

INFORMATION BRIEF
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Targeting

A Property Tax Relief Program for Qualifying Homeowners

This information brief describes “targeting,” an additional property tax refund program that targets property tax relief to homeowners who have a large property tax increase in one year.

Targeting provides a state refund for homeowners with large property tax increases

Targeting offsets some of the increase in a homeowner’s property taxes if the increase exceeds the specified thresholds. To qualify for a refund, a homeowner’s property tax must increase over his or her last year’s tax by more than both 12 percent and \$100. The refund equals 60 percent of the tax increase over the greater of these minimums. The maximum refund is \$1,000. The estimated cost of the targeting program for fiscal year 2004 is \$14.4 million. The following example shows how the refund is calculated.

Payable 2003 property tax	\$1,000
Payable 2004 property tax	<u>1,300</u>
2004 tax increase (over 2003)	\$300
Taxpayer pays first 12% of increase (12% x \$1,000)	<u>120</u>
Remaining increase eligible for refund	\$180
State pays 60% of the excess over 12%, up to \$1,000	<u>\$108</u>
Amount of 2004 increase paid by taxpayer (\$300 - \$108)	\$192

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With the targeting refund, the taxpayer's \$300 tax increase (i.e., 30 percent) is reduced to an "out-of-pocket" property tax increase of \$192 (i.e., 19.2 percent).

The taxpayer pays the full \$1,300 amount of the 2004 property tax to the county. The first half is due in May and the second half in October. The taxpayer may apply to the state for a targeting refund any time after receiving their property tax statement. Refunds are paid in September 2004, at the same time the regular homeowner property tax refund is paid (provided the taxpayer has applied for the refunds by August 15, 2004). Since both the targeting and the regular property tax refunds are paid to the taxpayer before the October tax payment is due, they can be used to defray some of the current year's tax.

The refund is based upon the net tax increase from the current year over the year immediately preceding it. The tax is after any property tax credits on the property, such as the homestead credit and the regular property tax refund, that the taxpayer receives.¹ The tax on improvements made to the property is excluded in determining the net property tax increase. Thus the tax increase represents a true increase on the same property and does not reflect changes made to the property, such as adding a new garage or new room. However, the targeting program is cumulative. That is, the net tax after the targeting refund in one year becomes the base for calculating the targeting refund in the next year. As a result, a taxpayer could receive targeting relief for several years on the strength of a single year's large tax increase.

In the case of farm homesteads, the refund applies to taxes on the house, garage, and one acre of land, which is the same amount of tax that qualifies for the regular property tax refund.²

Targeting is administered with the regular property tax refund program

To simplify administration for both taxpayers and the Department of Revenue (DOR), the targeting refund is administered with the regular property tax refund. All of the definitions, filing procedures, penalties, etc., that apply to the regular property tax refund apply to the targeting refund.

Refund claims are filed using the Minnesota Department of Revenue Schedule M-1PR, the property tax refund form. There is a separate schedule on the back of the M-1PR (Schedule 1 – Special Refund) for the targeting program. The taxpayer may file for this refund after receiving his or her property tax statement in January. Claims filed before August 15, 2004, will be paid beginning in late September 2004. The deadline for filing claims based on taxes payable in 2004 is August 15, 2005; taxpayers filing claims after that date will not receive a refund. Forms are available on-line at www.taxes.state.mn.us/taxes/prop_refund/forms.shtml. The DOR's telephone number to request forms is 651-296-4444. The DOR's daytime telephone number for help with any tax question is 651-296-3781.

¹ [Laws 2001, first special session, chapter 5](#), article 4, section 2, provided that beginning with refunds based on taxes payable in 2002, the targeting refund is calculated before the regular refund. Before this change the regular property tax refund was calculated first.

² [Laws 2001, first special session, chapter 5](#), article 4, section 1, limited both the targeting and regular refunds for farm homesteads to the tax on the house, garage, and one acre of land, beginning with taxes payable in 2002.

Targeting has no income restrictions

Unlike the regular property tax refund, the targeting refund is not tied to the taxpayer's household income. This is a major distinction between the two programs. In the regular property tax refund, the taxpayer's household income may not exceed a specified maximum and the amount of household income affects the amount of the refund. Generally, the lower the income, the higher the refund, given the same qualifying property tax. See *Homeowner's Property Tax Refund Program*, House Research, www.house.mn/hrd/issinfo/sshptrp.htm.

The targeting refund, on the other hand, does not use income as a factor, nor is there any limitation on the taxpayer's household income.³ Therefore, many higher income taxpayers who do not qualify for the regular property tax refund due to income restrictions are eligible for the targeting refund. The targeting refund is designed to partially protect all homeowners, regardless of income, from a large property tax increase in one year.

The targeting program spans 20 years

The 1980 Legislature initially enacted the "targeting refund" as a one-year program for taxes payable in 1981. It was reenacted intermittently and viewed as a temporary program during the next several years. Then in the 1989 special session, the legislature made the program permanent, and it has remained operative ever since. Tables 1 and 2 on the following pages illustrate the historical data for the targeting refund program.

For more information about property taxes, visit the property tax area of our web site, www.house.mn/hrd/issinfo/tx_prop.htm.

³ See Table 2; there was an exception to this in 1983 (payable 1984).

Table 1
Targeting Refund Data 1980 – 2001
(Taxes Payable 1981 – 2002)

Year of Return	Property Tax Payable Year	Number of Returns	Total Amount	Average Refund Per Return
1980	1981	64,213	\$3,301,341	\$51.41
1981	1982	121,516	10,671,383	87.82
1982	1983	No Targeting Refund		
1983	1984	62,555 ⁴	5,205,858 ⁴	83.22
1984	1985	33,117	1,449,954	43.78
1985-1987	1986-1988	No Targeting Refund		
1988	1989	117,981	11,402,514	96.65
1989	1990	36,484 ⁵ 13,789 ⁵	3,829,197 1,147,080	104.96 – Regular Targeting 83.19 – Seasonal Recreational Residential Targeting
1990	1991	141,699	20,897,238	147.48
1991	1992	98,592	12,047,470	122.20
1992	1993	119,486	14,576,289	121.99
1993	1994	81,126	8,031,160	99.00
1994	1995	60,889	4,745,377	77.93
1995	1996	63,568	4,788,805	75.00
1996	1997	48,110	3,811,367	79.00
1997	1998	19,874	1,423,691	72.00
1998	1999	19,678	1,637,135	83.00
1999	2000	16,075	1,319,604	82.00
2000	2001	22,765	1,702,097	75.00
2001	2002	14,258	1,036,811	73.00
2002	2003	n/a	14,400,000 ⁶	n/a
2003	2004	n/a	11,800,000 ⁶	n/a

⁴ Includes both targeting programs. See Table 2 for a description of the two programs.

⁵ A total of 49,275 returns was filed in 1989. These two total to more than 49,275 because some taxpayers qualified for both targeting refunds; both refunds were filed on the same return.

⁶ Department of Revenue estimate from the February 2003 forecast is for \$14.4 million for 2002 returns, and \$11.8 million for 2003 returns. However, the statutory appropriation is unlimited.

Table 2
History of Targeting 1980 – 2003 (Taxes Payable 1981 – 2004)

Year of Return	Property Tax Payable Year	Targeting Refund					
		Calculation	Minimum Qualifying Increase	Maximum Refund	Household Income Limitation	Total Appropriation ⁷	Law
1980	1981	State pays 50% of tax increase over 10%	None	\$300 ----- \$300 increased to \$500	No limit	No limit	1980, ch. 607, art. 3, § 2 ----- 1981, 1 st spec. sess., ch. 1, art. 2, § 19
1981	1982	State pays 75% of tax increase over 20%	None	\$200	No limit	\$14.2 million	1981, 1 st spec. sess., ch. 1, art. 2, § 20
1982	1983	No program					
1983	1984	State pays 50% of tax increase over 20% ----- 50% changed to 100%	None	\$200 ----- \$200 changed to no limit	Phase-out: no refund at \$40,000 ----- \$40,000 increased to \$50,000; phase-out modified	\$11 million ----- No limit	1983, ch. 342, art. 4, § 10 ----- 1984, ch. 502, art. 3, § 21
1984	1985	State pays 50% of tax increase over 10% if property's effective rate exceeds 2.25%	None	\$200	No limit	No limit	1983, ch. 342, art. 4, § 11
1985-1987	1986-1988	No program					
1988	1989	State pays 75% of tax increase over 10% (Increase must be \$40 or greater)	\$40	\$250	No limit	No limit	1988, ch. 719, art. 4, § 7
1989	1990	State pays 75% of first \$250 increase over 10%; plus 90% of amount of increase over 10% and over the \$250	\$40	No limit	No limit	No limit	1989, 1 st spec. sess., ch. 1, art. 7, § 3

⁷ For years in which a specific appropriation amount is listed, if estimated total refund claims exceeded the amount appropriated, the Commissioner of Revenue was required to adjust the qualifying amount of tax increase or the percentage factor so that the total refund claims did not exceed the appropriation.

Table 2 – con't.
History of Targeting 1980 – 2003 (Taxes Payable 1981 – 2004)

Year of Return	Property Tax Payable Year	Targeting Refund					
		Calculation	Minimum Qualifying Increase	Maximum Refund	Household Income Limitation	Total Appropriation	Law
1990	1991	Same as 1989	\$40	No limit	No limit	No limit ⁸	See footnote (8)
1991	1992	State pays 75% of first \$275 increase over 10%; plus 90% of amount of increase over 10% and over the \$275	\$60	No limit	No limit	No limit ⁹	See footnote (9)
1992	1993	State pays 75% of increase over 12%	\$80	\$1,500	No limit	No limit ¹⁰	See footnote (10)
1993	1994	Same as 1992	\$100	\$1,500	No limit	No limit ¹¹	1994, ch. 383
1994	1995	State pays 60% of increase over 12%	\$100	\$1,000	No limit	\$5.5 million	1993, ch. 375, art. 6, § 4
1995	1996	Same as 1994	\$100	\$1,000	No limit	\$5.5 million	1994, ch. 587, art. 4, § 3
1996	1997	Same as 1994	\$100	\$1,000	No limit	\$5.5 million	1996, ch. 471, art. 3, § 33
1997	1998	Same as 1994	\$100	\$1,000	No limit	No limit	1997, ch. 84, art. 1, § 4
1998-2003	1999-2004	Same as 1994	\$100	\$1,000	No limit	No limit	

⁸ The original appropriation from the 1989 law was \$7 million. Appropriation was increased to \$13 million by Laws 1990, chapter 604, article 5, section 4.

⁹ Appropriation was unlimited by Laws 1991, chapter 291, article 1, section 34. (The original appropriation from the 1989 law was \$6.5 million.)

¹⁰ Original appropriation from Laws 1991, chapter 291, article 1, section 34, was \$5.5 million. Appropriation was unlimited by Laws 1992, chapter 511, article 2, section 30.

¹¹ Laws 1994, chapter 383, restores the \$100 minimum qualifying increase and removed the appropriation cap. The Commissioner of Revenue had increased the minimum qualifying increase to \$300 because the original appropriation of \$5.5 million from the 1992 law was insufficient to pay the expected refunds.