

2026 Minnesota Tax Incidence Study

Eric Willette | Tax Research Director

- Overview of the Study
- Summary of Results for 2023
- Comparisons to Previous Studies
- Impacts of 2025 Law Changes and 2028 projection
- Comparison with other states

Overview of the Study

The Tax Incidence Study attempts to answer the question:
Who pays Minnesota's Taxes?

1. The Study Includes all Minnesota state and local taxes

All Minnesota state and local taxes

Taxes paid by individuals and by businesses

But not all taxes Minnesotans pay

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

Business Taxes

Taxes on Business	\$ Millions	Percent
Business Property Taxes (includes rental property)	5,893	42%
Sales Tax & Motor Vehicle Sales Tax	4,560	31%
Corporate Franchise Tax	3,083	21%
Motor Fuels Tax	299	2%
Local Gross Earnings Taxes	186	1%
Vehicle Registration Tax	179	1%
Mortgage & Deed Taxes	77	1%
Insurance Premiums Tax	118	1%
Solid Waste Taxes	65	<1%
Total Business Taxes	14, 576	

Taxes on Individuals

Taxes on Individuals	\$ Millions	Percent
Individual Income Tax	15,325	49%
Homeowner and Cabin Property Taxes	5,223	17%
Sales Tax & Motor Vehicle Sales Tax	5,704	18%
Vehicle Registration Tax	696	2%
MNCare Provider Taxes	696	2%
Cigarette & Tobacco Taxes	555	2%
Insurance Premiums Tax	552	2%
Motor Fuels Tax	585	2%
Estate Tax	273	1%
Other Taxes (see Table 2-1)	532	2%
Total Individual Taxes	30,141	

Business tax incidence (see pp.103 -114)

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 15.6% percent of Minnesota state and local taxes are “exported” to non-residents.

2. Includes households that do not file income taxes

- 12.8% of households do not file income tax returns. (10.8% file neither PTR nor income tax)
 - Many non-filers are (low-income) seniors
- Sample includes detailed income and tax information for each of 414,260 households in 2023. **(See pp. 86-91)**
 - 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 414,260 households is weighted to represent 2.97 million households in 2023
- Divided into 10 groups (“deciles”) each with 297,020 households
 - Lowest-income 297,020 in 1st decile
 - Incomes less than \$13,043
 - Highest-income 297,020 in 10th decile
 - Incomes \$201,623 or more
- **Warning: Definition of “household” differs from Census (see p.99)**

3. Uses a broad measure of income

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

(See pp. 96-99)

- 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 contributions, SS tax)
 - Pre-tax payments for health insurance or medical care

Results for 2023

Effective Tax Rate (ETR) by Decile for 2021



Figure 2-2
Page 34

First Decile Caution

- ETR = 36.6%, far higher than other deciles (See p. 35)
- Tax burden over-estimated for several reasons
 - Some temporarily low income (e.g., business losses)
 - 9,236 households with a negative income averaging around -\$112,300.
 - If these households are removed, first decile ETR would drop from 36.6% to 30.2%.
 - Income understated in sample as well as in the Consumer Expenditure Survey (used to estimate burden of consumer taxes)
 - In-kind income including food and housing subsidies are excluded

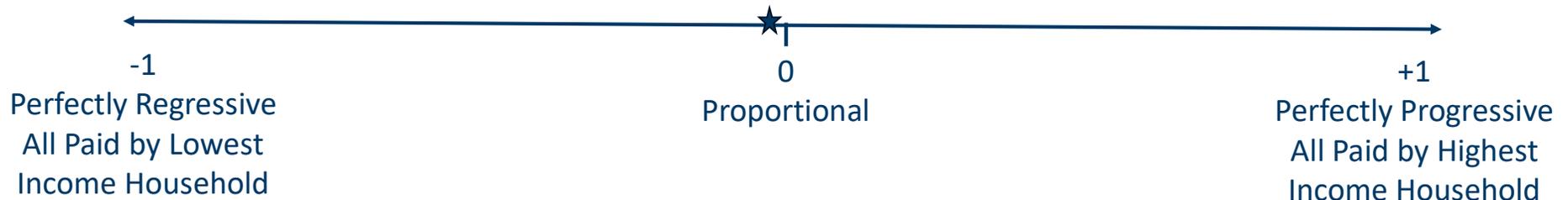
Progressive or Regressive?

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



2023 All Taxes Suits Index = -0.029 (moderately regressive)

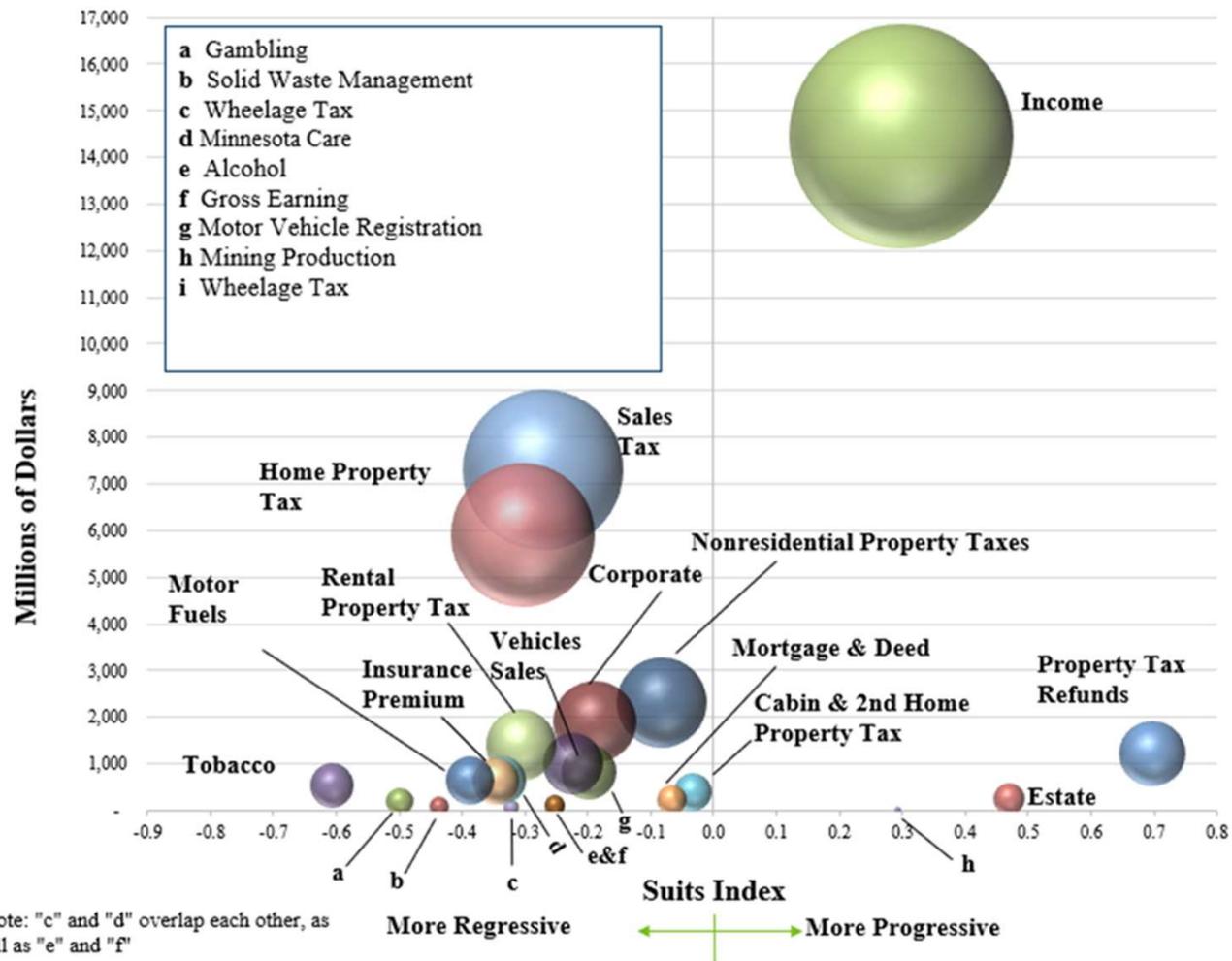


Figure 2-5 p.43

2023 Tax Burdens by Tax Type

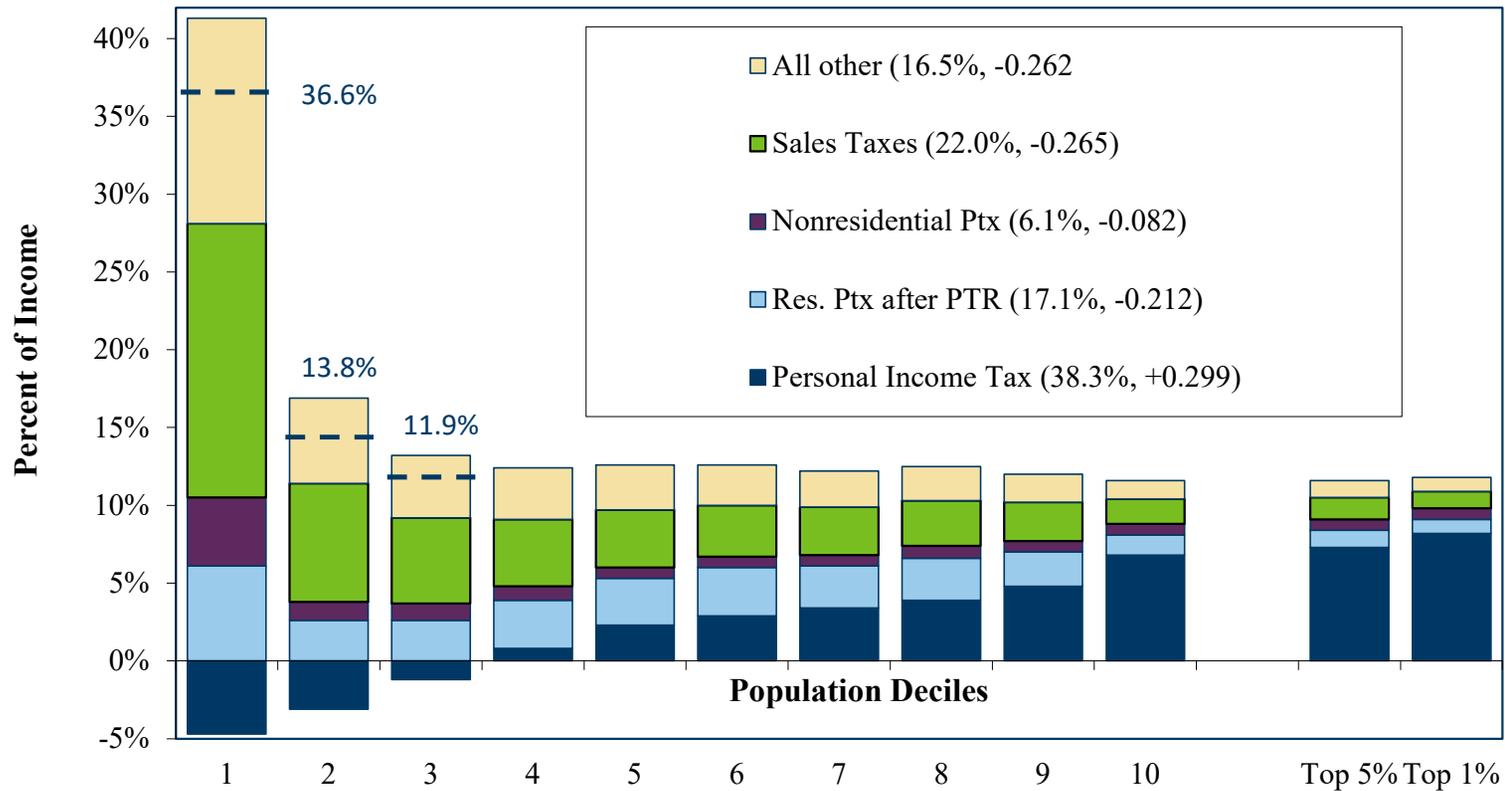


Figure 2-4
p. 37

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

Impact of Refundable Income Tax Credits

Payments	Amount (\$ Thousands)	Population-Decile Suits Index
Income Tax Credits		
Child Tax & Working Family Credits	\$728,246	+0.890
Dependent Care Credit	24,605	+0.842
K-12 Education Credit	15,380	+0.786
Subtotal	\$768,231	+0.887
Property Tax Refund		
Homeowners	\$911,090	+0.638
Renters	305,700	+0.875
Subtotal	\$1,216,790	+0.698
Total	\$1,985,021	+0.771

Table 4-7
p. 71

Impact of Property Tax Refund

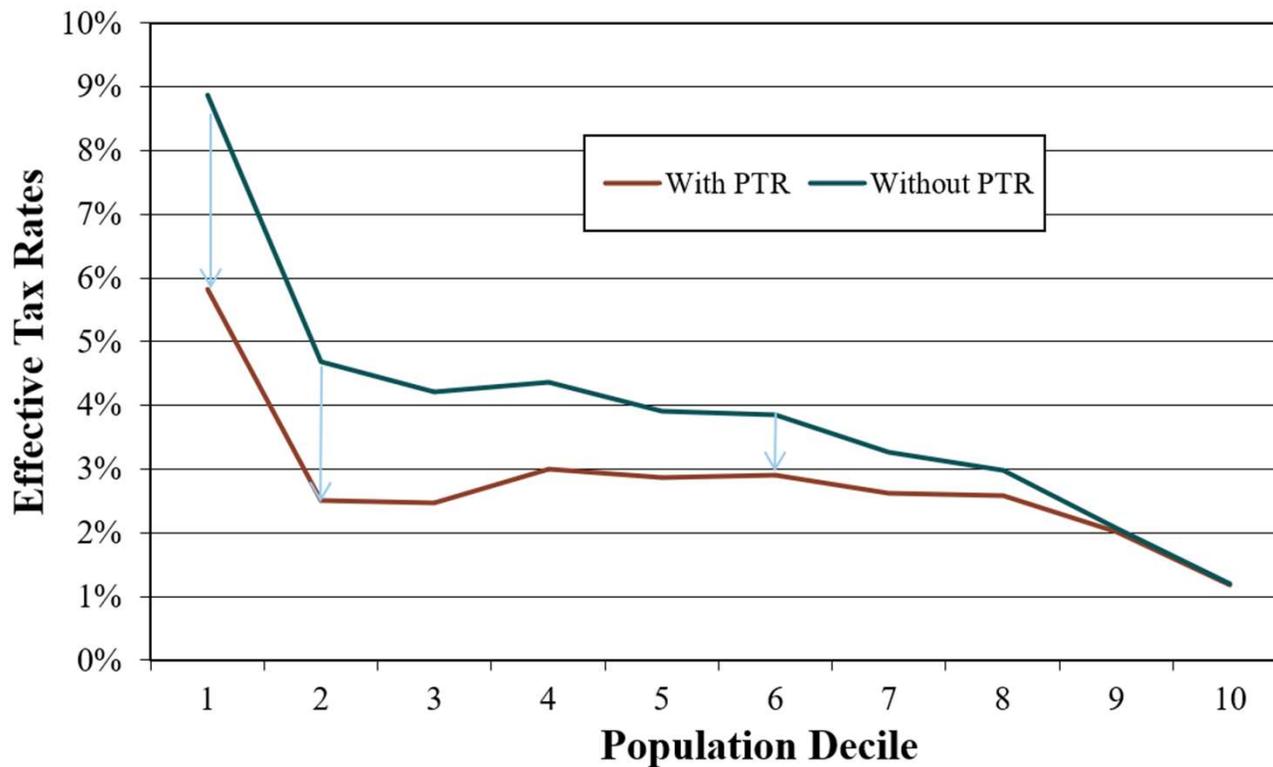


Figure 4-4
p. 73

Effective Tax Rate for Homeowner Property Taxes would increase from 1.8% to 2.1% without PTR

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%	16%
10	10%	43%

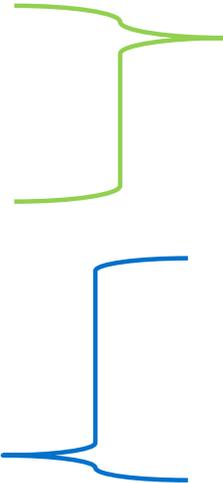
Top 5%	5%	32%
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More detail at lower incomes

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	5%	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 32 and 63

Income Deciles Effective Tax Rates

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth	TOTALS	Top 5%
Population Deciles	36.6%	13.8%	11.9%	12.4%	12.5%	12.5%	12.2%	12.5%	12.0%	11.7%	12.2%	11.7%
Income Deciles	14.1%	12.6%	12.3%	12.4%	12.3%	11.7%	11.7%	11.7%	11.5%	11.9%	12.2%	11.9%

Demographic Variations

See pp.
82-93

Household Type	Median Income	Effective Tax Rate	Suits Index
Married with Children	\$150,520	12.2%	-0.005
Married Couples w/o Children	\$135,619	12.2%	-0.043
Married Seniors	\$103,138	12.0%	-0.042
Single Parents	\$43,957	10.6%	+0.120
Single, non-senior	\$41,266	12.8%	-0.063
Single, senior	\$39,063	12.5%	-0.088

Comparing 2023 to past studies

Pandemic Impacts fading by 2023

- Income concentration in top deciles has moderated slightly from 2021 to 2023
- Capital gains peaked in 2021, still high in 2023
- Economic Impact Payments ended in 2021
- Unemployment income has returned to pre-pandemic levels
- Inflation has moderated but still high

Shares of Household Income 1992 to 2023

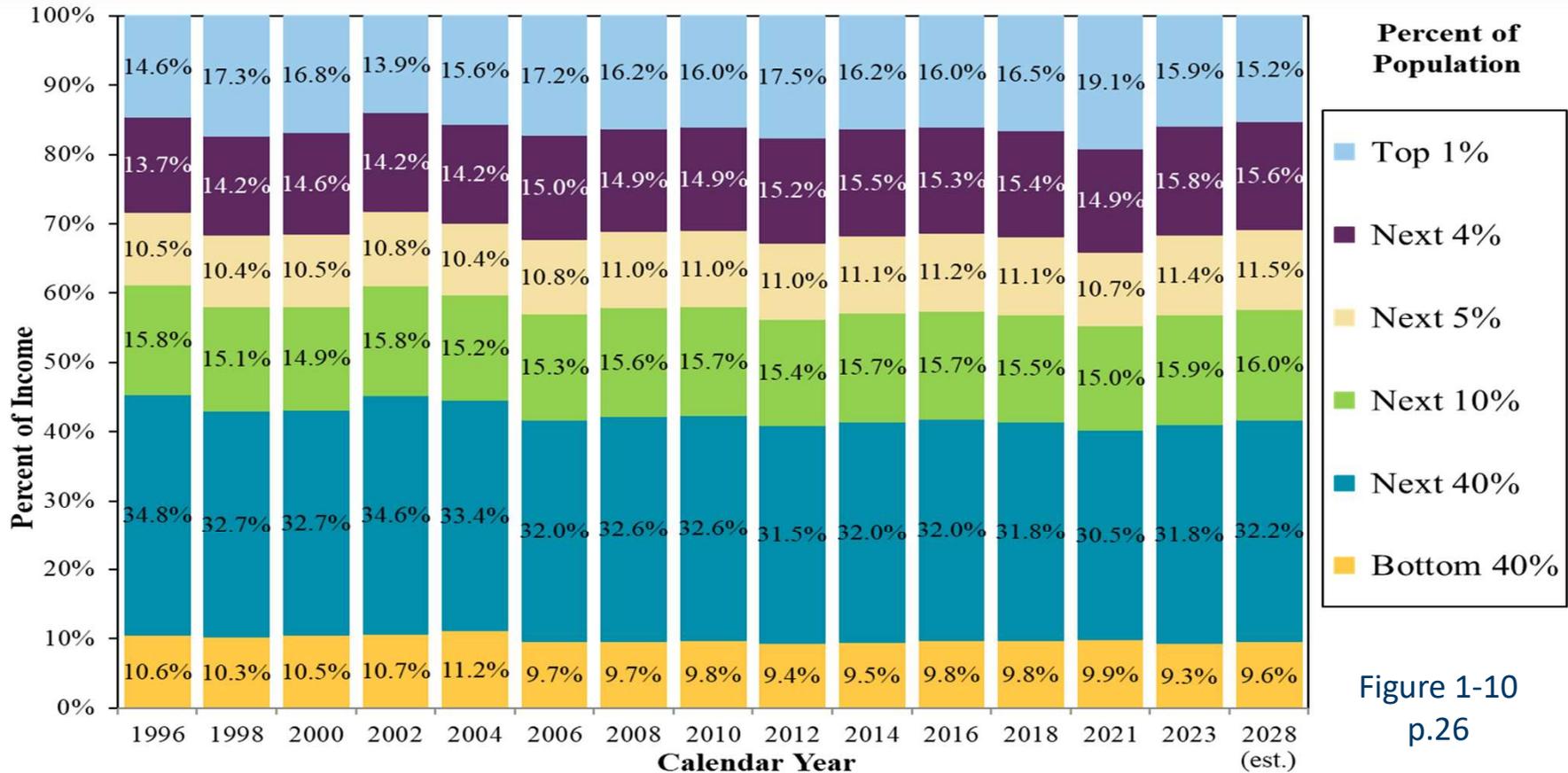


Figure 1-10
p.26

Income Changes 2021 to 2023 AD1

	2021 (\$millions)	2023 (\$millions)	2-year Change
Wages	164,138	181,845	10.8%
Retirement Income	46,504	58,928	26.7%
Business Income	26,441	27,101	2.5%
Capital Gains and Investment	36,575	23,923	-34.6%
Unemployment	4,594	844	-81.6%
Economic Impact Payments	8,842	-	-100.0%
Total Income	299,136	308,024	3.0%

Slide 25

AD1 Unclear which items from Table A-1 are being included in which line item in this table.

Durkot, Andrew D (He/Him/His) (, 2026-02-17T15:30:23.876

WE(1 0 I created a spreadsheet in the same folder as this presentation that does the 2021 and 2023 calcs. I'm not sure why there are slight differences in the 2021 totals, but I'd use my new calcs since they match the last published report

Willette, Eric (MDOR), 2026-02-21T22:35:35.555

Tax Changes 2021 to 2023

	2021 (\$millions)	2023 (\$millions)	2-year Change
Individual Income Tax	15,488	15,325	-1%
Homeowner and Cabin Property Taxes	5,226	6,387	16%
Individual Sales Tax & Motor Vehicle Sales Tax	4,618	5,704	24%
Other Taxes on Individuals	3,087	2,727	-12%
Business Property Taxes (incl. rental)	5,991	6,226	4%
Business Sales Tax & Motor Vehicle Sales Tax	3,667	4,389	19%
Corporate Franchise Tax	2,637	3,083	17%
Other Taxes on Businesses	955	878	-8%
Total Taxes	41,979	44,719	7%

All Taxes Effective Tax Rate 2021 and 2023

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth	TOTALS	Top 5%	Top 1%
2021	23.8%	13.4%	12.5%	11.9%	12.0%	12.1%	11.9%	12.0%	11.6%	11.5%	11.9%	11.6%	11.5%
2023	36.6%	13.8%	11.9%	12.4%	12.5%	12.5%	12.2%	12.5%	12.0%	11.7%	12.2%	11.7%	11.8%
Change	+12.8%	+0.4%	-0.6%	+0.5%	+0.5%	+0.4%	+0.3%	+0.5%	+0.4%	+0.2%	+0.3%	+0.1%	+0.3%

Effective Tax Rates, All Minnesota Taxes

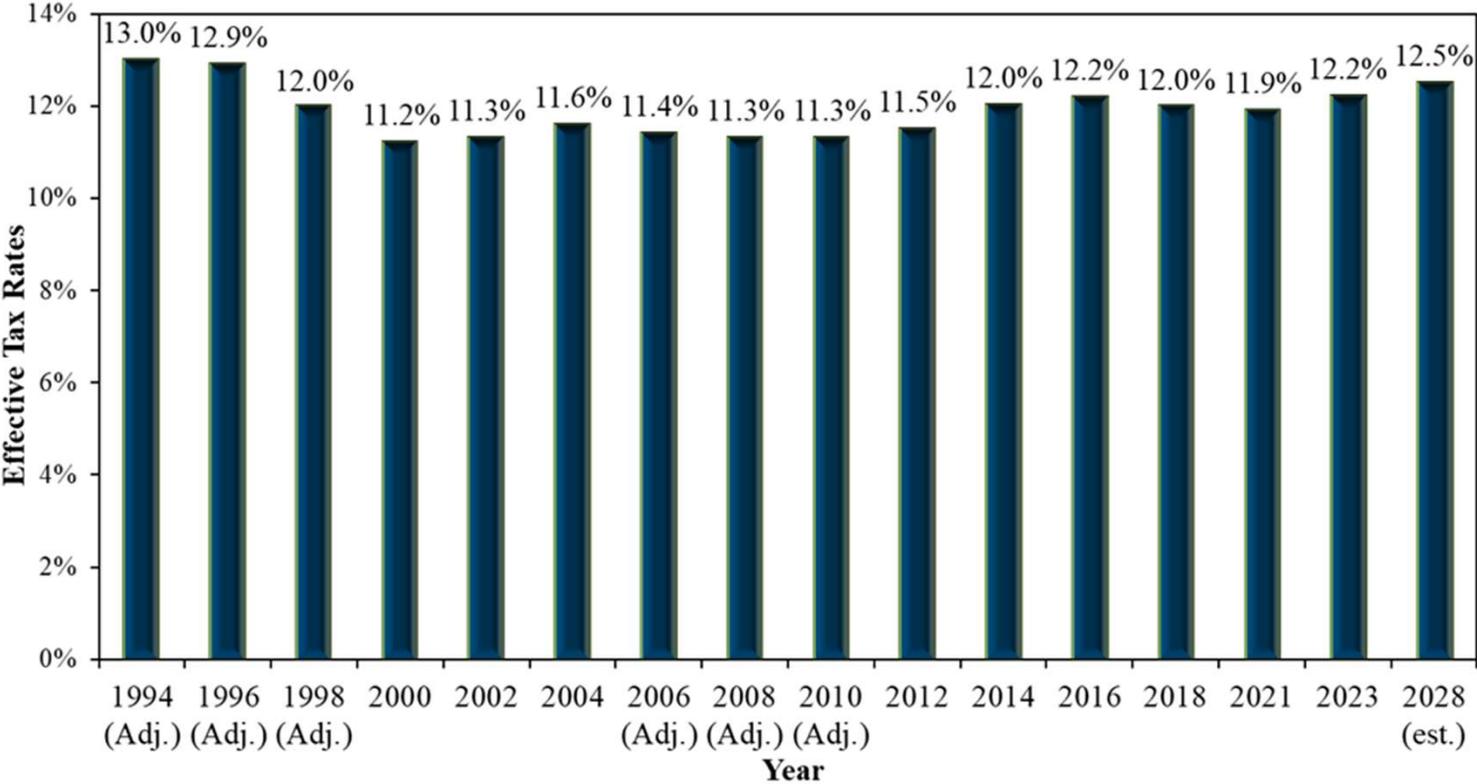


Figure 1-7
p. 20

Suits Index

- Overall Suits Index drops from -0.023 in 2021 to **-0.029** in 2023, meaning tax system is slightly more regressive in 2023.
- This is the lowest it's been since 2014 when it was also -0.029.
- We estimate it to remain relatively flat into 2028 at -0.028.
- Income and consumption changes from pandemic had bigger impact on suits index than any Minnesota policy changes. The suits index for state consumption taxes changed from -0.258 in 2018 to -0.306 in 2023.
- Corporate tax reductions in other states increased regressivity of Minnesota corporate tax, with suits index going from -0.142 in 2018 to -0.189 in 2023

Suits Indexes, All Minnesota Taxes

Figure 1-8
Suits Indexes, All Minnesota Taxes 1994-2028

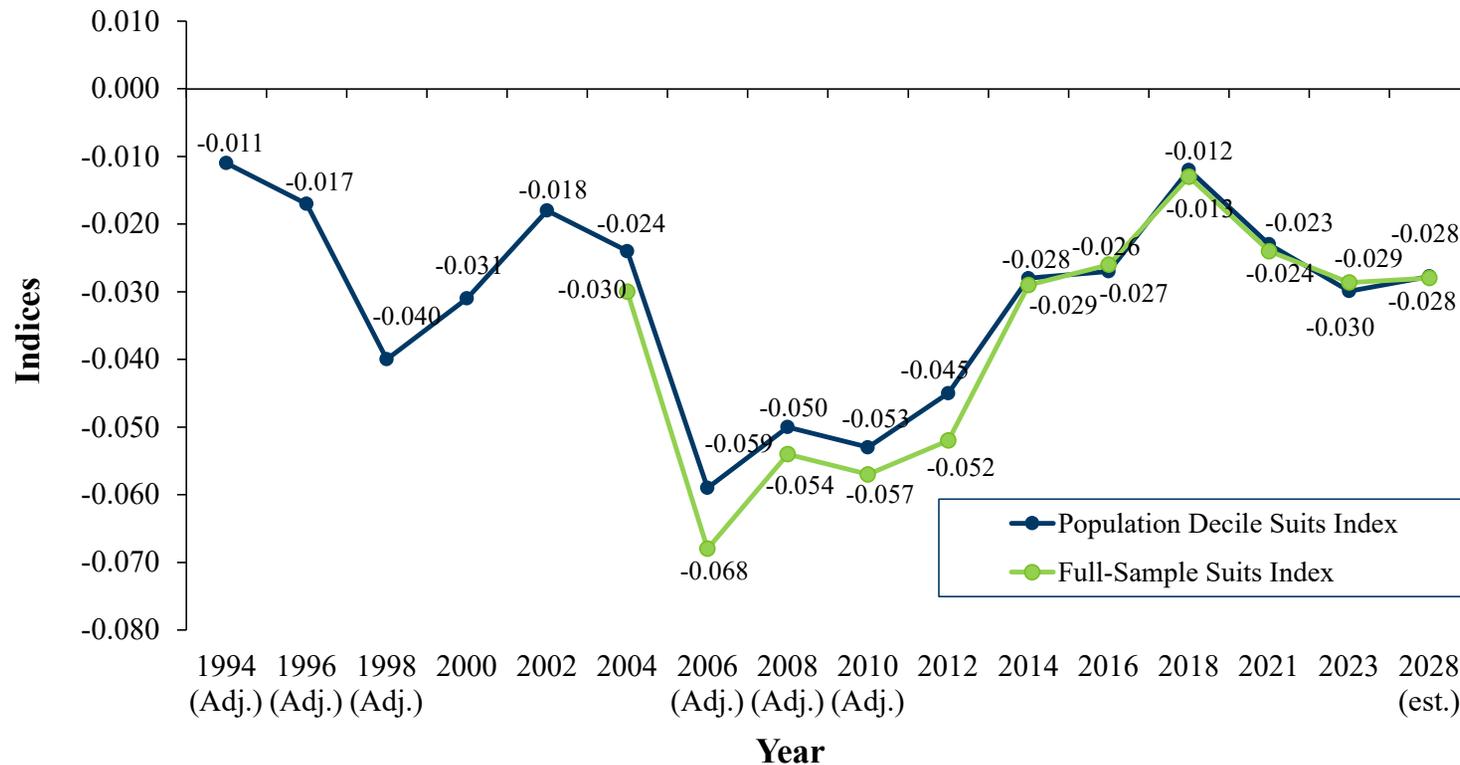


Figure 1-8
p. 23

Impact of 2023 legislation

The 2023 session included a progressive tax bill and regressive transportation and housing bills. Overall taxes increased and the system was made less regressive.

Changes in incomes and spending from 2021 to 2023 made the system more regressive due to income declines in deciles 1 and 10 and large increases in regressive consumption and property taxes

While the system became more regressive in 2023, it would have been even more so without the 2023 tax bill.



2025 Tax Changes and 2028 Projections

Tax Changes affecting 2028 Projections

2025 Tax Bill

- Increase Cannabis Gross Receipts tax from 10% to 15%
- Corporate R&D credit made partial refundable
- Eliminate sales tax exemption for electricity for data centers

2023 Tax bill

- Renter Credit moved from separate refund to part of the income tax return beginning with tax year 2024

2028 Projection

	2023	2028	5-year Change
Total Income (\$millions)	309,061	371,349	+20%
Tax Collections (\$millions)	44,721	54,686	+22%
Effective Tax Rate	12.2%	12.5%	+0.3%
Suits Index	-0.029	-0.028	+0.001

Change from 2023 to 2028 projection

	Income Change	Income Tax Change	Total Tax Change
First – Fourth	23.8%	137.1%*	22.1%
Fifth	22.5%	13.6%	25.1%
Sixth	22.0%	18.8%	25.6%
Seventh	21.7%	22.5%	28.1%
Eighth	21.2%	22.6%	25.6%
Ninth	20.8%	20.3%	23.0%
Tenth	18.0%	16.5%	22.2%
Totals	20.2%	15.9%	22.5%

*For the first four deciles combined, income tax paid is negative in 2023 and projected to get more negative in 2028 due to Renter Credit moving onto income tax form in 2024.

Renter Property Tax Refund Change

Renter PTR moved from stand alone program to an income tax credit starting in tax year 2024. This impacts the effective tax rates for both Residential Property Taxes and Income Taxes in the report's 2028 projection year. The Renter credit is projected to be about \$409 million in 2028.

	2028 ETR's with Renter PTR included in Income Tax as in Report		ETRS if Renter PTR still included in Property Tax	
	Income Tax Effective Tax Rate (ETR)	Residential Property Tax ETR	<i>Income Tax ETR</i>	<i>Residential Property Tax ETR</i>
First	-7.6%	8.9%	-5.7%	6.9%
Second	-4.8%	4.4%	-3.2%	2.9%
Third	-2.0%	3.9%	-1.0%	3.0%
Fourth	0.6%	4.1%	1.1%	3.6%
Fifth	2.1%	3.7%	2.4%	3.5%
Sixth - Tenth	5.4%	2.2%	5.4%	2.2%
Total	4.5%	2.5%	4.6%	2.4%

All Taxes Effective Tax Rate 2023 and 2028

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth	TOTALS	Top 5%	Top 1%
2023	36.6%	13.8%	11.9%	12.4%	12.5%	12.5%	12.2%	12.5%	12.0%	11.7%	12.2%	11.7%	11.8%
2028	33.8%	12.9%	11.8%	12.9%	12.8%	12.9%	12.9%	12.8%	12.3%	11.9%	12.5%	11.9%	12.0%
Change	-2.8%	-0.9%	-0.1%	+0.5%	-0.3%	+0.4%	+0.7%	+0.3%	+0.3%	+0.2%	+0.3%	+0.2%	+0.2%

Comparison to Other States

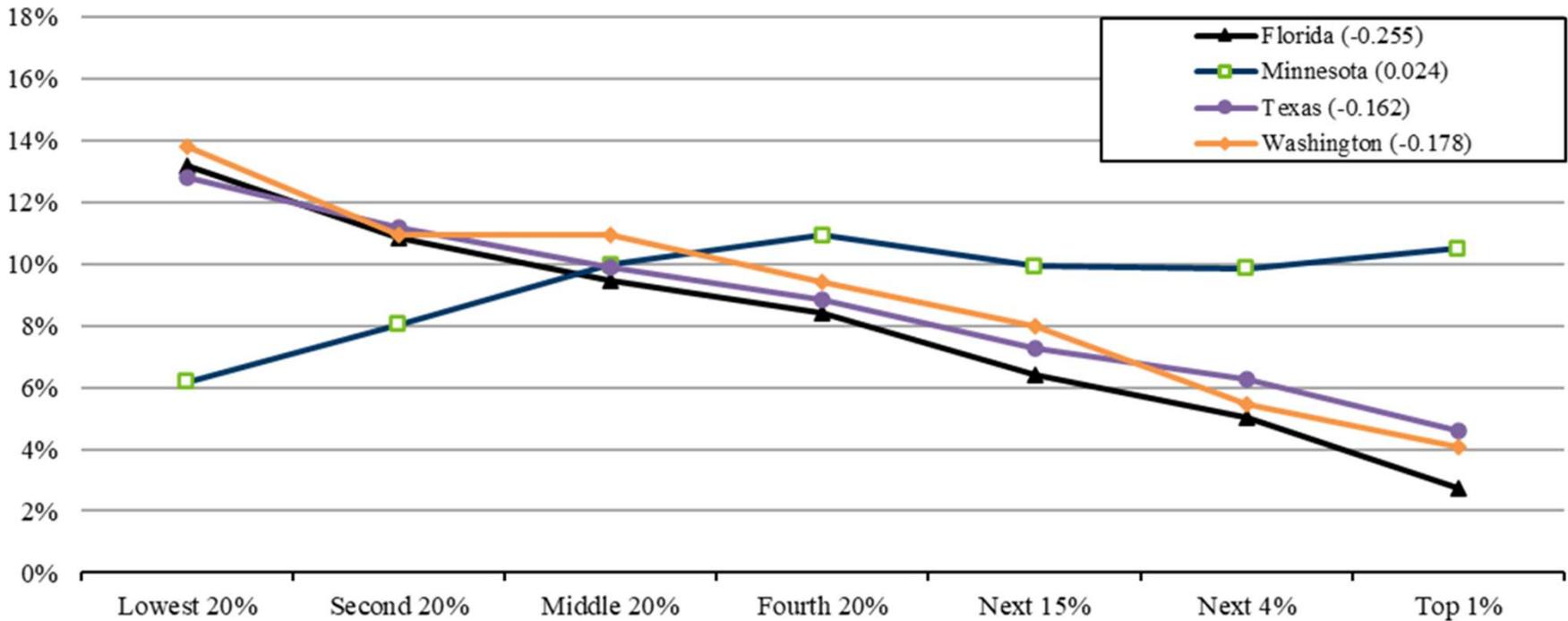
Comparison to Other States

- We compare the progressivity of Minnesota’s tax system to other states
- Based on data from 2024 ITEP* Study of All 50 States
 - Methodology similar to our report, but based on more limited data
 - Limited to non-senior households
 - 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
- Minnesota has second highest suits index after Vermont

**See pp.
77-81**

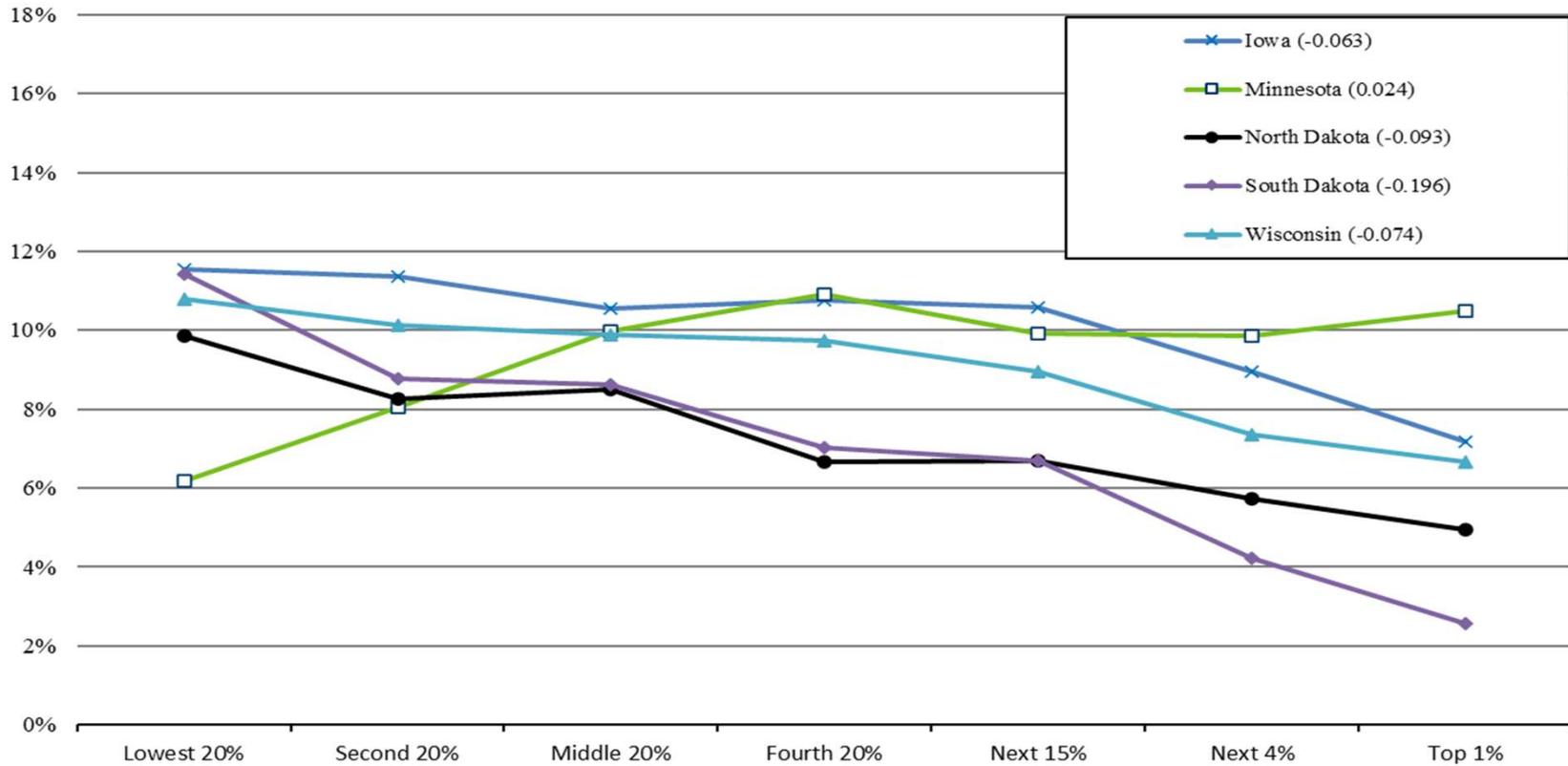
*Institute on Taxation and Economic Policy

Minnesota Compared to Three of the Most Regressive States (ETRs from ITEP study, Suits Index from our study)



Minnesota Compared to Neighboring States

(ETRs from ITEP study, Suits Index from our study)



Thank You!

Eric Willette

eric.willette@state.mn.us

651-556-6100