



Minnesota's looming budget deficit: Tax hikes are not an option

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American Experiment



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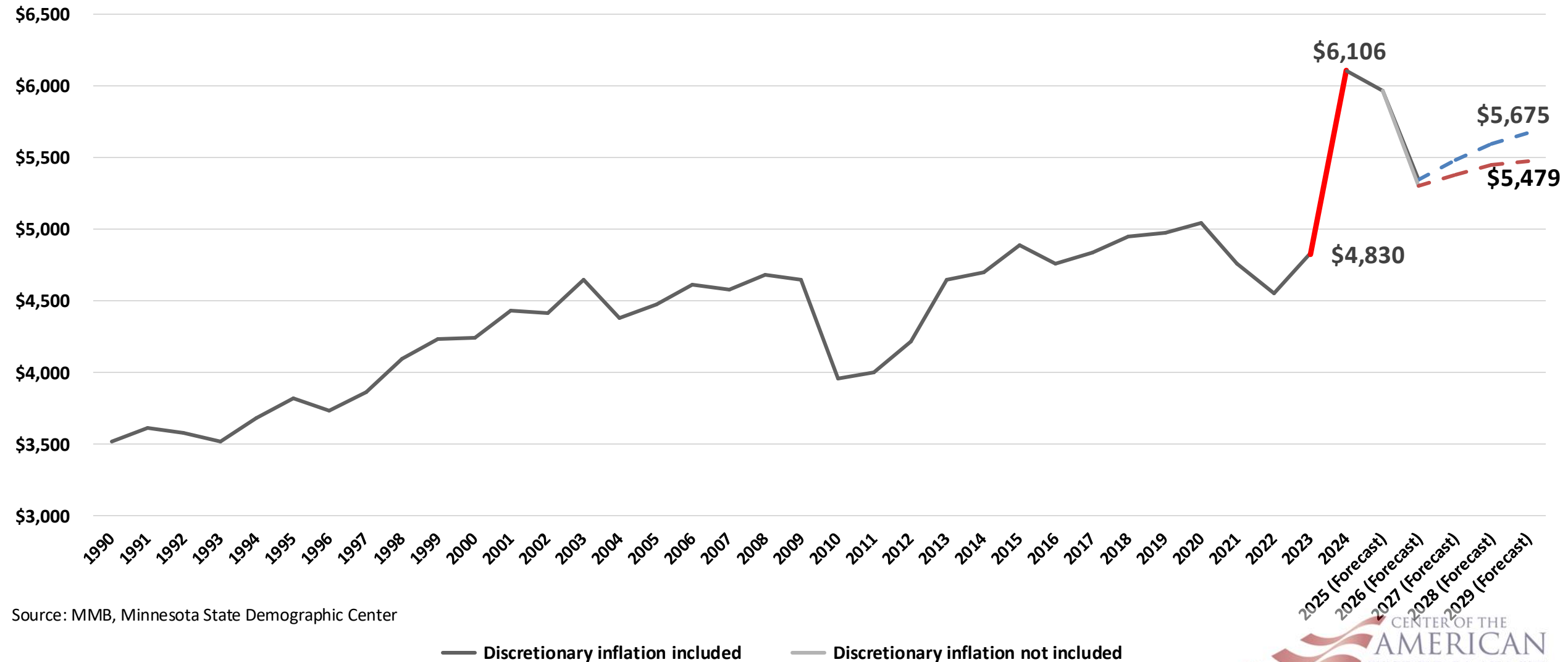
The budget deficit: A structural problem

	2024-25 biennium		2026-27 biennium		2028-29 bennium	
Beginning balance	\$	16.52	\$	7.28	\$	4.14
Total current revenues	\$	61.43	\$	63.85	\$	67.61
Spending (including discretionary inflation)	\$	70.67	\$	66.99	\$	73.37
Structural balance (current revenues minus spending)	\$	(9.24)	\$	(3.14)	\$	(5.76)
Budget Reserve	\$	3.18	\$	3.18	\$	3.18
Cash Flow Account	\$	0.35	\$	0.35	\$	0.35
Ending balance (after reserves)	\$	3.75	\$	0.62	\$	(5.14)

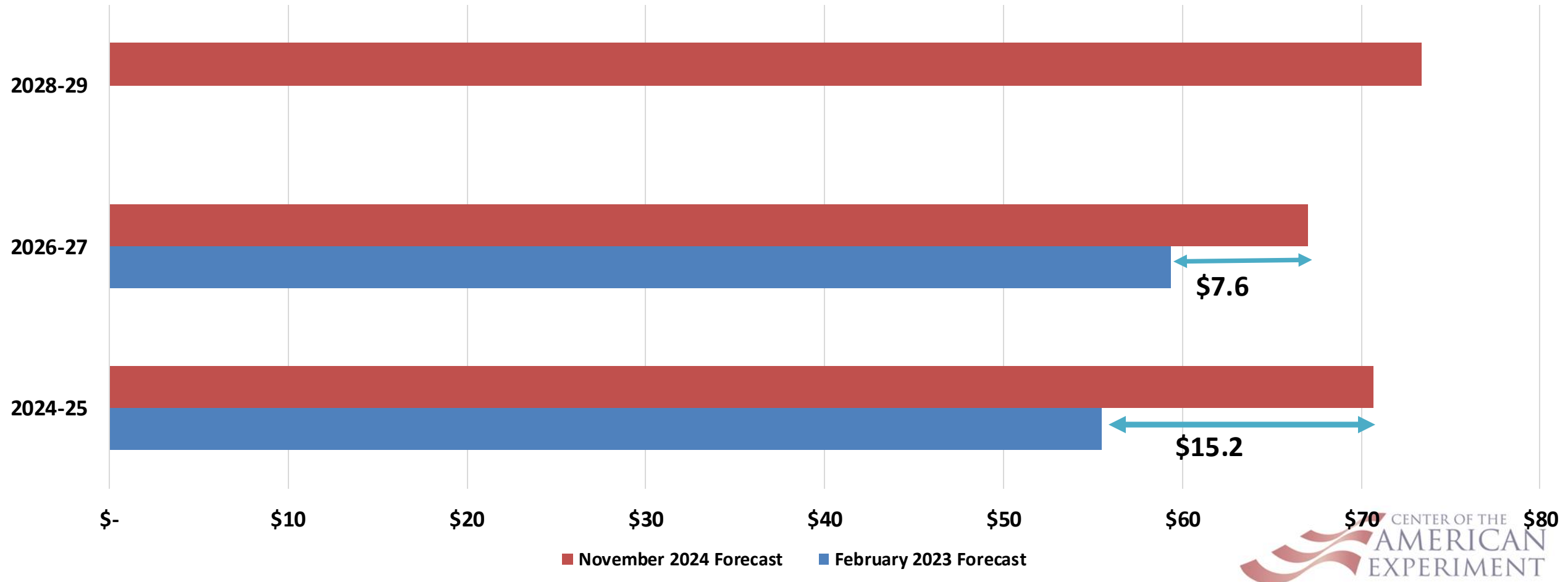
General fund spending, (2024 billion \$)



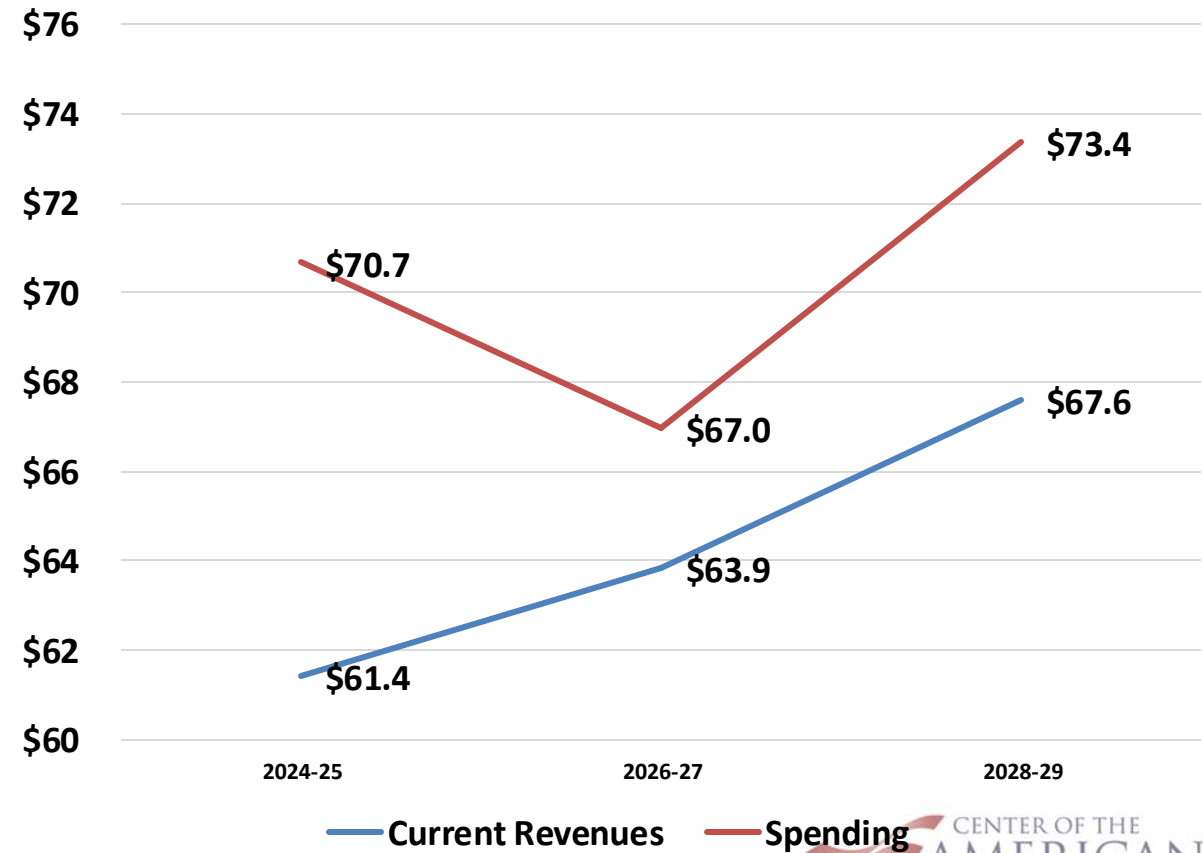
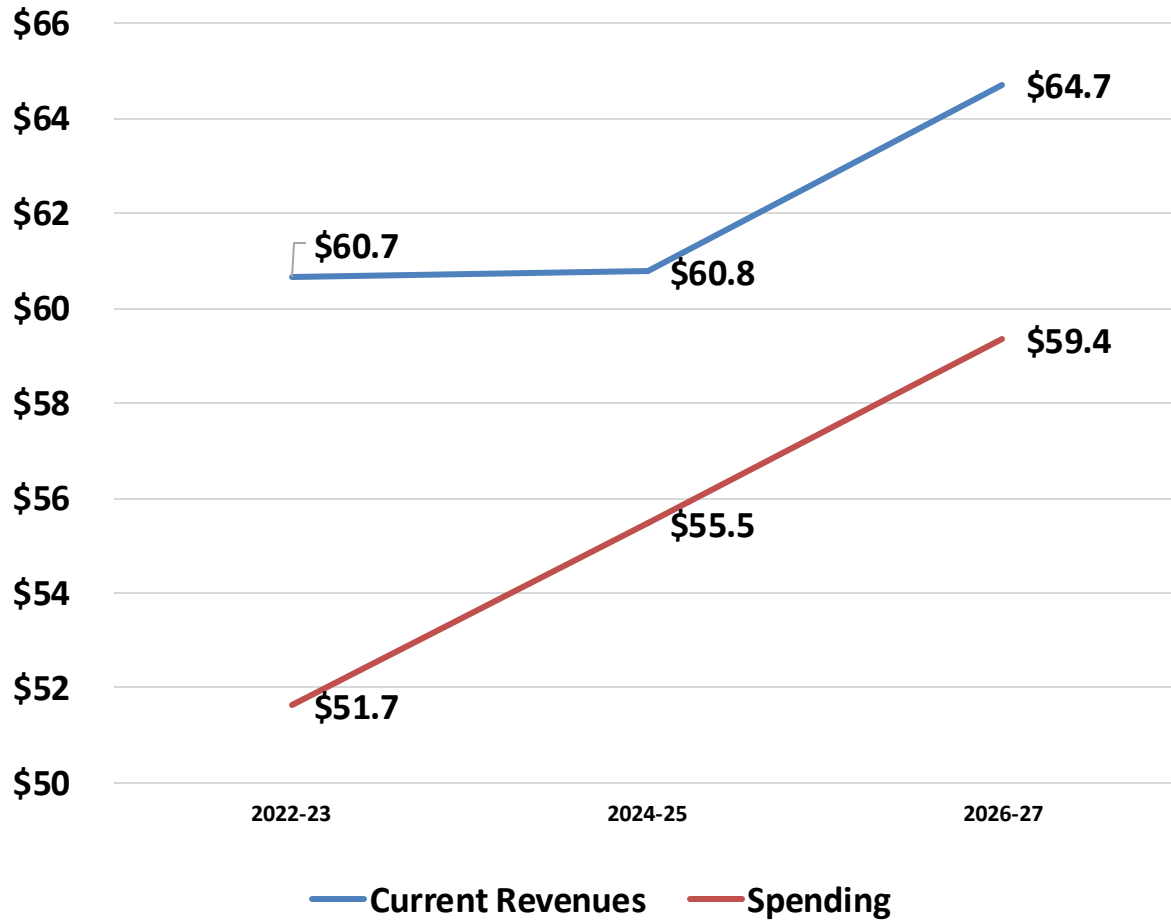
General fund spending per capita, (2024 \$)



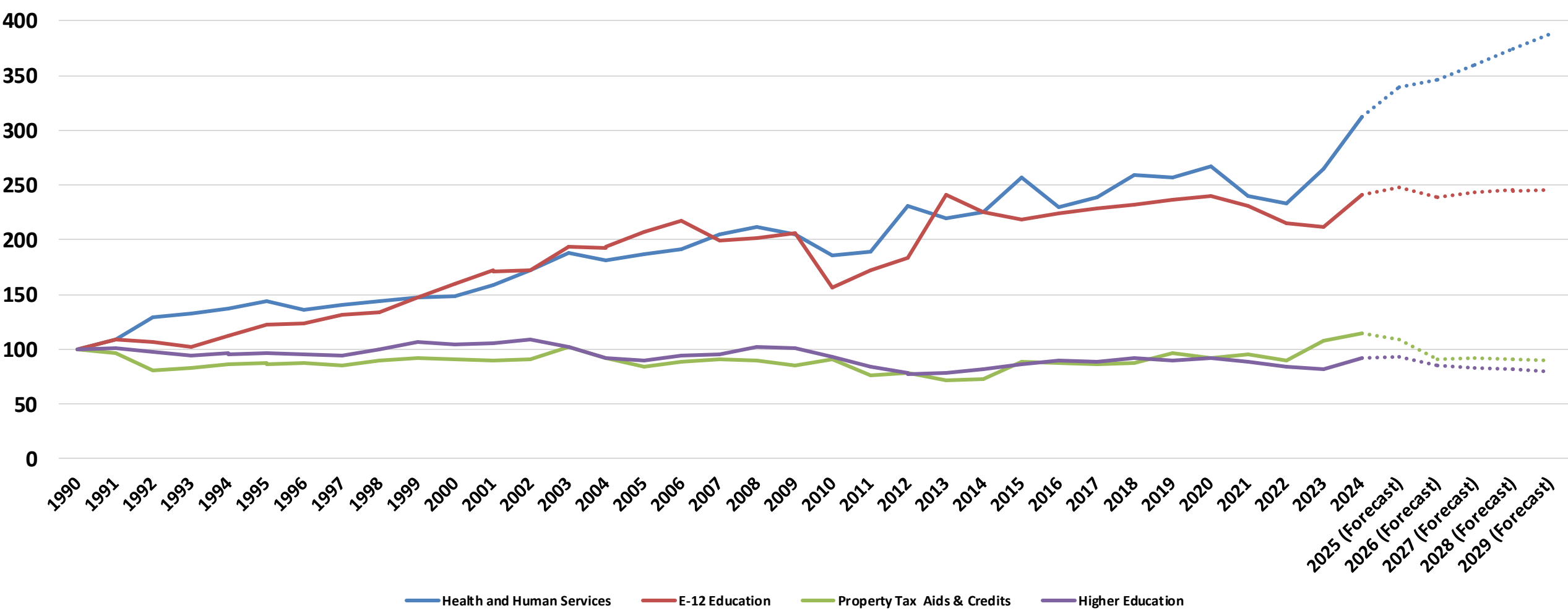
The budget baseline, billion \$



February 2023 Vs. November 2024, billion \$



HHS and E-12 Education are the big drivers of growth, (1990=100)





What to do:

- **Look at HHS and E-12 Education**

Share of general fund spending by category

Category	1990	2000	2010	2019	2023	2024	2029
Health and Human Services	21%	23%	28%	29%	30%	28%	38.3%
E-12 Education	32%	38%	37%	42%	37%	34%	37.7%
PTAC	16%	11%	11%	8%	9%	8%	7%
Higher Education	15%	11%	10%	7%	6%	6%	5%
General Government	5%	4%	5%	5%	4%	5%	2%
Public Safety and Corrections	3%	3%	4%	3%	5%	5%	5%
Debt Service	3%	2%	3%	2%	2%	1%	2%
Other	6%	7%	3%	4%	5%	13%	3%

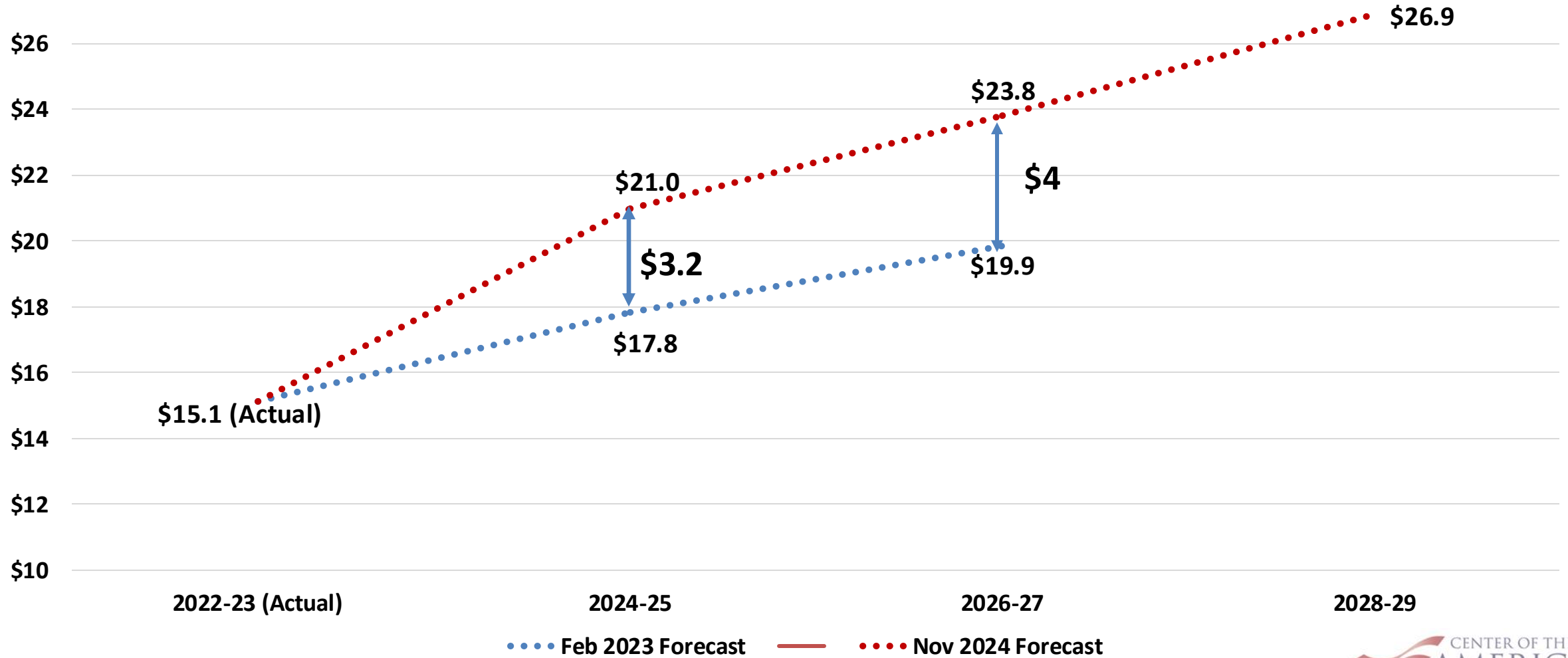
Per biennium growth, E-12 Education, Billion \$

2026-27		2028-29	
Current Revenues	\$ 2.42	\$ 3.76	
E-12 Education	\$ 0.83	\$ 1.59	
General Education	\$ 0.61	\$ 0.75	
Special Education	\$ 0.91	\$ 0.78	

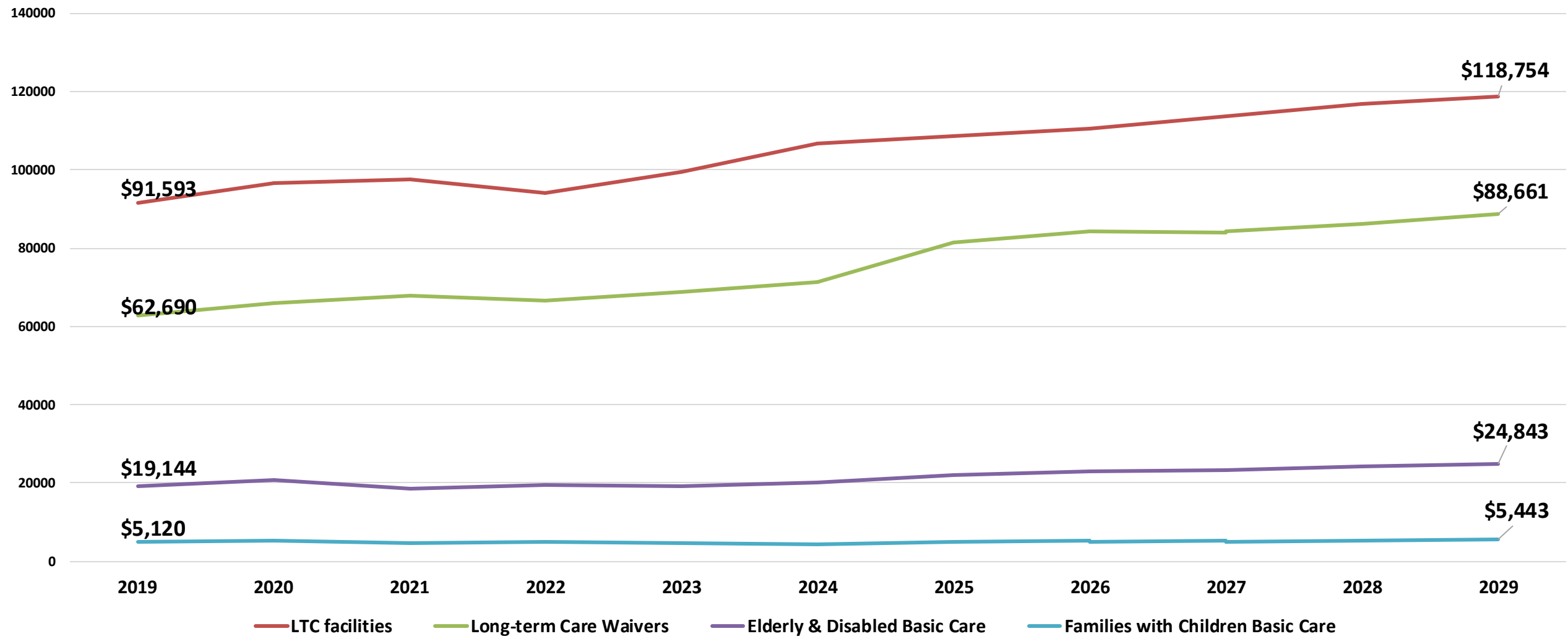
Per Per biennium growth, HHS and current Revenue (Billion \$)

	2026-27		2028-29	
Current Revenues	\$	2.42	\$	3.76
HHS	\$	2.83	\$	3.05
Department of Human Services (DHS)	\$	(0.44)	\$	2.91
MA	\$	3.28	\$	2.85
LTC Waivers	\$	1.70	\$	1.44

Health and Human Services, billion \$



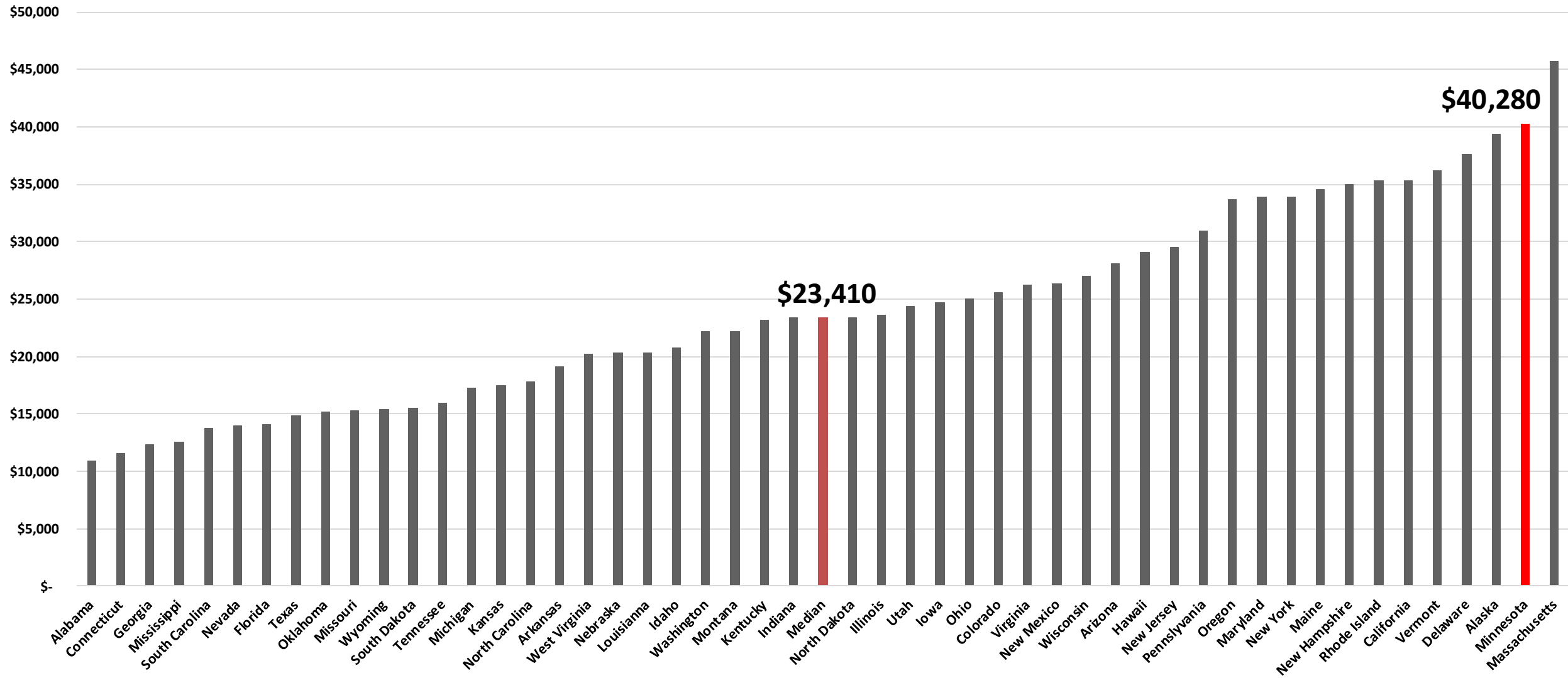
Annual MA spending per enrollee and by eligibility category, (Total funds) 2024 \$



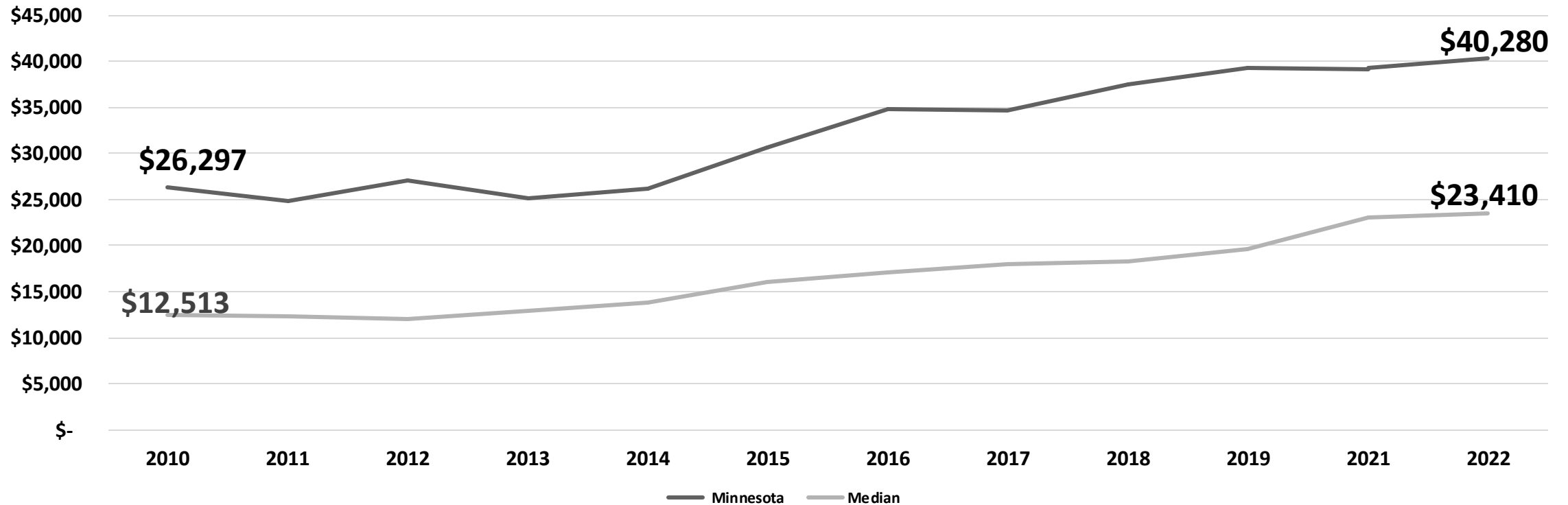
Welfare spending before 2023

- High income eligibility limits
- Higher than average spending per recipient
- High rates of growth

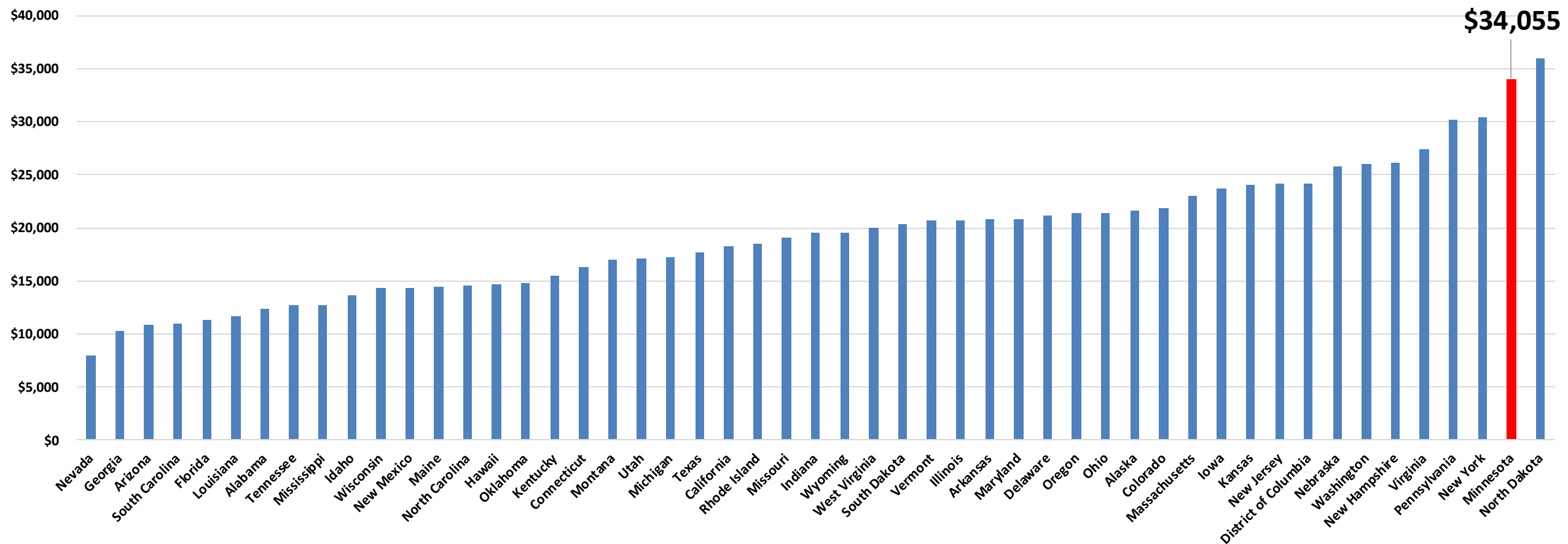
Public welfare spending per person in poverty, 2022



Public welfare spending per person in poverty, 2010-2022 (2022 \$)

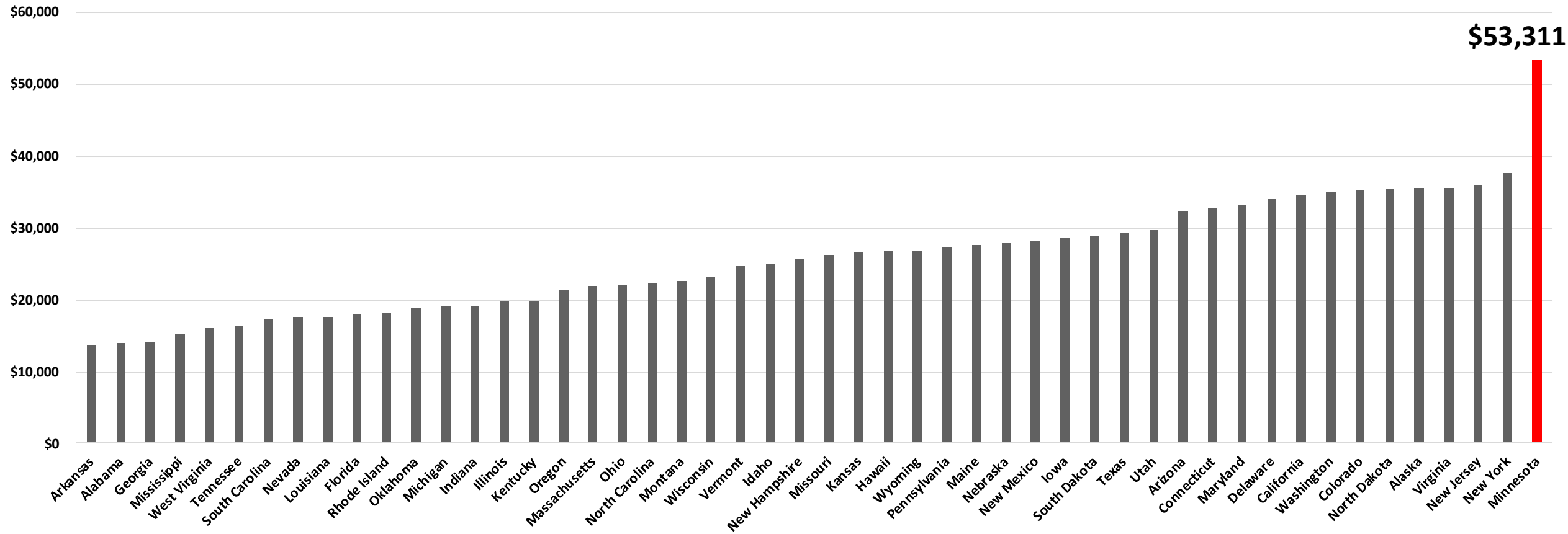


Medicaid spending per enrollee, aged (2022)

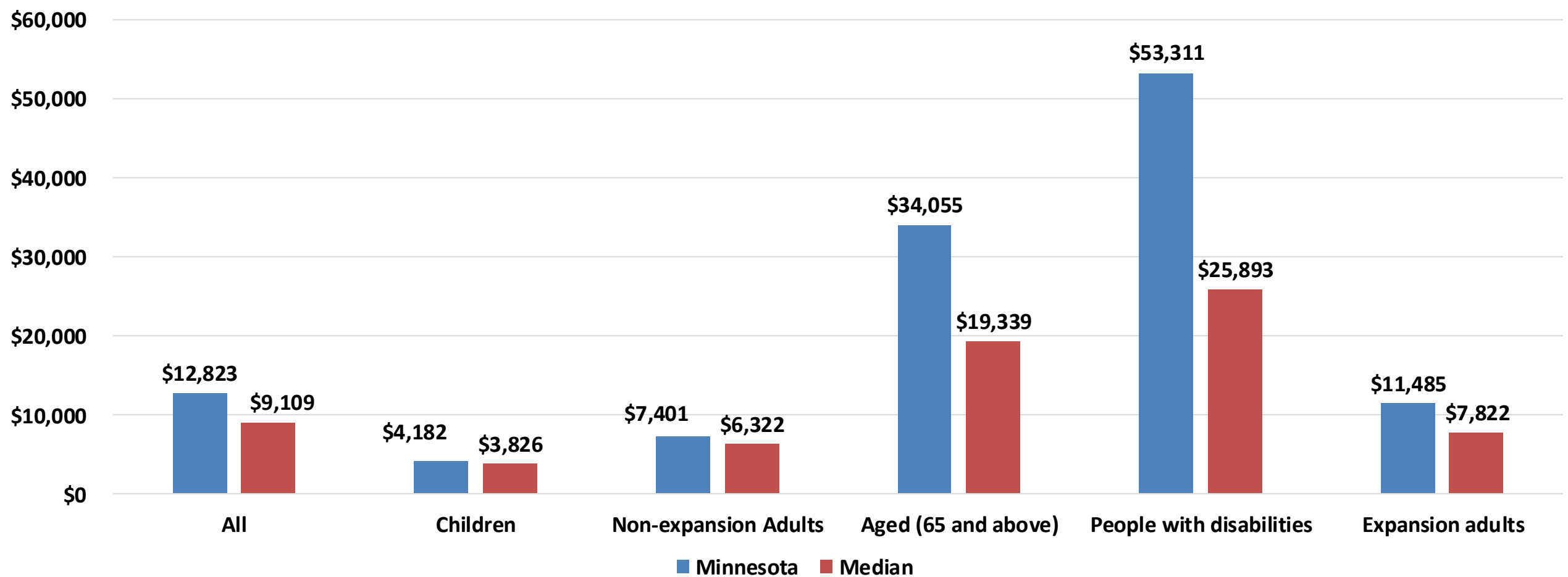


Source: Centers for Medicare and Medicaid Services

Medicaid spending per enrollee, People with disabilities (2022)



Total Medicaid spending per enrollee, 2022

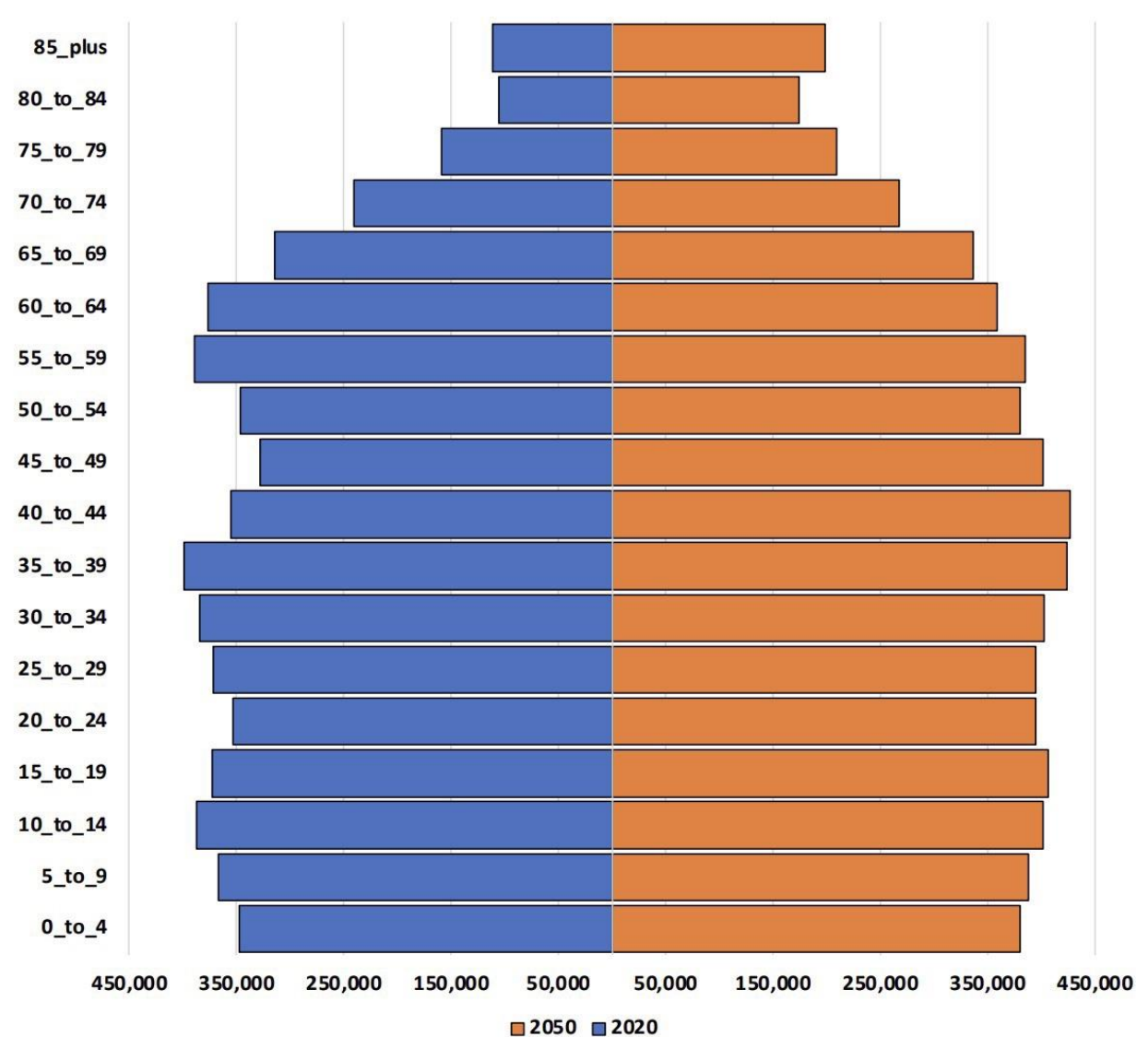


Concerning trends to note

- Aging population
- Growing federal debt
- Rising healthcare prices

Population pyramid

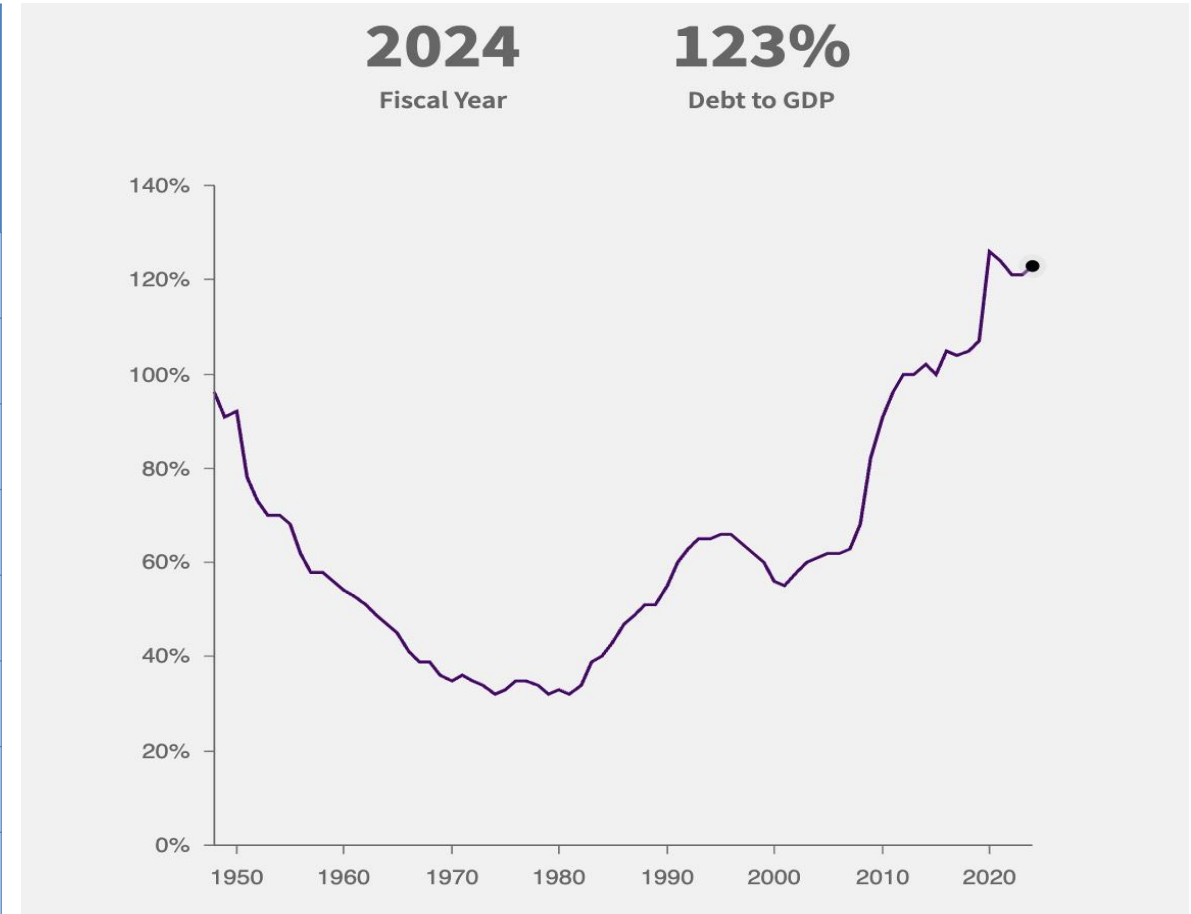
FIGURE 23
Population Pyramid for Minnesota, 2020 vs. 2050



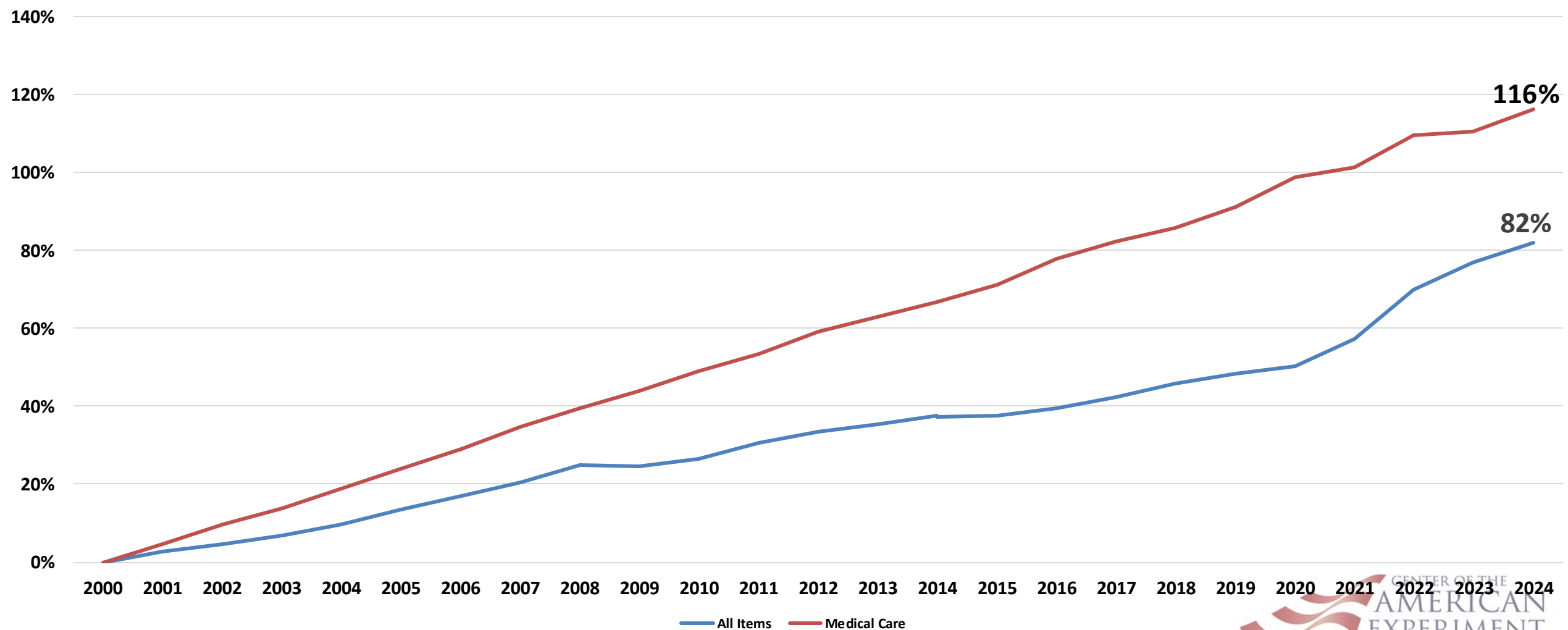
Source: Minnesota State Demographic Center

Growing federal debt

	Federal Share of total revenues	Federal Share of total spending	Federal Share of HHS spending
2014-15	24%	27%	52%
2016-17	29%	28%	54%
2018-19	25%	27%	53%
2020-21	33%	30%	55%
2022-23	35%	36%	62%
2024-25	34%	31%	54%
2026-27	33%	31%	52%
2028-29	31%	29%	49%



Cumulative CPI, Medical Care vs All Items, 2000=0

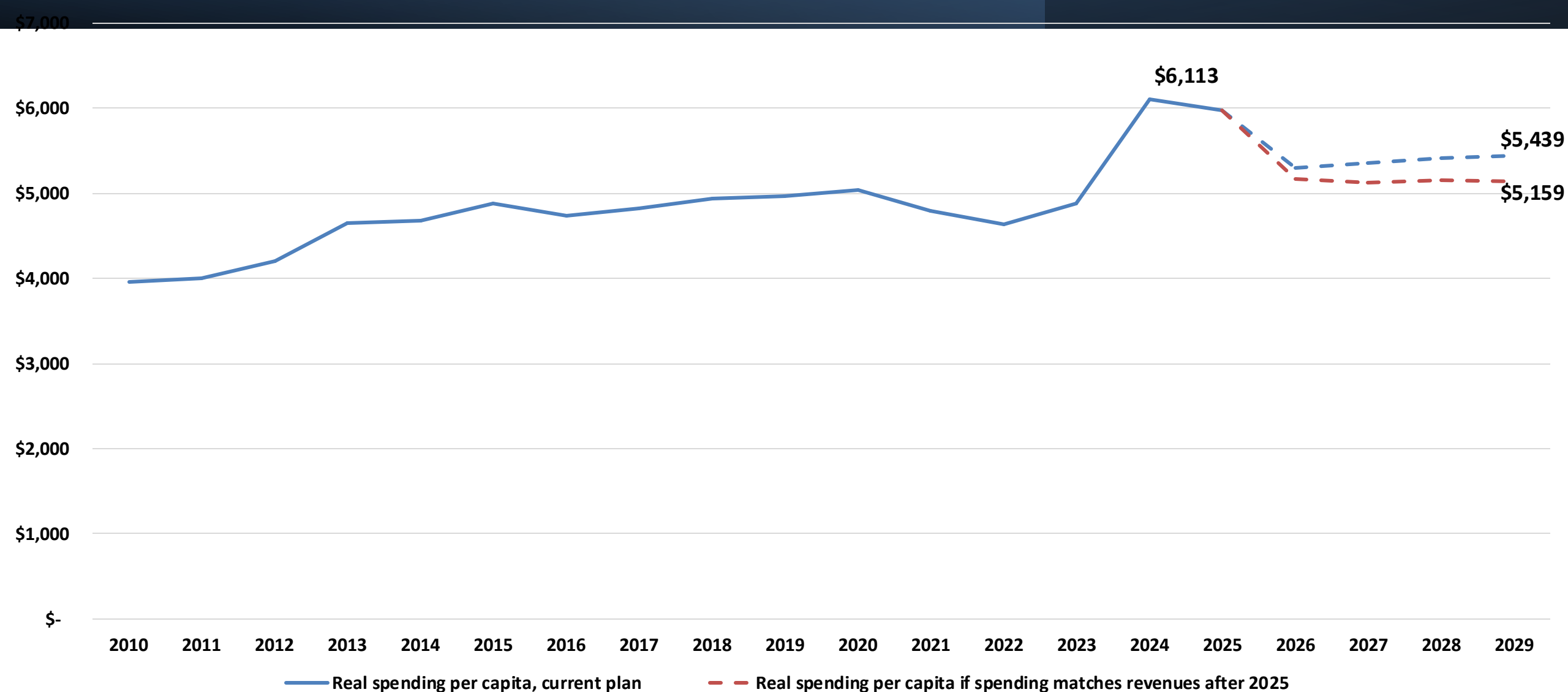




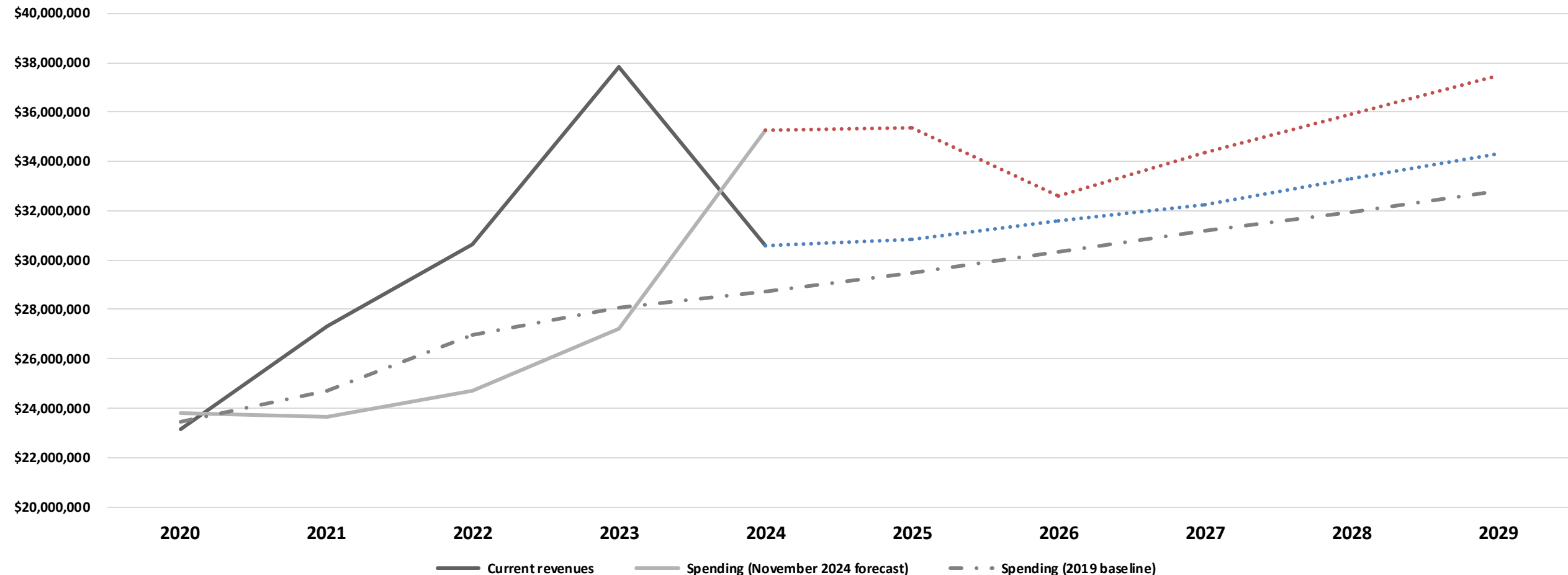
What to do:

- **Cut spending and limit rate of growth**
 - **Short term: Match revenues with spending beginning in 2026**
 - **Long-term: Reset the budget baseline to the period before 2024**
 - **Long-term: Enact a Taxpayer's Bill of Rights (TABOR)**

Short-term: General fund spending per capita,(2024 \$)



Long-term: 2019 baseline adjusted for inflation and population growth



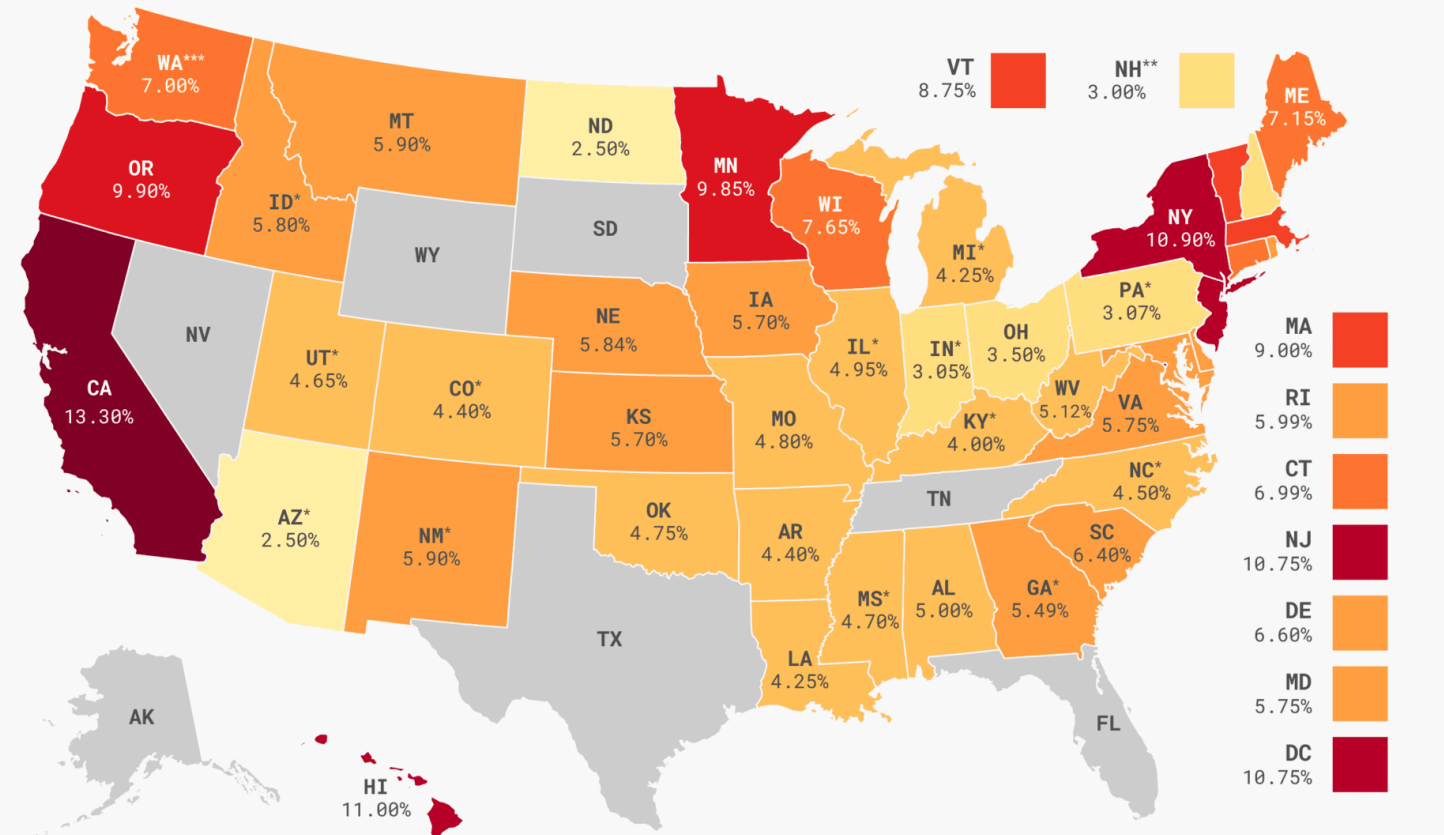
Tax hikes are not an option

Tax hikes are not an option

- Minnesota is already a high tax, high spending state

- Minnesota has the fifth highest top rate of income tax in the United States

Top Marginal State Individual Income Tax Rates (as of January 1, 2024)



(*) State has a flat income tax.

(**) State only taxes interest and dividends income.

(***) State only taxes capital gains income.

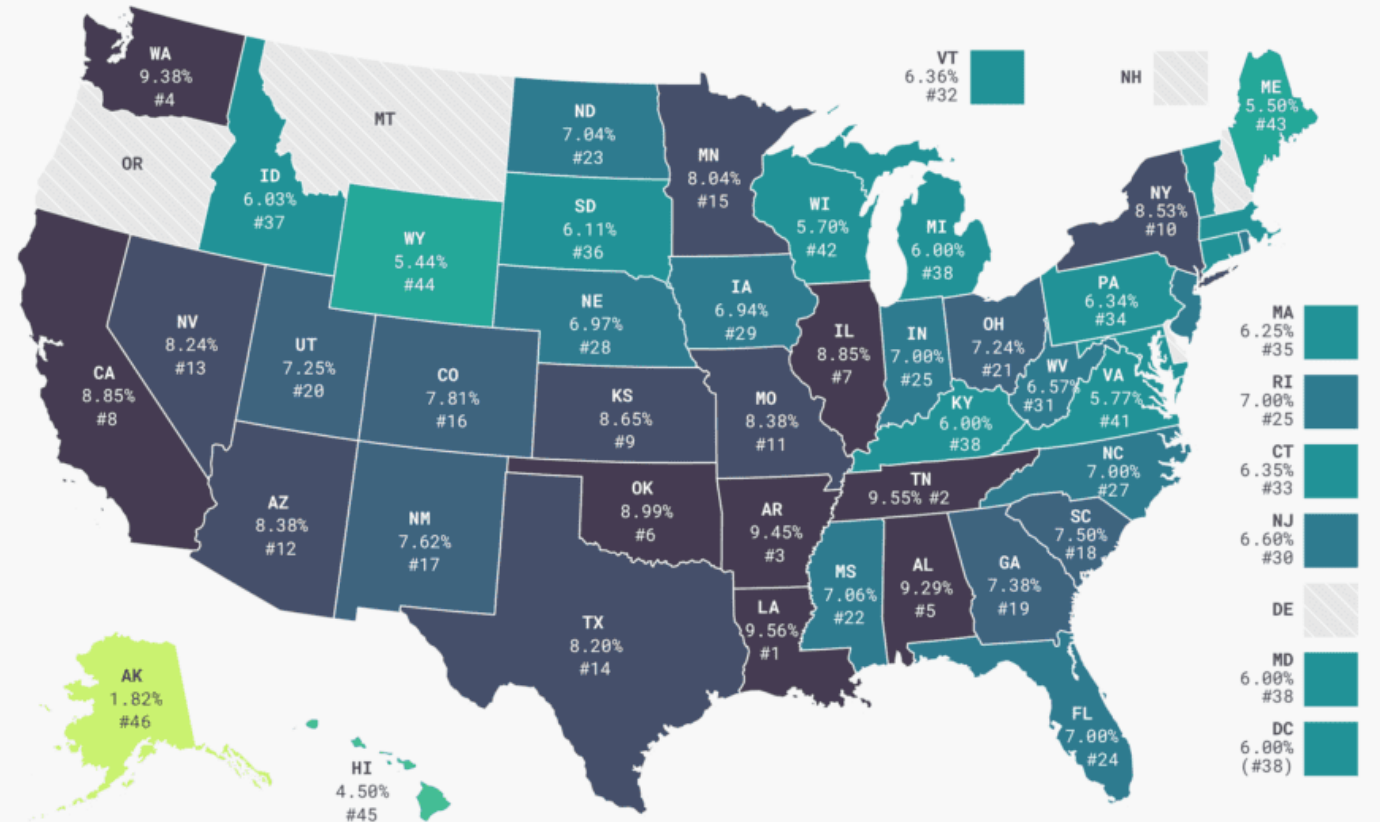
Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective tax rates, which would include the effects of various tax preferences. Local income taxes are not included.

Sources: Tax Foundation; state tax statutes, forms, and instructions.

- Minnesota has the fifteenth highest combined rate of state and local sales tax in the United States

How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, January 2024

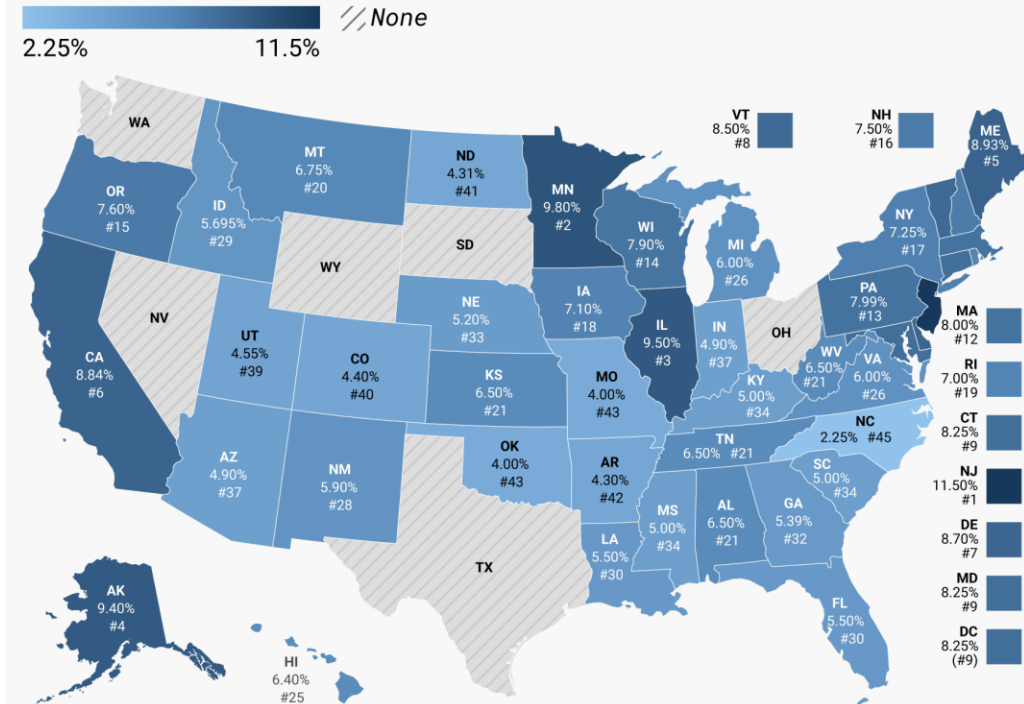


Notes: City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate. The sales taxes in Hawaii, New Mexico, and South Dakota have broad bases that include many business-to-business services. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. Sources: Sales Tax Clearinghouse; Tax Foundation calculations; State Revenue Department websites.

- Minnesota has the second highest rate of corporate income tax in the United States

How High are Corporate Income Tax Rates in Your State?

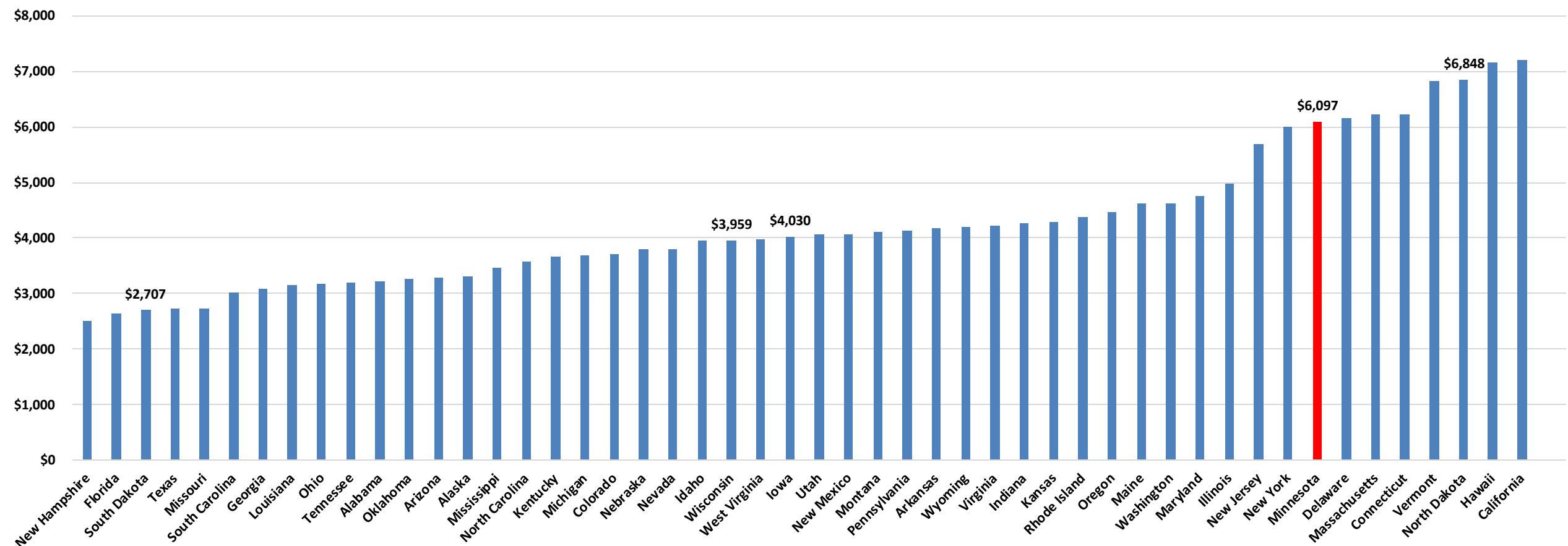
Top Marginal Corporate Income Tax Rates as of January 1, 2025



Note: In addition to regular income taxes, many states impose other taxes on corporations, such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions. Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware, Oregon, and Tennessee have gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level. New Jersey imposes a surtax that adds an additional 2.5% to the rate for corporations with taxable income above \$10 million. Connecticut charges a 10% surtax on a business's tax liability if it has gross proceeds of \$100 million or more, or if it files as part of a combined unitary group. This surtax was recently extended and is scheduled to expire on January 1, 2026. Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate. In New Jersey, the rates indicated apply to a corporation's entire net income, rather than just income over the threshold.

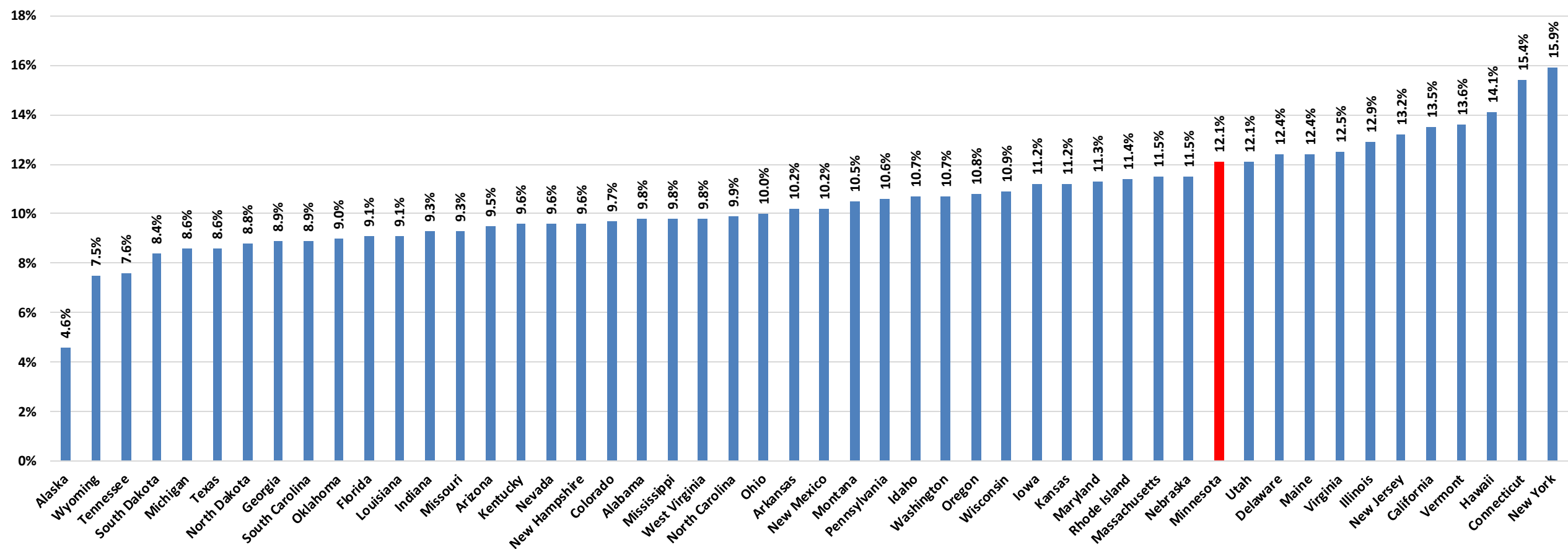
Source: Tax Foundation; state statutes, forms, and instructions; Bloomberg Tax.

State tax collections per capita, 2022



Source: Tax Foundation

State-local tax burden as a share of state income, 2022



Tax hikes are not an option

- Minnesota is already a high tax, high spending state
- High taxes have a negative impact on the economy

High taxes have a negative impact on the economy

- *“...there are not a lot of dissenting opinions coming from peer-reviewed academic journals. More and more, the consensus among experts is that taxes on corporate and personal income are particularly harmful to economic growth, with consumption and property taxes less so. This is because economic growth ultimately comes from production, innovation, and risk-taking.”*
- - William McBride, 2012

High taxes have a negative impact on the economy

- *“Taxes, particularly on corporate and individual income, harm economic growth.”*
- - Alex Durante, 2021

High taxes have a negative impact on the economy

- “[Studies] broadly conclude that tax changes generate significant behavioral responses from individuals. They also largely indicate that tax increases can generate increased revenue for government but often at the expense of economic growth and mobility for taxpayers. Conversely, tax cuts tend to produce short-lived revenue decreases while promoting long-term economic growth. Taxes, particularly on corporate and individual income, harm economic growth.”
- - Timothy Vermeer, 2022

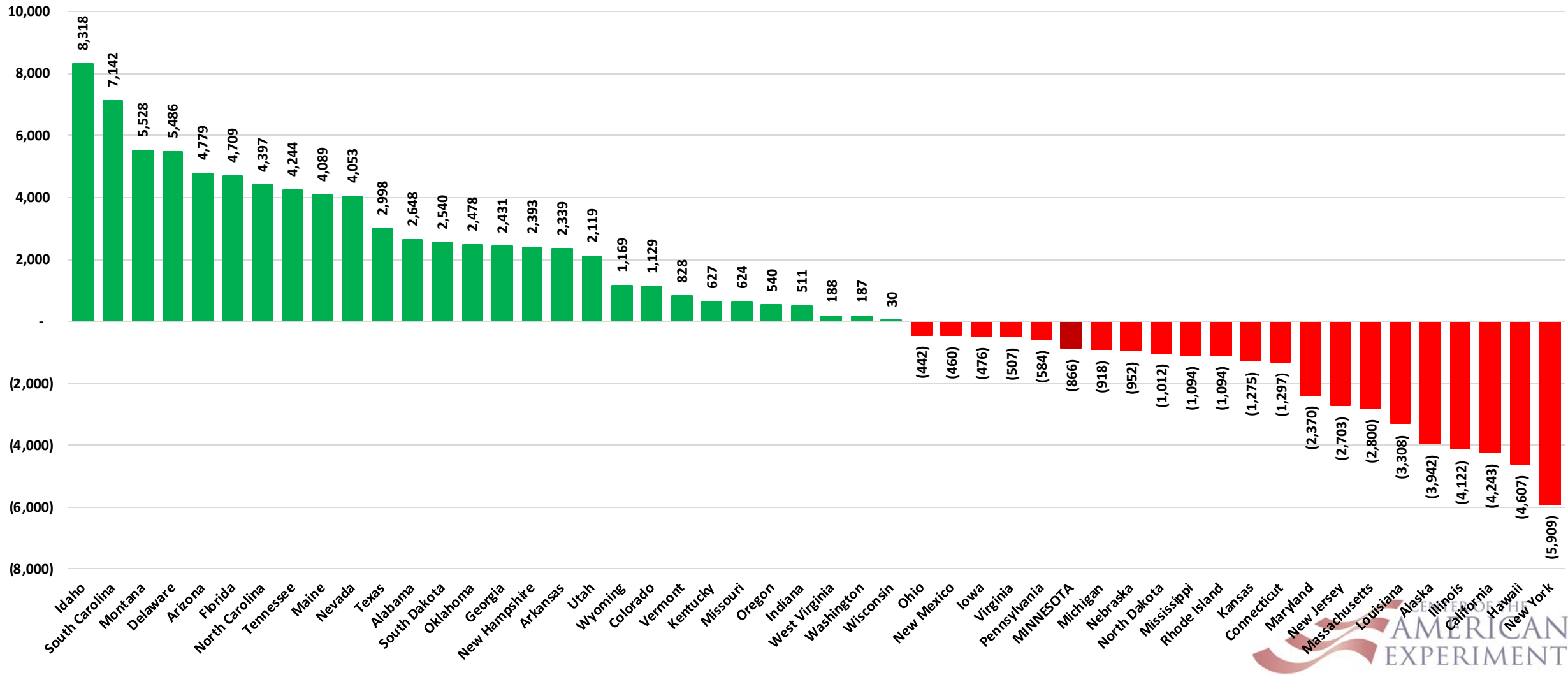
Minnesota's high taxes are driving residents out

- *“There is growing evidence that taxes can affect the geographic location of people both within and across countries. This migration channel creates another efficiency cost of taxation with which policymakers need to contend when setting tax policy.”*
- - Henrik Kleven, Camille Landais, Mathilde Muñoz, and Stefanie Stantcheva, 2020

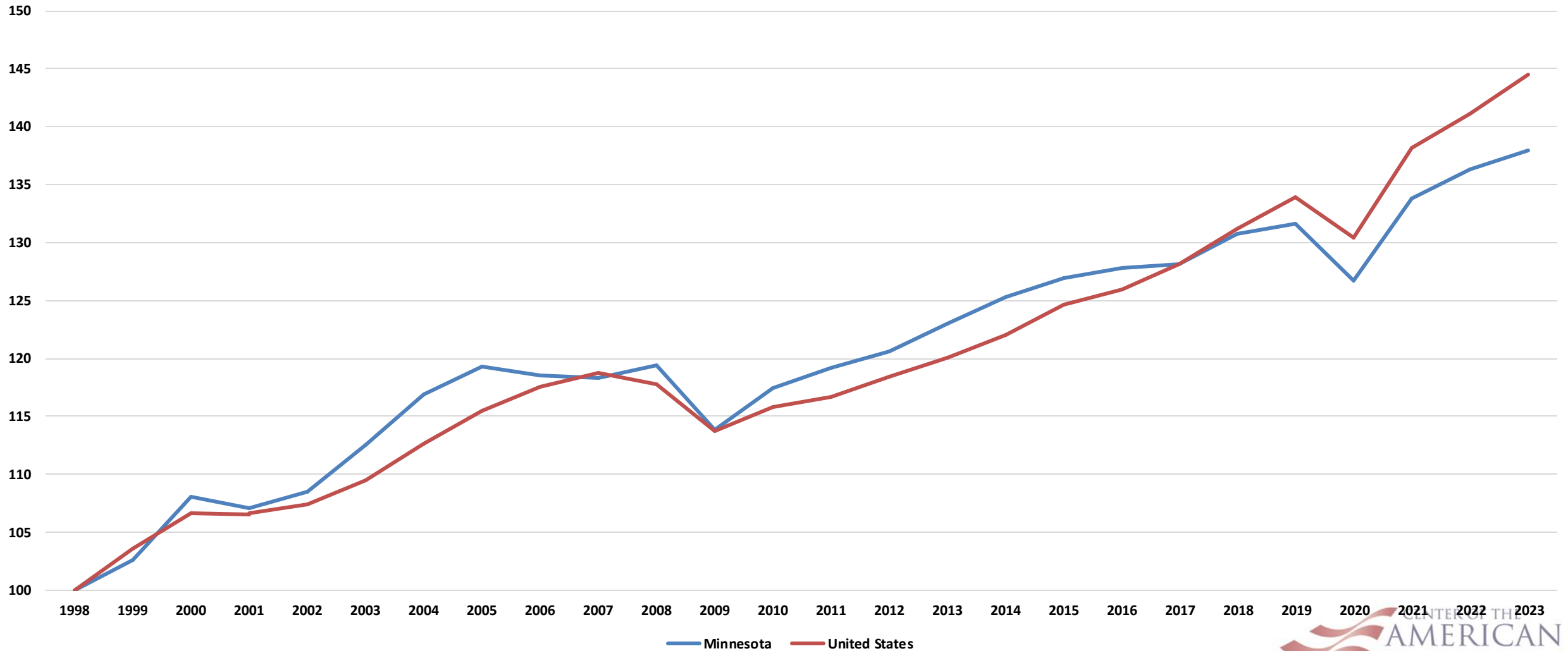
Minnesota's high taxes are driving residents out

- *“This body of work has shown that certain segments of the labor market, especially high-income workers and professions with little location-specific human capital, may be quite responsive to taxes in their location decisions.”*
- - Henrik Kleven, Camille Landais, Mathilde Muñoz, and Stefanie Stantcheva, 2020

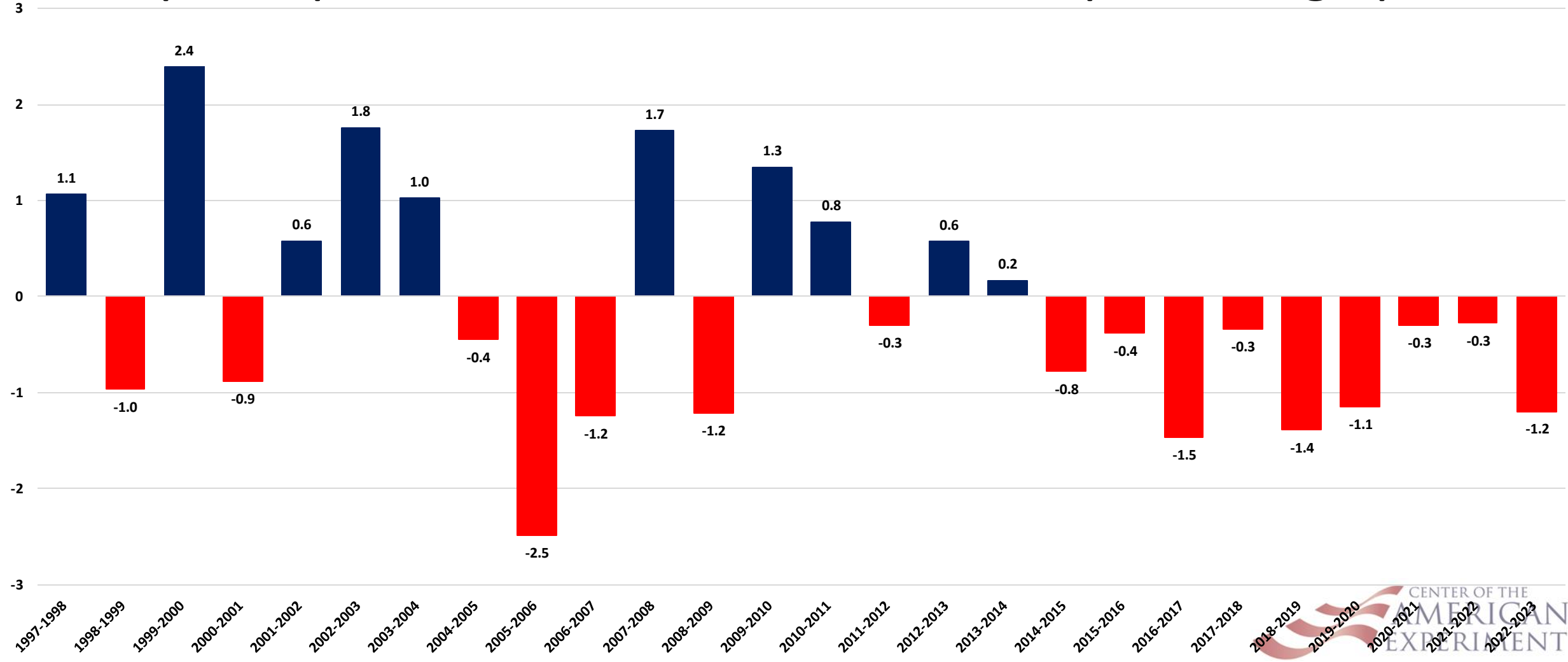
Net gain/loss of 2019 population per 100,000, 2019-2024



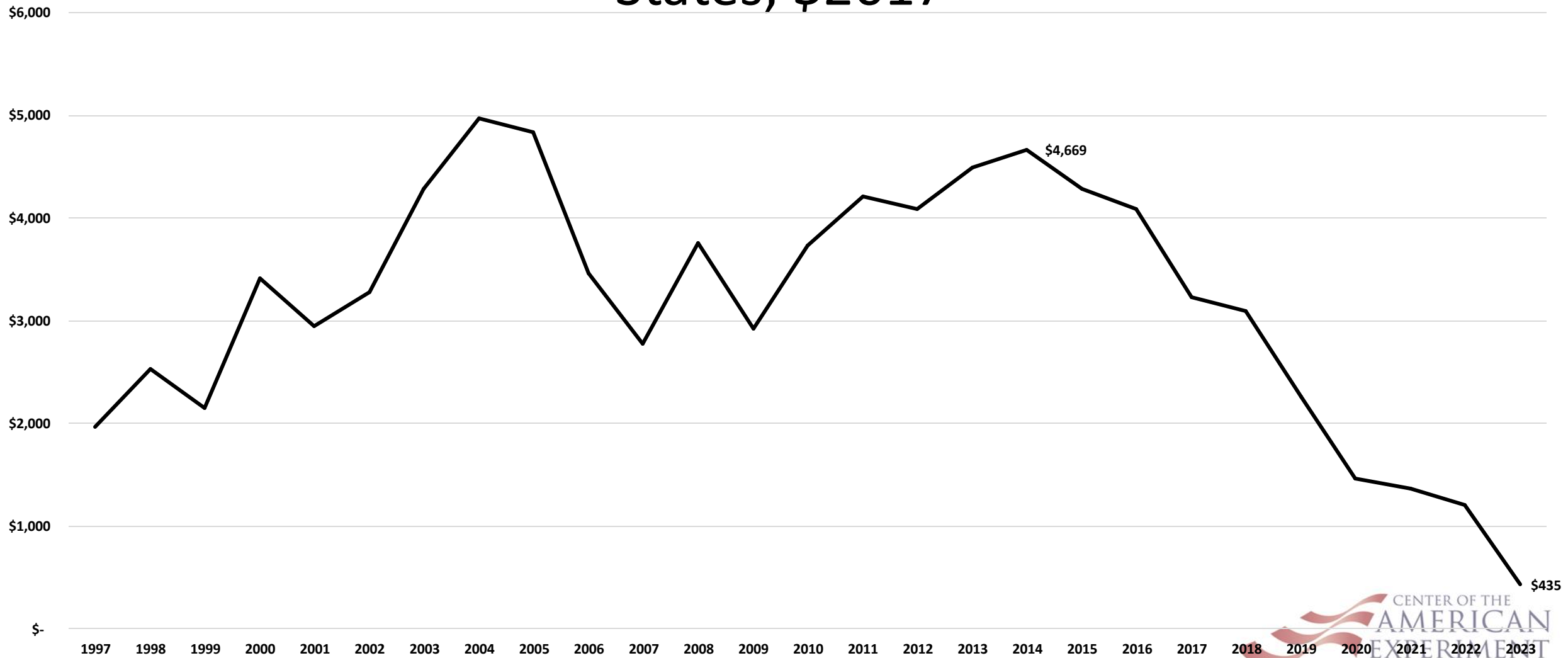
Cumulative GDP per capita growth, %



Growth of real per capita GDP in Minnesota minus growth of real per capita GDP for the United States, percentage points



Minnesota's 'Premium' in Per Capita GDP Over the United States, \$2017



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What x is matters less than that x exists



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