters' Credit when their property taxes reach a certain percentage of income, called the threshold. The Renters' Credit is calculated based on a percentage of the amount of property tax that exceeds the threshold.<sup>3</sup> The Renters' Credit cannot exceed a maximum amount, which is \$1,310 in 2004.

## What Would Change?

The Governor's proposal would change the amount of rent considered the renter's share of property taxes from 19% in 2004 to 16% in 2005 and 15% in 2006. As a result, 12,634 fewer Minnesota households would receive the Renters' Credit in 2005 than in 2004, and the average amount of credit would drop by \$89. The impact would increase in 2006. Two examples illustrate the real impact the cut in the Renters' Credit would have in Minnesotans' lives.

**Example 1:** Linda is a disabled tenant living in subsidized housing in the suburbs. She paid \$4,134 in rent in 2004. Under current law, she receives a \$560 Renters' Credit. Her Renters' Credit would be \$106 less if the percentage of rent considered property taxes was 16%, and \$148 less if the percentage was 15%.

Percentage of Rent Considered Renter's Share of Property Taxes	Renters' Credit	Amount of Renters' Credit Lost	
		\$	Percentage Cut
19% (current law)	\$560		
16% (proposed)	\$454	-\$106	-19%
15% (proposed)	\$412	-\$148	-33%

**Example 2:** Mary works full-time at \$15.00 an hour, and lives with her two children. She pays \$926 a month in rent (\$11,112 a year), just about the market rate for a 2-bedroom apartment in the Twin Cities. Housing is considered affordable when it takes no more than 30% of a family's income; for Mary's family, housing costs make up over 35% of their income. Her 2004 Renters' Credit is \$1,174. Her 2004 Renters' Credit would be \$233 less if the percentage of rent considered property taxes was 16%, and \$311 less if the percentage was 15%.

Percentage of Rent Considered Renter's Share of Property Taxes	Renters' Credit	Amount of Renters' Credit Lost	
		\$	Percentage Cut
19% (current law)	\$1,174		
16% (proposed)	\$941	-\$233	-20%
15% (proposed)	\$863	-\$311	-33%

<sup>1</sup> For more information, see Minnesota Budget Project, *What is the Renters' Credit/Circuit Breaker Property Tax Refund Program?*, [www.mncn.org/bp/ptr.htm](http://www.mncn.org/bp/ptr.htm), and *Who Receives the Renters' Credit?*, [www.mncn.org/bp/rcpax.pdf](http://www.mncn.org/bp/rcpax.pdf).

<sup>2</sup> This is the income ceiling for 2004; the income ceiling is indexed each year for inflation.

<sup>3</sup> For a step-by-step example of how the credit is calculated, see House Research, *Renter's Property Tax Refund Program*, <http://www.house.mn/hrd/issinfo/ssrptr.htm>.