STATE OF MINNESOTA

IN SUPREME COURT

A18-0580

Tax Court | Anderson, J.

Charles Waters, et al.,

Relators,

vs. | Filed: December 5, 2018
Office of Appellate Courts

Commissioner of Revenue,

Respondent.

Charles Waters, Anita Waters, Coon Rapids, Minnesota, pro se.

Lori Swanson, Attorney General, Wendy S. Tien, Assistant Attorney General, Saint Paul, Minnesota, for respondent.

S Y L L A B U S

Pell education grants are "nontaxable scholarship or fellowship grants" under Minn. Stat. § 290A.03, subd. 3(a)(2)(xiii) (2018), that must be included in the calculation of "household income" to determine eligibility for a property tax refund.

Affirmed.

Considered and decided by the court without oral argument.

O P I N I O N

ANDERSON, Justice.

Relators Charles and Anita Waters appeal from an order of the tax court that upheld the decision of respondent Commissioner of Revenue to include Pell grants in its calculation of relators' household income, which is used to determine their eligibility for, and the amount of, a property tax refund. Household income includes, among other things, "nontaxable scholarship or fellowship grants." Minn. Stat. § 290A.03, subd. 3(a)(2)(xiii) (2018).[1] Relators argue that a Pell grant is neither a "scholarship" nor a "fellowship" within the meaning of this statutory language. The Commissioner argues that "nontaxable scholarship or fellowship grants" is plain and unambiguous and includes Pell grants. Because we agree with the Commissioner, we affirm the decision of the tax court.

FACTS

In 2014, Charles and Anita Waters applied for and received a property tax refund of $1,448.55, which was calculated based on the household income reported by relators. Later, the Commissioner determined that relators had underreported their household income by failing to include $4,263 in Pell grants.[2] The Commissioner recalculated relators' refund, rescinded the 2014 refund, and assessed relators $232 in additional taxes.

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[1] After the property tax refund at issue in this appeal was filed, the Legislature amended Minn. Stat. § 290A.03. We cite to the current version of the statute because the amendments have not altered the substance of the provision that is before us in this appeal.

[2] Although there was an additional dispute regarding contributions made by relators to a retirement account, including a cash or deferred arrangement plan under section 401(k) of the Internal Revenue Code, this issue was resolved and is not before us.

Relators challenged the Commissioner's order in the tax court. Applying the plain language of the statute, the tax court granted the Commissioner's motion for summary judgment, concluding that "household income" for the purpose of calculating a property tax refund is unambiguous and includes "both 'nontaxable scholarship . . . grants' and 'nontaxable . . . fellowship grants.' " *Waters v. Comm'r of Revenue*, No. 9034-R, 2018 WL 1475976, at *8 (Minn. T.C. Mar. 12, 2018). The court held that, under this reading, "it does not matter whether the Pell grant is a 'scholarship grant' or a 'fellowship grant': if it is nontaxable, it is nevertheless included in the calculation of household income for purposes of the property tax refund program." *Id.*

Relators sought review by certiorari of the tax court's interpretation of Minn. Stat. § 290A.03. Relators maintain that Pell grants are not scholarships or fellowships and therefore cannot be included in the household income calculation made to determine the amount of the property tax refund.

ANALYSIS

An order of the Commissioner of Revenue is prima facie valid. Minn. Stat. § 271.06, subd. 6(a) (2018). A taxpayer bears the burden of presenting evidence to rebut this presumption. *Conga Corp. v. Comm'r of Revenue*, 868 N.W.2d 41, 53 (Minn. 2015). Statutory interpretation is a question of law reviewed de novo. *Antonello v. Comm'r of Revenue*, 884 N.W.2d 640, 643–44 (Minn. 2016).

Here, the tax court granted the Commissioner's summary judgment motion, concluding that there was no genuine issue of material fact as to the amounts of the Pell grants relators received, and the plain language of the statute, Minn. Stat. § 290A.03, subd.

3(a)(2)(xiii), demonstrated that the Commissioner was entitled to judgment as a matter of law. The only issue before us is whether the tax court erred in its interpretation of the relevant statutory language. *See* Minn. Stat. § 271.10, subd. 1 (2018). A Minnesota taxpayer may be eligible for a property tax refund if the taxpayer's property taxes exceed a certain percentage of the taxpayer's "household income." *See* Minn. Stat. § 290A.04, subd. 1 (2018). The first step in determining refund eligibility is to calculate the taxpayer's "household income," which includes "all income received by all persons of a household in a calendar year," excluding the income of a dependent. Minn. Stat. § 290A.03, subd. 5 (2018). "Income," in turn, is defined as "the sum of . . . federal adjusted gross income" plus certain additional categories of income that are not included in federal adjusted gross income. *Id.*, subd. 3(a)(1)–(2) (2018).

The issue in this appeal is whether the phrase "nontaxable scholarship or fellowship grants" includes Pell grants.[3] We turn first to describing the nature of Pell grants and the purposes served by those grants. Pell grants are federal need-based grants awarded to low-income undergraduate and certain postbaccalaureate students to provide access to postsecondary education. *See* 20 U.S.C. § 1070 (2012); *Federal Pell Grant Program*, U.S. DEP'T. EDUC., https://www2.ed.gov/programs/fpg/index.html (last updated June 4, 2015)

[3] The specific statutory definition at issue is "income," *see* Minn. Stat. § 290A.03, subd. 3(a), but eligibility for a property tax refund is based, in part, on a taxpayer's "household income," Minn. Stat. § 290A.04, subd. 1; *see* Minn. Stat. § 290A.03, subd. 5 (defining "household income" by reference to "income"). It is undisputed that relators both received Pell grants and resided in the same household during the relevant period of time. *See* Minn. Stat. § 290A.03, subd. 4 (defining "household"). Thus, we refer to the income at issue here as "household income."

[opinion attachment]. The amount awarded depends on the institution's cost of attendance, the student's need, and the student's enrollment status. *See* 20 U.S.C. § 1070a (2012); *Federal Pell Grant Program*, *supra*. Pell grants can be directly awarded to an institution, directly paid to the student, or both. *Federal Pell Grant Program*, *supra*.

We now turn to the plain language of the statute at issue. When interpreting a statute, our goal is to "ascertain and effectuate the intent of the Legislature." *State v. Henderson*, 907 N.W.2d 623, 625 (Minn. 2018). "We read a statute as a whole and give effect to all its provisions." *Id.* When the language of the statute is unambiguous, we apply the plain meaning. *Id.* We look to dictionary definitions when determining the plain and ordinary meaning of a word or phrase. *State v. Haywood*, 886 N.W.2d 485, 488 (Minn. 2016).

We begin with "scholarship," which is defined as the "character, qualities, activity, or attainments of a scholar" and "learning." *Webster's Third New International Dictionary* 2031 (2002). When used as an adjective in the clause "scholarship grant," it clearly means a type of grant that enables learning or scholarly activities. Pell grants do exactly that—help low income undergraduate students access and afford postsecondary education.[4]

In urging us to reach the opposite conclusion, relators assert that, as need-based grants, Pell grants are neither scholarships nor fellowships. Merely referring to "scholarship" or "fellowship" grants, as does the clause at issue here, *see* Minn. Stat.

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[4] Based on this conclusion, we have no need to consider whether the word "fellowship" imparts a different meaning because scholarships and fellowships are alternative types of "grants."

§ 290A.03, subd. 3(a)(2)(xiii), does not, according to relators, encompass education grants of any type. The rules of grammar are helpful in addressing this argument. A fair reading of the statute shows that "scholarship" and "fellowship" are both adjectives that modify the noun "grants." This reading is consistent with the absence of a comma between "scholarship" and "or," which would have had the effect of separating the phrase into two distinct clauses. From purely a grammatical standpoint, the structure of the statute does not support relators' narrow reading that excludes some types of scholarships or fellowships from household income. *See, e.g.*, *ILHC of Eagan, LLC v. Cty. of Dakota*, 693 N.W.2d 412, 419 n.5 (Minn. 2005) (explaining that "grammar is a complementary analytical tool for understanding how language is used to convey meaning").

Pell grants are nontaxable and therefore includable in calculating household income. We need go no further in our consideration of the statutory language. We have held that "[n]o room for judicial construction exists when the statute speaks for itself." *Comm'r of Revenue v. Richardson*, 302 N.W. 2d 23, 26 (Minn. 1981). The plain language of the statute includes Pell grants in household income.

The statute identifies several other categories of funds that are not included as "income," and none of these categories suggests that scholarships or grant income—whether taxable or nontaxable—are excluded. *See* Minn. Stat. § 290A.03, subd. 3(b). If the Legislature had intended to exclude Pell grants, or any other need-based grants, from the calculation of household income, it would have done so in subdivision 3(b).[5] We

5 The result we reach here is consistent with the conclusion of the Minnesota Department of Revenue. The Department instructs taxpayers to "include any other sources

therefore hold that Pell grants are "nontaxable scholarship or fellowship grants" under the plain language of Minn. Stat. § 290A.03, subd. 3(a)(2)(xiii), and thus the Pell grants received by relators must be included in the calculation of "household income" to determine their eligibility for a property tax refund.

CONCLUSION

For the foregoing reasons, we affirm the decision of the tax court.

Affirmed.

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of income that weren't taxed on your federal return. Common examples include: . . . nontaxable scholarships, fellowships and grants for education." *Household Income for the Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund*, Minn. Dep't Revenue (Dec. 27, 2017), http://www.revenue.state.mn.us/individuals/prop_tax_refund/Pages/Determining_Household_Income_for_the_Property_Tax_Refund.aspx (last updated Dec. 27, 2017) [opinion attachment].

PROGRAMS

Federal Pell Grant Program

Purpose

To get a **Pell grant**, you must complete the...

- Free Application for Federal Student Aid (FAFSA)

Quick information on Pell grants:

- A Federal Pell Grant, unlike a loan, does not have to be repaid.
- The maximum Pell grant for the 2015–16 award year (July 1, 2015, to June 30, 2016) is $5,775.
- The amount depends on your financial need, costs to attend school, status as a full-time or part-time student, and plans to attend school for a full academic year or less.
- Learn more about Pell grants.
- To apply, complete the FAFSA.

CFDA Number: 84.063
Also Known As: Pell Grants; formerly called Basic Educational Opportunity Grants (BEOGs)

Program Description

The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. Students may use their grants at any one of approximately 5,400 participating postsecondary institutions. Grant amounts are dependent on: the student's expected family contribution (EFC) (see below); the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less.

Students may not receive Federal Pell Grant funds from more than one school at a time.

Financial need is determined by the U.S. Department of Education using a standard formula, established by Congress, to evaluate the financial information reported on the *Free Application for Federal Student Aid* (FAFSA) and to determine the family EFC. The fundamental elements in this standard formula are the student's income (and assets if the student is independent), the parents' income and assets (if the student is dependent), the family's household size, and the number of family members (excluding parents) attending postsecondary institutions. The EFC is the sum of: (1) a percentage of net income (remaining income after subtracting allowances for basic living expenses and taxes) and (2) a percentage of net assets (assets remaining after subtracting an asset protection allowance). Different assessment rates and allowances are used for dependent students, independent students without dependents, and independent students with dependents. After filing a FAFSA, the student receives a Student Aid Report (SAR), or the institution receives an *Institutional Student Information Record* (ISIR), which notifies the student if he or she is eligible for a Federal Pell Grant and provides the student's EFC.

FSA Handbook

Federal Pell Grants are direct grants awarded through participating institutions to students with financial need who have not received their first bachelor's degree or who are enrolled in certain postbaccalaureate programs that lead to teacher certification or licensure. Participating institutions either credit the Federal Pell Grant funds to the student's school account, pay the student directly (usually by check) or combine these methods. Students must be paid at least once per term (semester, trimester, or quarter); schools that do not use formally defined terms must pay the student at least twice per academic year.

How Do I Find...

- Student loans, forgiveness
- College accreditation
- Every Student Succeeds Act (ESSA)
- FERPA
- FAFSA

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Information About...

- Transforming Teaching
- Family and Community Engagement
- Early Learning

Related Topics

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Household Income for the Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund

Your "household income" affects whether or not you are eligible for the Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund; if you are eligible, it also affects the amount of your refund.

You calculate household income on lines 1 through 8 of Form M1PR, *Homestead Credit Refund (for Homeowners) and Renter Property Tax Refund*.

The list below outlines what you must include in household income. However, this list may not be complete, so be sure to include any other nontaxable income you receive.

Line 1 — Federal Adjusted Gross Income (FAGI)

- Start with the FAGI from your federal return.
- If you have a negative FAGI (less than zero), enter the negative amount.
- If you didn't file a federal return, you should still refer to federal Form 1040 and instructions to determine what your FAGI would have been.

Line 2 — Nontaxable Social Security/Railroad Retirement Board Benefits

Include Social Security and "Tier 1" Railroad Retirement Board benefits, except for any amounts that were part of your Minnesota adjusted gross income (AGI). These include:

- Medicare deductions, including those for payment of Medicare premiums.
- Social Security benefits listed in box 5 of Form 1099-SSA, "Net Benefits." (Use the entire amount in box 5 if no Social Security benefits are included in AGI.)
- Retirement Survivors Disability Insurance (RSDI). RSDI is considered Social Security Disability (SSD or SSDI) and you must include nontaxable amounts in your household income.

Note: Do not include Social Security benefits you received for a dependent.

Line 3 — Payments to an IRA, Keogh, SEP or SIMPLE Plan

Include contributions you made to any of these retirement plans if you deducted the payments from AGI. If you have an employer deduct SEP or SIMPLE contributions from your pay, include them on line 5.

Line 4 — Total Payments Received from Programs

Include any nontaxable program payments you received, such as:

- Minnesota Family Investment Program (MFIP)
- Minnesota Supplemental Aid (MSA)
- Supplemental Security Income (SSI)
- General Assistance (GA)
- Group Residential Housing (GRH)
- Diversionary Work Program (DWP)
- "Pay-for-Performance" Success Payments under the federal Home Affordable Modification Program (HAMP)
- Refugee cash assistance
- Emergency assistance

If you receive program payments, your county usually sends a statement showing your cash benefits for the year.

Note: Do not include the following benefits:

- Non-cash benefits from government agencies, such as: food or food stamps, clothing, medical supplies, fuel assistance, and child care assistance or payments made to child care providers.
- Medicaid

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Property Tax Refund

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800-652-9094
8:00 a.m.- 4:30 p.m. Mon.- Fri.
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Top FAQs

- If my ex-spouse is entitled to claim my child as a dependent on the federal tax return but she lives with me, can I still claim a dependent subtraction for the child on Form M1PR?
- My wife and I are both older than 65. Can we get two senior subtractions on Form M1PR?
- Why do I have to include my scholarship or grant in "household income" even though I did not receive any money?

see all ›

Related Information

- Household Income for Income Tax Credits
- Subtraction for Dependents, Seniors, or Disabled Persons
- Changing Your Address
- Capital Loss Carryover Worksheet
- Collection Information

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Repayment of Program Payments

If you repaid program payments during the year, you can subtract the amount of those repayments from the amount you report on line 4. However, you can not subtract any repayments you made in other years.

Line 5 — Additional Nontaxable Income

Include any other sources of income that weren't taxed on your federal return. Common examples include:

- Disability benefits
- Contributions to deferred compensation plans
- Contributions to health savings accounts
- Contributions to pre-tax employee benefit plans
- Interest and mutual fund dividends
- Nontaxable scholarships, fellowships and grants for education
- Pension and annuity payments
- Sick pay and/or disability benefits
- Strike benefits
- Veterans benefits
- Workers' compensation

The above list is only a general guide. Additional nontaxable income can be found in the Minnesota Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund instructions.

For Homeowners

Homeowners must include the income of certain people living with them. Examples include:

- Spouses
- Co-owners (including non-dependent parents)
- Unmarried individuals
- Non-dependent children

You must include the income of parents only if they lived with you, are not your dependents, and are co-owners of your home.

The **only** individuals whose income should not be added to household income are boarders, renters, dependents, parents, or spouse's parents.

For Renters

If household income is less than the rent shown on your Certificate of Rent Paid (CRP), you must explain the source of any other funds used to pay your rent.

If you're a married renter, include the income of both spouses. Do not include the income of any other persons living with you.

If you're an unmarried adult renter, include only your own income.

In addition, see "Filing Situations for Renters" in the Homestead Credit Refund (for Homeowners) and Renter's Property Tax Refund instruction booklet if any of the following are true:

- You were a part-year resident.
- You got married, divorced or legally separated during the year.
- You owned a mobile home but rented the land where it was located.
- You lived in a nursing, adult foster care, intermediate care, assisted living or group home.
- You rented out or used part of your home for a business.
- You paid rent on more than one unit for the same month(s).

Line 7 – Dependent, elderly and retirement contribution subtraction

Your subtraction is calculated using lines 31 through 33 Form M1PR (see below). Claiming a subtraction from your household income on Form M1PR may help you qualify for a refund or increase the amount of your potential refund.

Line 31 – Subtraction for age 65 or older or disabled

If you or your spouse (if filing a joint return) were born on or before January 2, 1953, you may claim a subtraction of $4,050 when calculating your household income on Form M1PR.

If you and your spouse (if filing a joint return) were born after January 2, 1953, you may still qualify for a subtraction of $4,050 if one of you is considered disabled. You are considered disabled if you meet one or more of the following conditions:

- You were certified as disabled by the Social Security Administration on or before Dec. 31, 2017.
- During 2017, you were unable to work for at least 12 consecutive months because of a disability.
- You are blind.

Line 32 – Dependent Subtraction

If you have one or more dependents, you may claim a subtraction to calculate household income. The subtraction varies depending on how many dependents you have. See page 10 of the M1PR instruction booklet to determine your subtraction.

Line 33 – Retirement Account Contribution Subtraction

If you (or your spouse if filing a joint return) made contributions to a qualified retirement plan, you may be able to subtract some or all of those contributions from your household income. See page 10 of the M1PR instruction booklet to determine your subtraction.