

2021 Minnesota Tax Incidence Study

Presentation to House Tax Committee

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About Tax Research

Tax Research and Property Tax Research provide:

- Revenue Estimates for bills and draft legislation
- Tax Handbook (just completed)
- Tax Expenditure Budget (November 2024)
- Tax Incidence Study (March 2024)
- Property Tax Burden Report (next one ??)
- Annual statistics

Tax Incidence Study

- Strengths of the Study
 1. Looks at Minnesota state & local tax system as a whole
 2. Includes business taxes as well as taxes on individuals
 3. Includes all Minnesota households
 4. Broad definition of income
- Summary of Results for 2018
- Historical trends and comparison with other states

Strengths of the Study

1. Includes all Minnesota state and local taxes

All Minnesota state and local taxes

- Not just state taxes
- Not just the income tax
- Not just General Fund taxes
- Focus on the distribution of the combined burden of *all* Minnesota state and local taxes

But not all taxes Minnesotans pay

- Excludes Minnesota burden of taxes levied by other states
- Excludes federal taxes

2. Includes Business Taxes

Taxes on Business	\$ Millions	Percent
Business Property Taxes (includes rental property)	\$5,332	47%
Sales Tax & Motor Vehicle Sales Tax	3,599	31%
Corporate Franchise Tax	1,504	13%
Motor Fuels Tax	440	4%
Local Gross Earnings Taxes	173	2%
Vehicle Registration Tax	127	1%
Mortgage & Deed Taxes	101	1%
Insurance Premiums Tax	98	1%
Solid Waste Taxes	53	<1%
Total Business Taxes	11,428	

Taxes on Individuals	\$ Millions	Percent
Individual Income Tax	\$12,094	51%
Homeowner and Cabin Property Taxes	4,073	17%
Sales Tax & Motor Vehicle Sales Tax	3,974	17%
Vehicle Registration Tax	666	3%
MNCare Provider Taxes	661	3%
Cigarette & Tobacco Taxes	621	3%
Insurance Premiums Tax	417	2%
Motor Fuels Tax	498	2%
Estate Tax	219	1%
Other Taxes (see Table 2-1)	399	2%
Total Individual Taxes	\$23,623	

Business tax incidence (see pp. 97-107)

Estimate how much of each tax is:

- Shifted forward to consumers in higher prices
- Shifted back to workers in lower wages
- Borne by owners as lower profits

Varies by type of business

Long-run incidence – assumes businesses have fully adjusted to the tax

Exported tax burden

Estimates that 17% percent of Minnesota state and local taxes are “exported” to non-residents.

3. Not limited to income tax filers

- 11.3% of households do not file income tax returns. (8.6% file neither PTR nor income tax)
 - Many non-filers are (low-income) seniors
- Sample includes detailed income and tax information for each of 137,399 households in 2018. **(See pp. 89-93)**
 - Data on household income, income tax, homeowner property tax, PTR, and motor vehicle registration tax (“hard match”)
 - Estimated burdens for each of the other taxes

- Sample of 137,399 households is weighted to represent 2.79 million households in 2016
- Divided into 10 groups (“deciles”) each with 278,751 households
 - Lowest-income 278,751 in 1st decile
 - Incomes less than \$12,826
 - Highest-income 278,751 in 10th decile
 - Incomes \$164,720 or more
- Warning: Definition of “household” differs from Census (**see pp. 87-88**)

4. Uses a broad measure of income

- Income in this study includes **all money income**

(See pp. 90-92)

- Federal Gross Income (may be negative!)
- Nontaxable Social Security and pension income
- Nontaxable interest income
- Workers' compensation cash payments
- Cash MFIP payments
- Voluntary contributions to deferred compensation

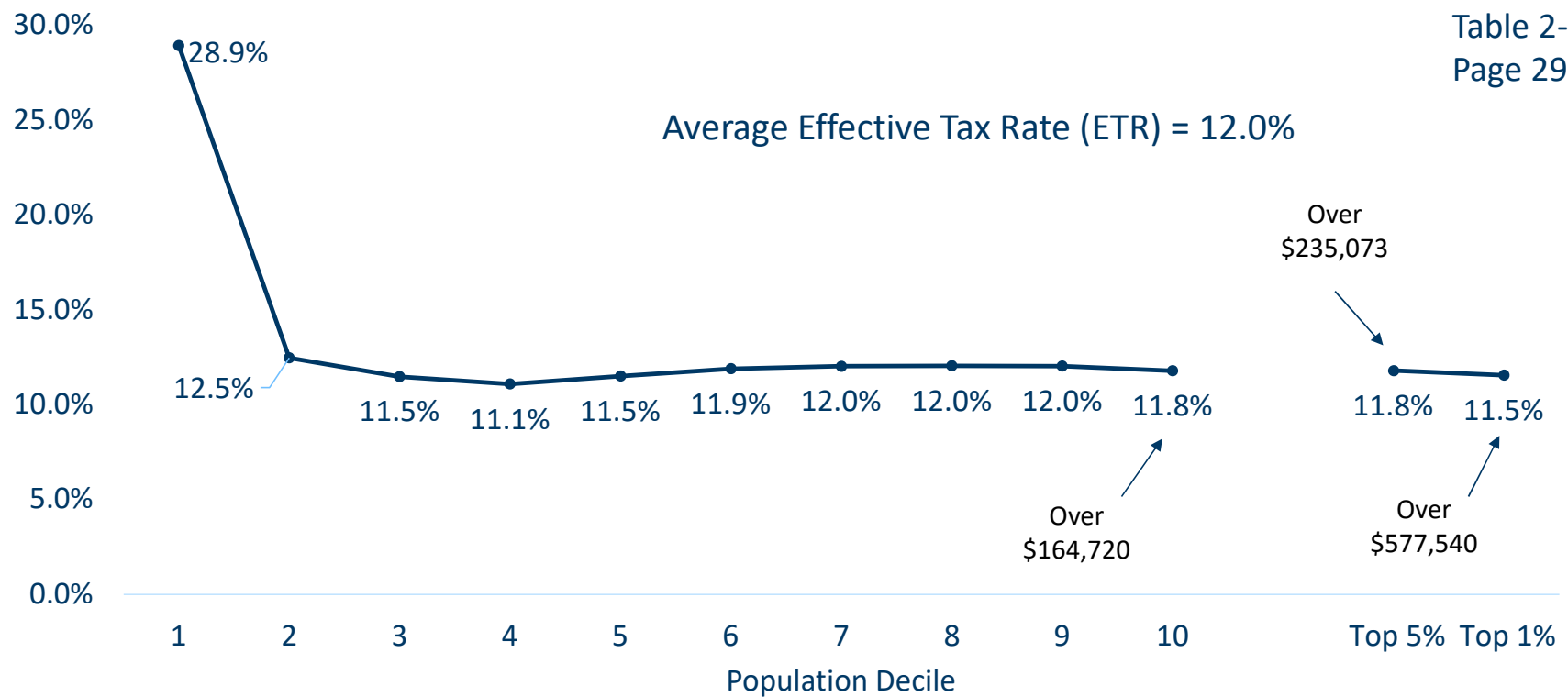
- However ... income does not include:

- In-kind assistance (food stamps, housing assistance, medical assistance, Medicare)
- Fringe benefits (health insurance, retirement, SS tax)
- Pre-tax payments for health insurance or medical care

Results for 2018

Effective Tax Rate (ETR) by Decile for 2018

Table 2-3
Page 29



First Decile Caution

- ETR = 28.9%, far higher than other deciles (See p. 16)
- Tax burden higher for several reasons
 - Some temporarily low income (e.g., business losses)
 - 7,402 households with negative incomes averaging -\$186,000
 - If these households are removed, first decile ETR would drop to 23.4
 - Income understated in sample as well as in the Consumer Expenditure Survey (used to estimate burden of consumer taxes)
 - In-kind income excluded

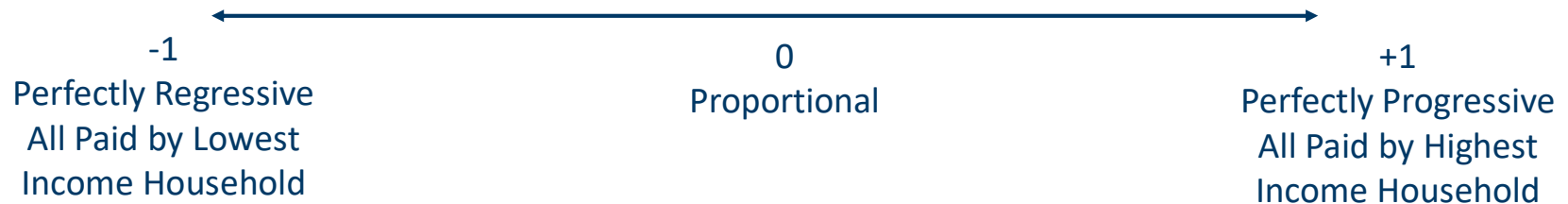
Progressive or Regressive?

Progressive – ETR rises with income

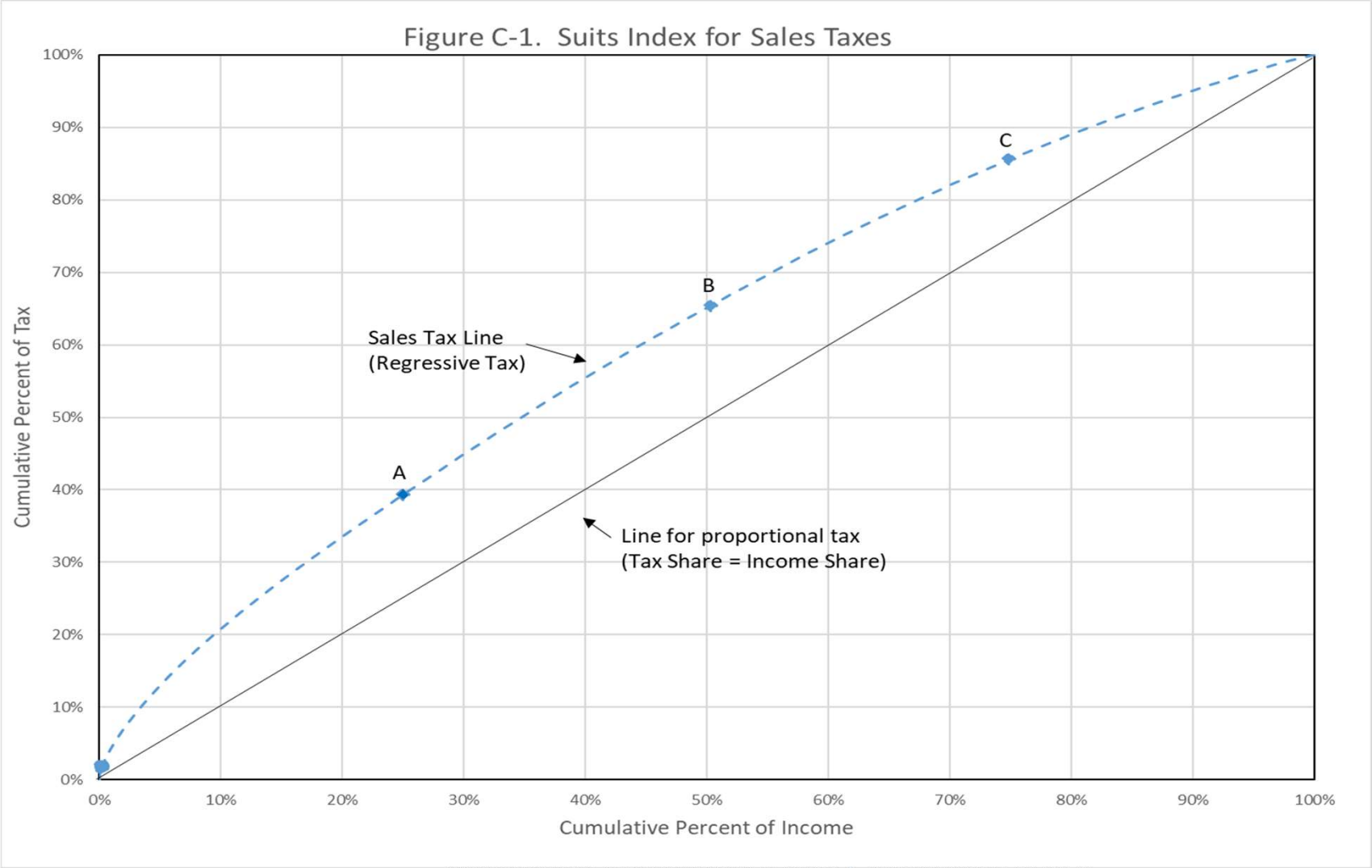
Regressive – ETR falls with income

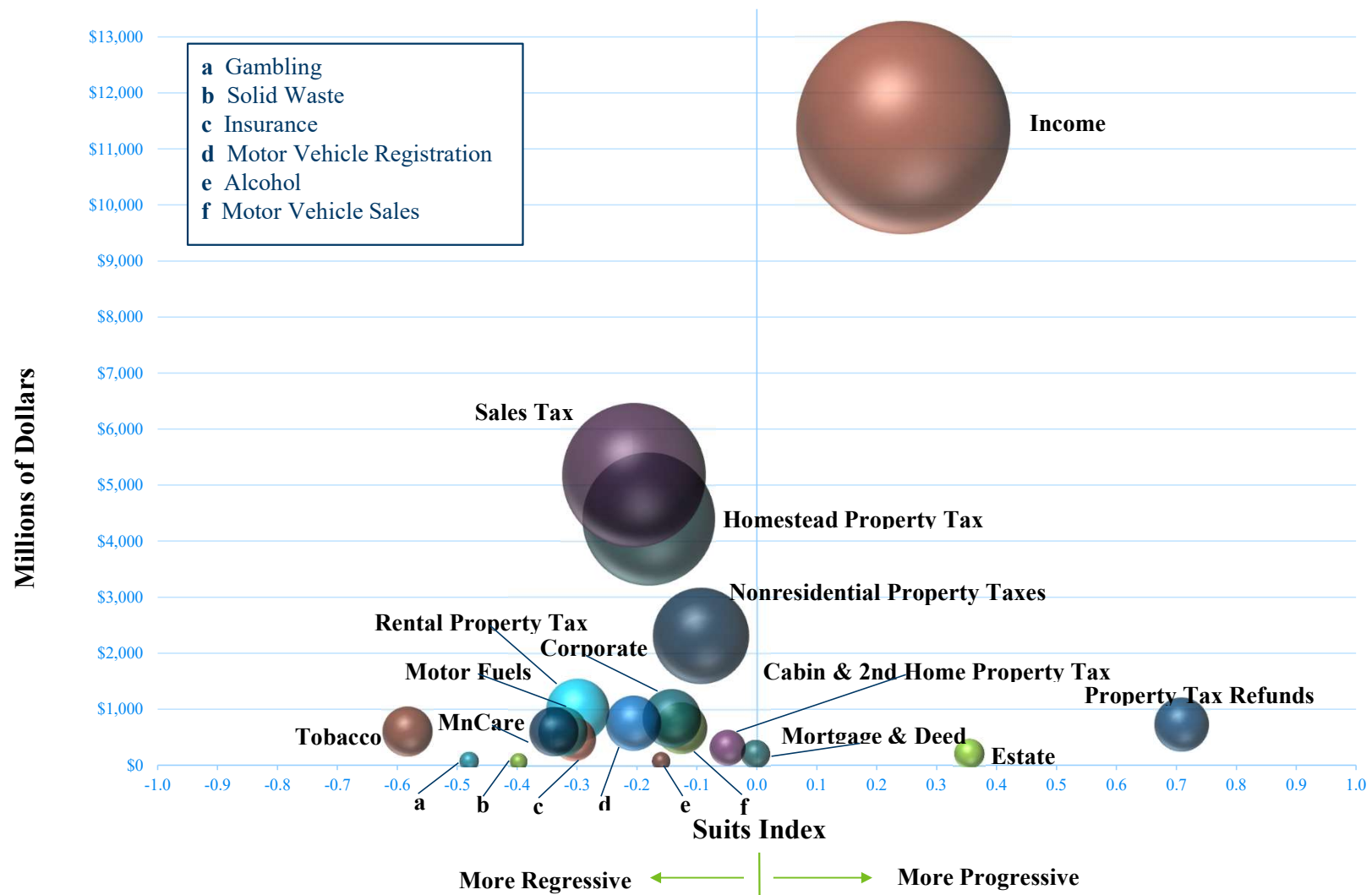
Proportional – ETR same at all incomes

Suits Index - A convenient way of comparing the degree of regressivity, progressivity or proportionality of a tax



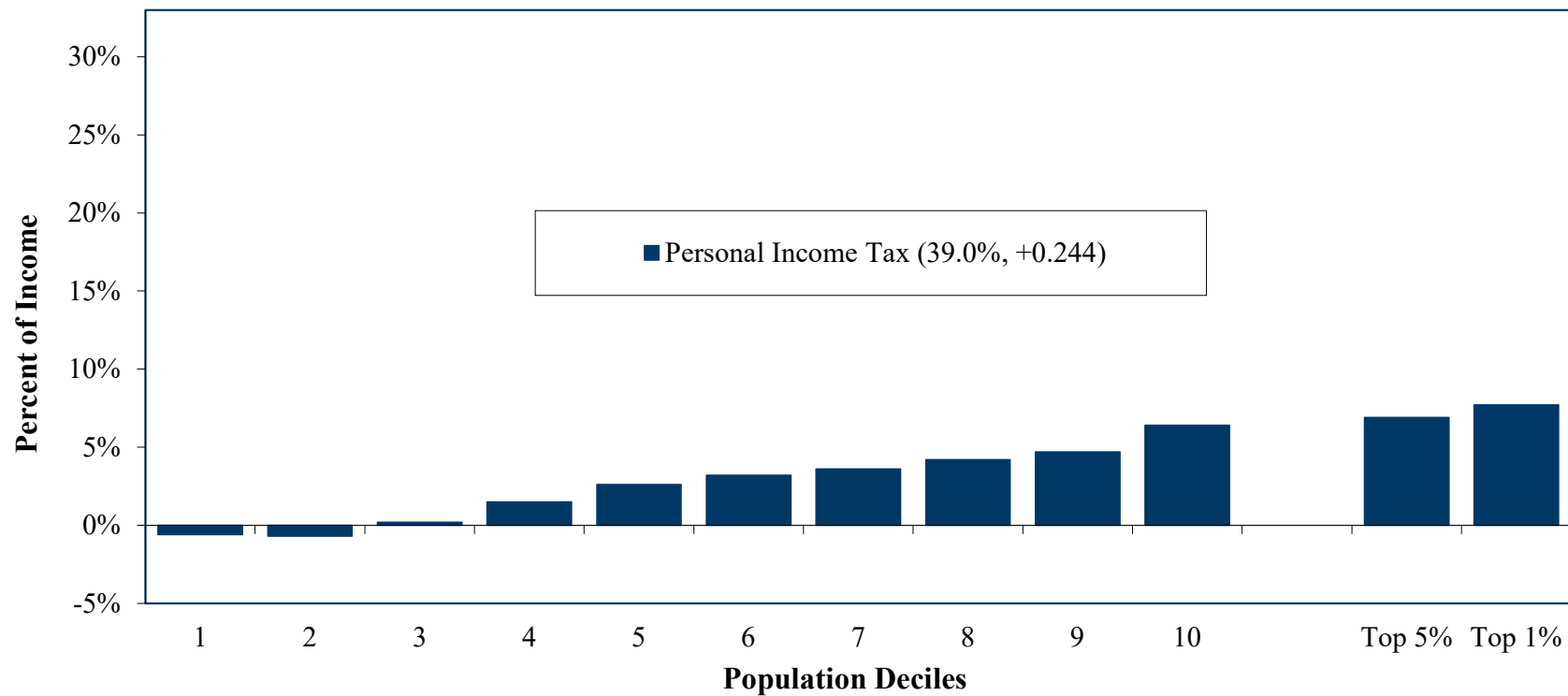
2018 All Taxes Suits Index = - 0.013 (moderately regressive)





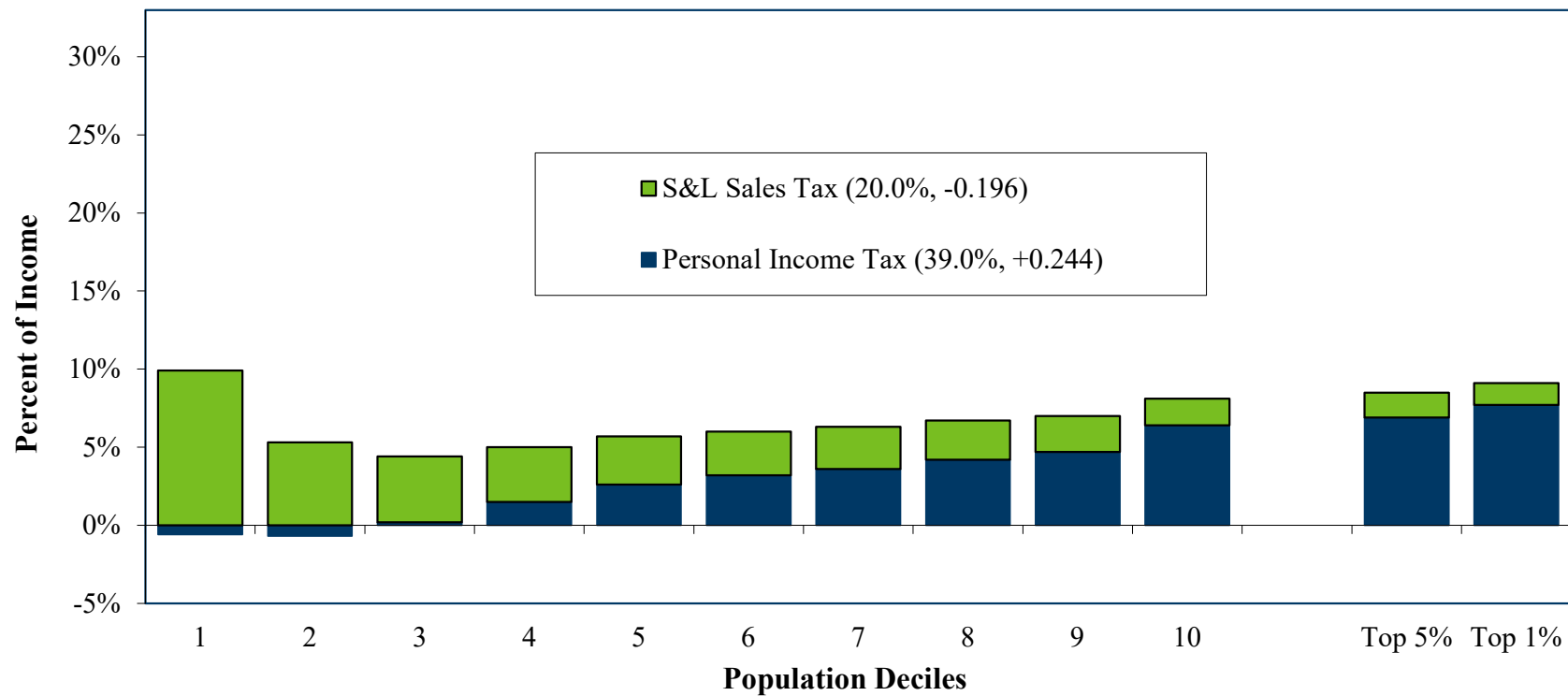
**Figure
2-5 p.37**

2018 Tax Burdens by Tax Type



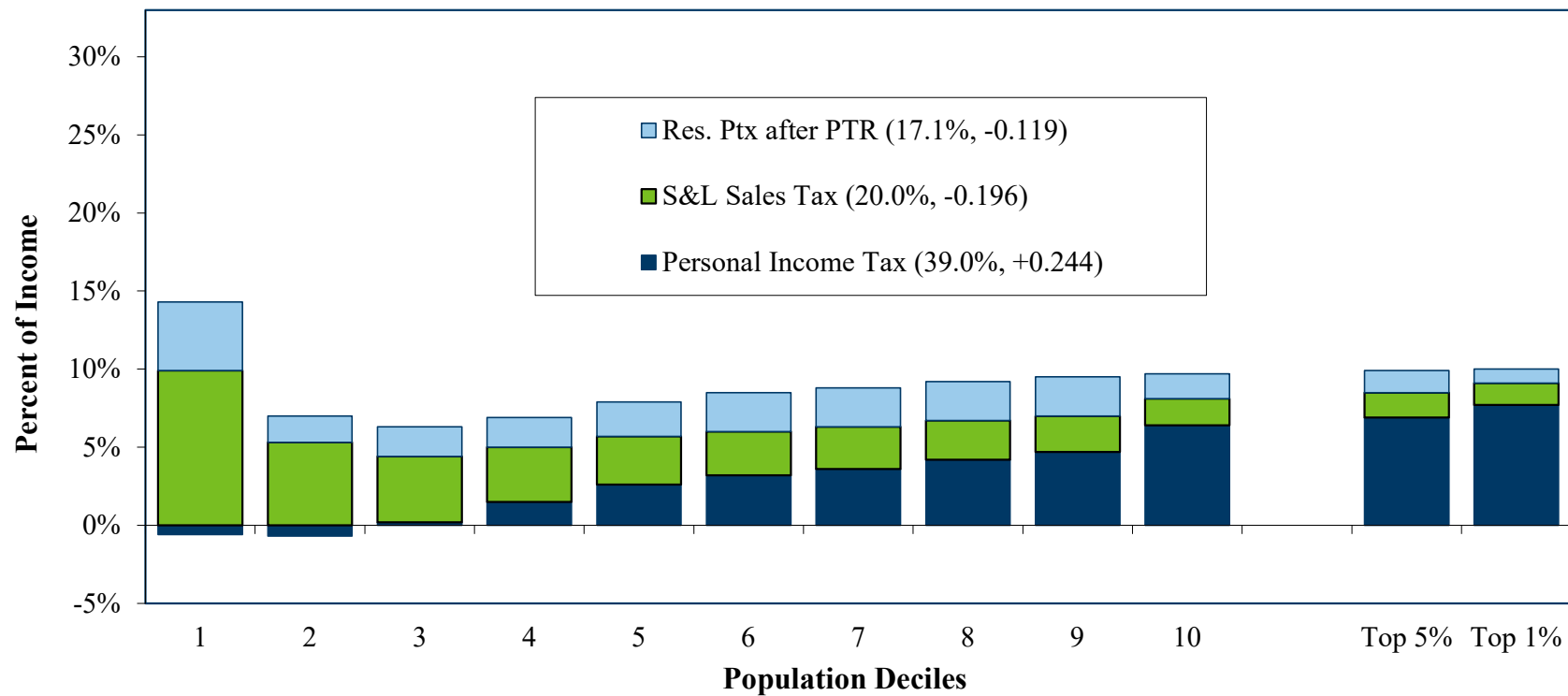
Note: Numbers in parentheses show percent of total tax burden and the full-sample Suits index.

2018 Tax Burdens by Tax Type



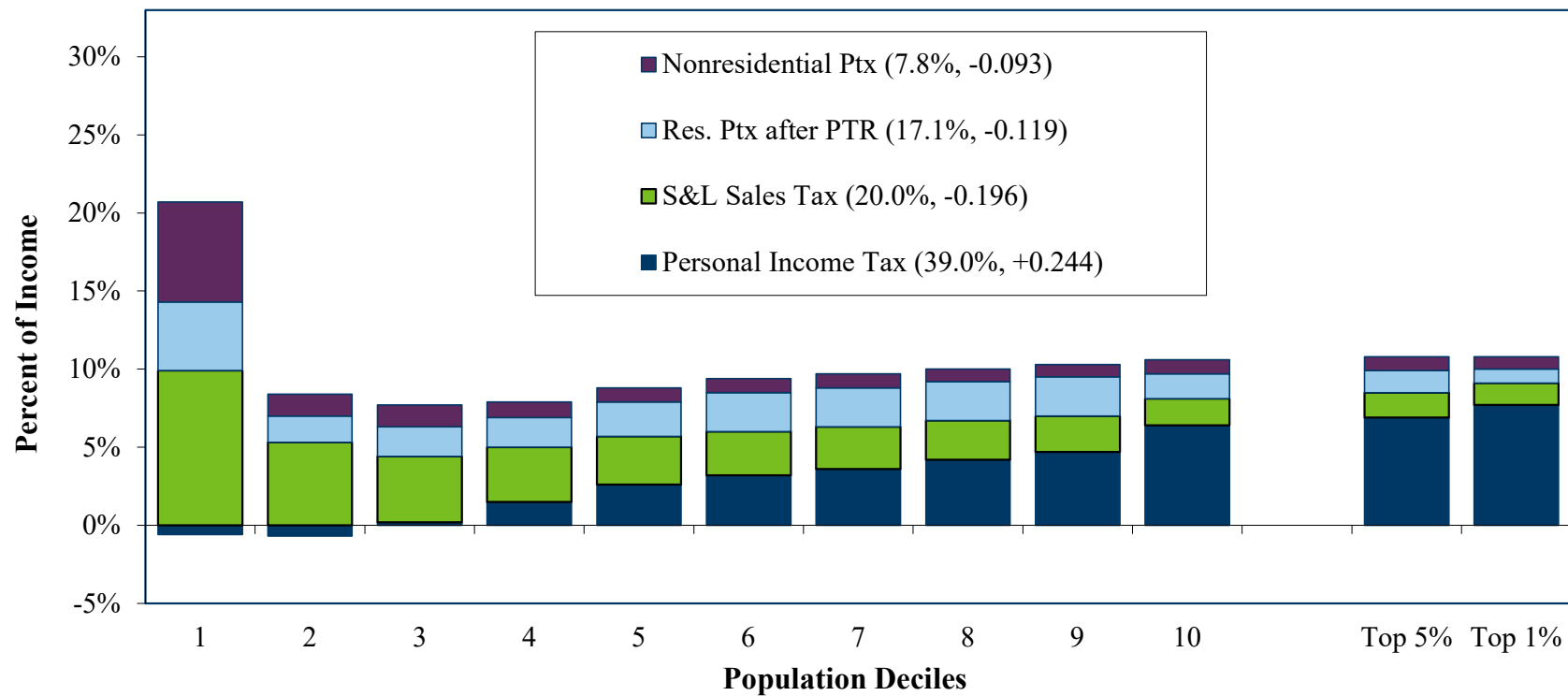
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2018 Tax Burdens by Tax Type



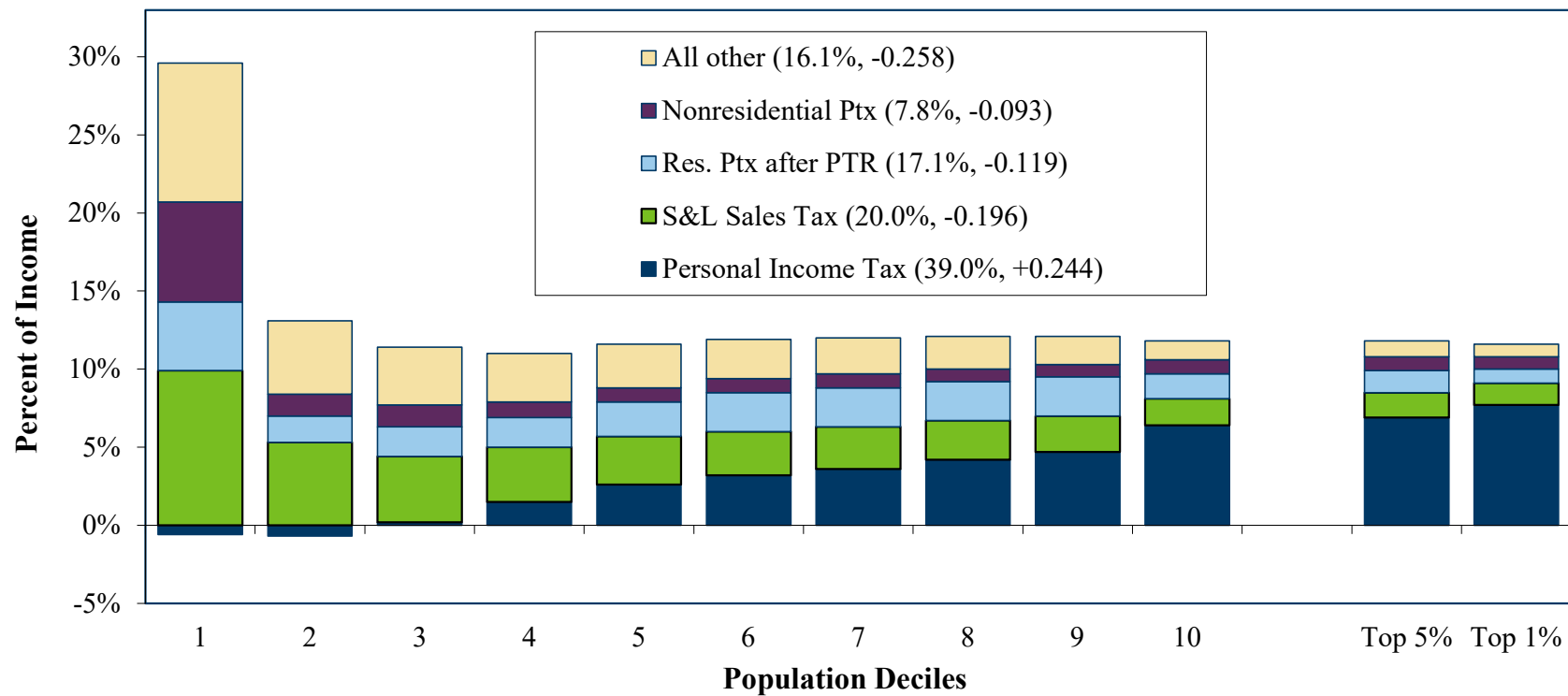
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2018 Tax Burdens by Tax Type

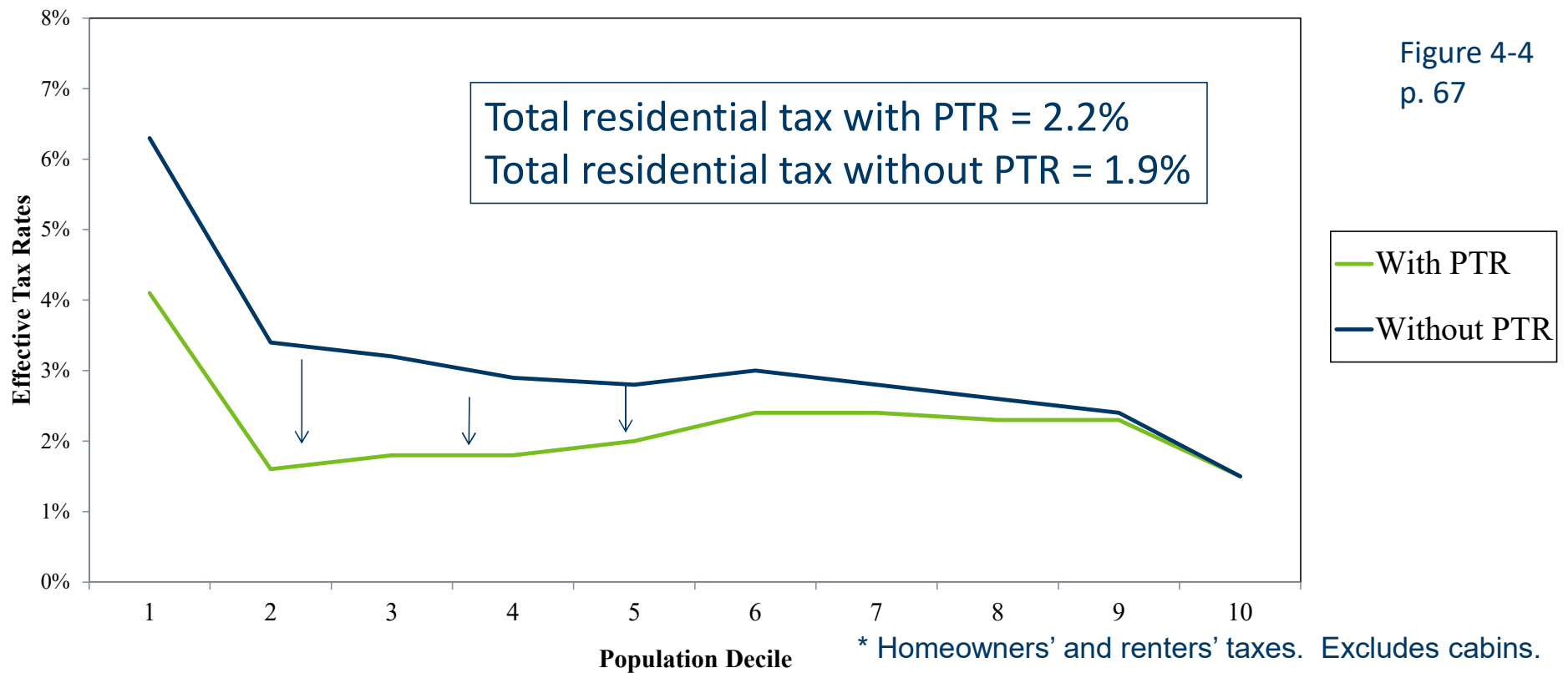


Note: Numbers in parentheses show percent of total tax burden and the full-sample Suits index.

Impact of Refundable Income Tax Credits

Total with credits = 4.7%
Total without credits = 4.8%

Impact of Property Tax Refund*



Suits Index for Refundable Credits and PTR

Payments	Amount (\$ Thousands)	Population-Decile Suits Index
Income Tax Credits		
Working Family Credit	\$239,505	+0.898
Dependent Care Credit	24,081	+0.797
K-12 Education Credit	7,579	+0.904
Subtotal	\$271,165	+0.890
Property Tax Refund		
Homeowners	\$500,790	+0.634
Renters	222,670	+0.878
Subtotal	\$723,460	+0.709
Total	\$994,625	+0.758

Table 4-7
p. 63

Historical Perspective

Effective Tax Rates, All Minnesota Taxes

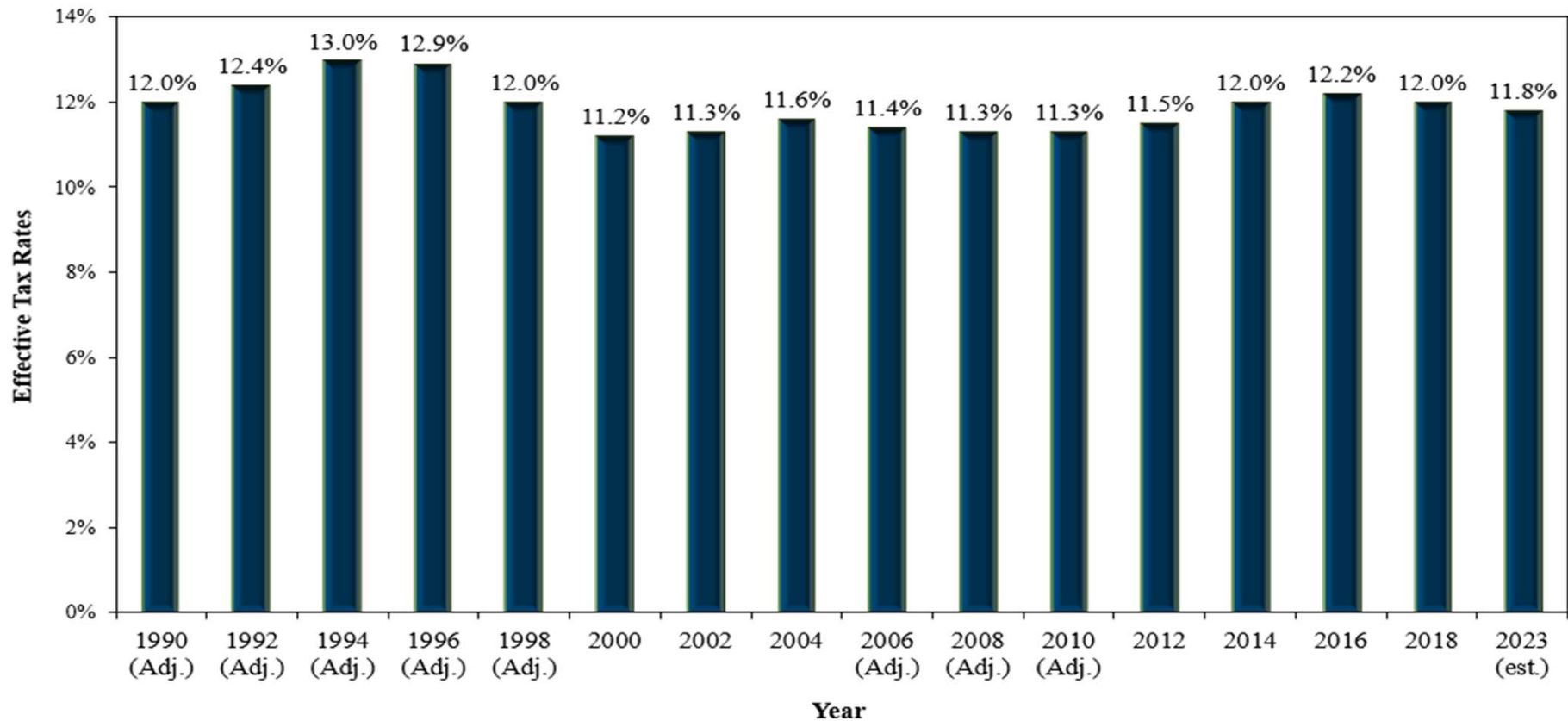


Figure 1-7
p. 17

Suits Indexes, All Minnesota Taxes

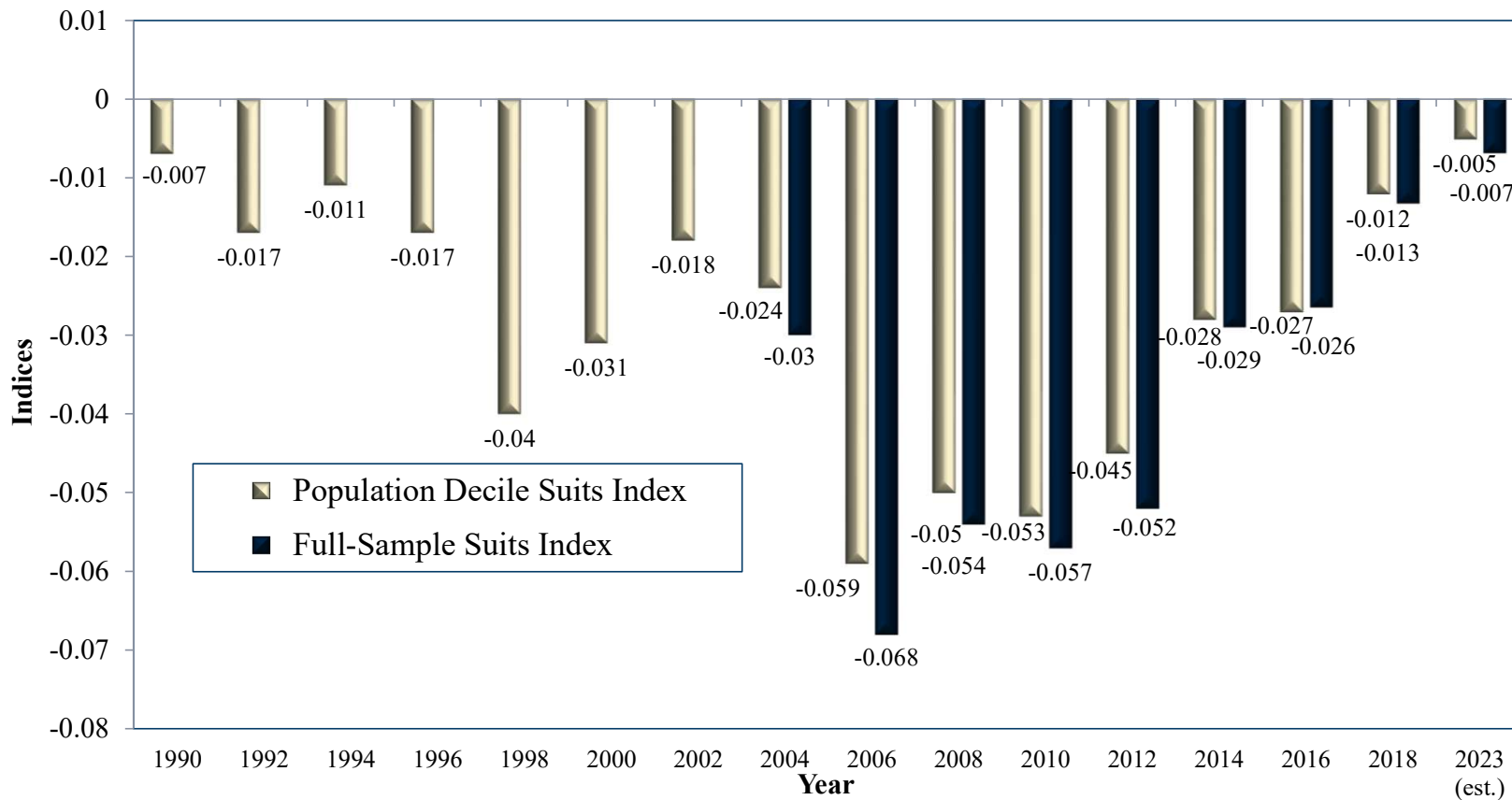
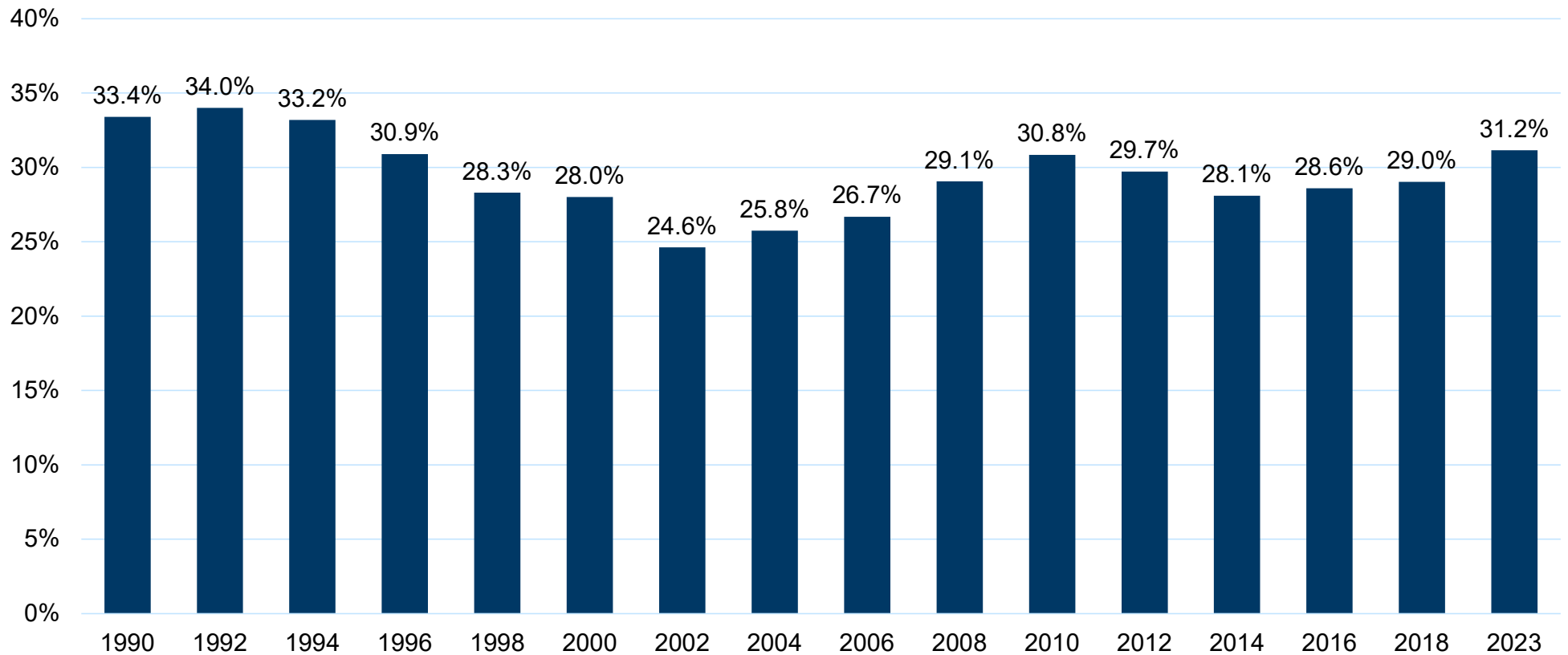


Figure 1-8
p. 19

Local Government Share of State and Local Tax Revenue



Comparison to Other States

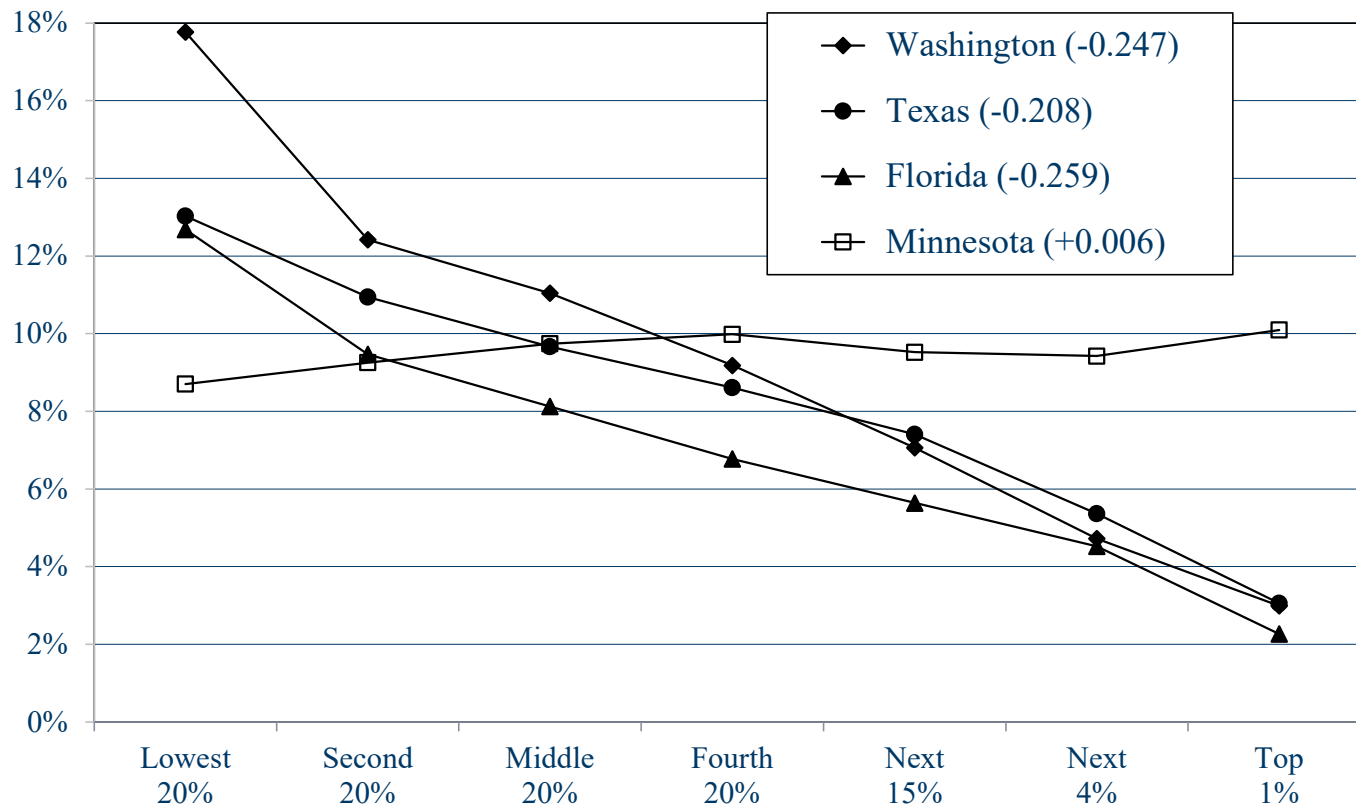
Comparison to Other States

- **ITEP* Study of All 50 States**

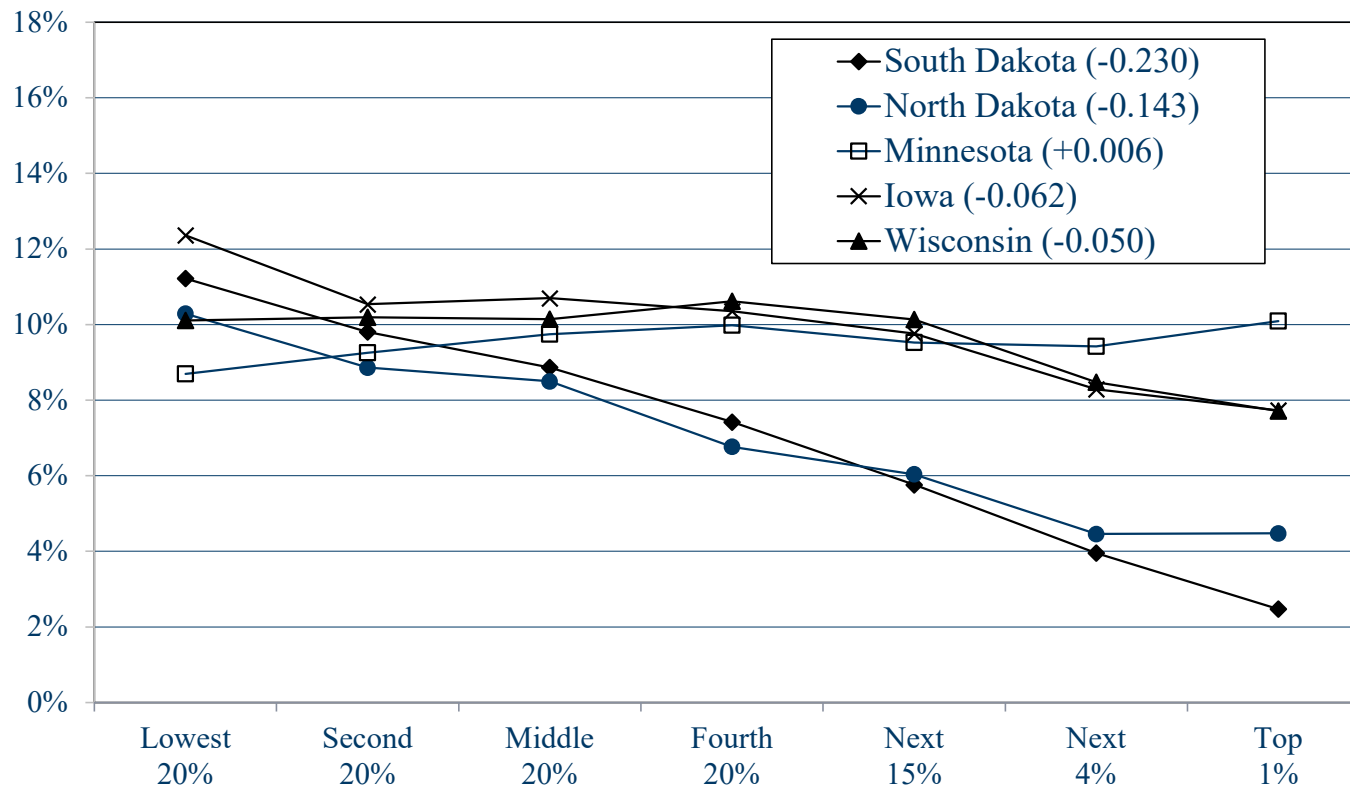
- Limited to non-senior households
 - Methodology similar to ours, but based on more limited data
 - Does not use deciles or Suits indexes
 - Estimates ETRs for each of 7 groups in each state
 - We calculate and report a “7-Point Suits Index” for each state based on their data
- Results are from 2018. The federal data necessary to update the study are not yet available
See pp. 71-75

*Institute on Taxation and Economic Policy, which works in partnership with Citizens for Tax Justice.

Minnesota Compared to Three of the Most Regressive States (ITEP Study)



Minnesota Compared to Neighboring States (ITEP Study)



Other information in Report

Estimates by Household Type

Income and Tax estimates by decile for different households

pp.76-88

- Single, Married, with children
- Senior
- Home Owner or Renter

Population Decile	2018 Household Income
10	\$164,720 & Over
9	\$113,535 - \$164,719
8	\$86,044 - \$113,534
7	\$65,833 - \$86,043
6	\$51,163 - \$65,832
5	\$39,805 - \$51,162
4	\$30,195 - \$39,804
3	\$21,236 - \$30,194
2	\$12,827 - \$21,235
1	\$12,826 & Under

Median income is 51,162 overall, but...

← Married with Children \$115,351

← Married No Children \$104,489

← Married Seniors \$83,958

{ Single Parents \$33,793

{ Single Seniors \$33,708

{ Single Not Seniors \$33,216

Other information

- Results projected to future year
- Results by income decile instead of population decile (pp56-61)
- Results by tax (pp114-149)
- Lots of technical details!

Next report will be released March 1, 2024

Alternative Presentation: Income Deciles

Population Deciles		
Decile	Percent of Households	Percent of Income
1	10%	1%
2	10%	2%
3	10%	3%
4	10%	4%
5	10%	5%
6	10%	7%
7	10%	9%
8	10%	11%
9	10%	15%
10	10%	43%

Top 5%	5%	32%
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*More detail at
lower incomes*

Income Deciles		
Decile	Percent of Households	Percent of Income
1	41%	10%
2	17%	10%
3	12%	10%
4	9%	10%
5	7%	10%
6	6%	10%
7	4%	10%
8	3%	10%
9	1%	10%
10	0%	10%

Top 5%	0%	5%
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*More detail at
upper incomes*

See
pages
56-61

Thank You!

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