

# 2021 Minnesota Tax Incidence Study

An Analysis of Minnesota's Household and Business Taxes

Using November 2020 Forecast





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**March 4, 2021**

**Revised June 16, 2022** to correct transposition errors in Table A-1.  
Please discard earlier versions of the report.

**The *Tax Incidence Study* is available on the  
Department of Revenue's website at  
<https://www.revenue.state.mn.us/tax-incidence-studies>**





March 4, 2021

**To the Members of the Legislature of the State of Minnesota:**

I am pleased to transmit to you the sixteenth Minnesota Tax Incidence Study undertaken by the Department of Revenue in response to Minnesota Statutes, Section 270C.13 (Laws of 1990, Chapter 604, Article 10, Section 9; Laws of 2005, Chapter 151, Article 1, Section 15).

This version of the incidence study report builds on past studies and provides new information regarding tax incidence. Previous studies have estimated how the burden of Minnesota state and local taxes was distributed across income groups from a historic perspective. This study does that by displaying the burden of state and local taxes across income groups in 2018. It includes over 99.9 percent of Minnesota taxes paid, those paid by business as well as those paid by individuals. The study addresses the important question: “Who pays Minnesota’s taxes?”

The report also estimates tax incidence across income groups for Minnesota state and local taxes for 2023. By forecasting incidence into the future, it is possible to give policymakers a view of the state and local tax system that reflects tax law changes enacted into law to date. Studies that concentrate only on history would not reflect the most recent changes to Minnesota's tax system. The 2023 projections also reflect the impact of the forecast for economic growth and expected changes in the distribution of income on the tax system. This version of the 2023 projections is based on the November 2020 economic forecast from the Department of Management and Budget.

The information presented here can be used to evaluate Minnesota’s tax system. It should also be valuable in considering any future changes in Minnesota’s tax structure.

Minnesota Statutes, Section 3.197, specifies that a report to the Legislature must include the cost of its preparation. The approximate cost of preparing this report was \$105,000.

Sincerely,

A handwritten signature in blue ink that reads 'Robert A. Doty'.

Robert A. Doty  
Commissioner

# Table of Contents

<b>Executive Summary</b> .....	1
<b>Chapter 1: Overview of Study</b> .....	4
Minnesota State and Local Tax Collections .....	4
The Concept of Tax Incidence.....	6
Step 1 – Impact.....	6
Step 2 – Shifting.....	10
Step 3 – Allocation to Specific Households.....	11
Tax Progressivity and the Suits Index .....	11
Effective Tax Rates by Decile .....	12
Effective Tax Rates in the 1 <sup>st</sup> Decile .....	16
Historical Comparison with Earlier Studies.....	17
<b>Chapter 2: Principal Results, 2018</b> .....	23
Total Tax Burden .....	23
Taxes by Population Decile.....	26
Overall Effective Tax Rates .....	26
State Taxes Compared to Local Taxes .....	28
Business Taxes Compared to Taxes on Individuals .....	30
Summary of 2018 Tax Burden by Major Tax Type .....	31
Individual Income Tax.....	32
Residential Property Taxes (After PTR).....	33
Nonresidential Property Taxes .....	33
State and Local Sales Taxes.....	33
Other Taxes .....	34
Representative Households.....	34
Minnesota’s Diversified Tax Portfolio in 2018.....	36

<b>Chapter 3: Projected Results, 2023</b> .....	38
Tax Incidence Projections to 2023 (Assuming Current Law).....	38
Total Tax Burdens in 2023 .....	38
Taxes by Population Decile.....	40
Overall Effective Tax Rates .....	43
State Taxes Compared to Local Taxes .....	45
Business Taxes Compared to Taxes on Individuals .....	46
Summary of 2023 Tax Burden by Major Tax Type .....	47
Individual Income Tax.....	49
Residential Property Taxes (After PTR) .....	49
Nonresidential Property Taxes .....	50
State and Local Sales Taxes.....	50
Other Taxes .....	51
Summary of the Impact of Law Changes Between 2018 and 2023 .....	51
Minnesota’s Diversified Tax Portfolio in 2023 .....	52
<b>Chapter 4: Additional Results</b> .....	55
Section A – An Alternative Presentation: Income Deciles .....	56
Section B – An Alternative Methodology: Adjusting for the Federal Tax Offset .....	62
Section C – The Impact of Refundable Income Tax Credits and Property Tax Refunds .....	64
Section D – Incremental Incidence: Estimating the Incidence of a Change in Business Taxes .....	69
Section E – Tax Incidence in Other States.....	71
<b>Chapter 5: Demographic Variation</b> .....	76
Household Types by Population Decile .....	76
Average Tax Burdens by Household Type .....	79
Housing Status by Population Decile .....	86
Incidence Households Compared to Census Households.....	87

<b>Appendix A – The Incidence Study Database .....</b>	<b>89</b>
Measurement of Household Income.....	90
Definition of Income .....	90
Components of Household Income in 2018 .....	90
Income Not Included in Incidence Study Income .....	92
Comparison to Personal Income.....	93
Accounting Period .....	93
Definition of a Household.....	93
<b>Appendix B – The Incidence Analysis .....</b>	<b>94</b>
Introduction .....	94
Taxes on Households.....	95
Taxes on Income or Wealth .....	95
Taxes on Consumer Purchases .....	95
Property Taxes on Non-Business Property .....	96
Adjustment for Burdens on Nonresident Households.....	97
Taxes on Business.....	97
Introduction.....	97
Conceptual Structure.....	98
Allocation of Business Taxes.....	99
Allocation of Business Taxes: An Example .....	100
Allocating the Burden Among Capital, Consumers, and Labor .....	100
Allocating the Burden Between Minnesota Residents and Nonresidents .....	103
Taxes on Intermediate Business Inputs .....	104
Property Taxes on Land .....	104
Business Tax Allocators .....	105
Incremental vs. “Average” Incidence .....	108
<b>Appendix C – The Suits Index.....</b>	<b>109</b>
<b>Appendix D – Tax Incidence by Type of Tax (2018).....</b>	<b>111</b>
<b>Glossary of Tax Incidence Study Terms .....</b>	<b>150</b>
<b>Legislative Mandate.....</b>	<b>152</b>



## Tables and Figures

### Tables

1-1	Minnesota State and Local Tax Collections in 2018 .....	5
1-2	2018 State and Local Tax Collections by Type of Tax and Taxpayer Category.....	8
1-3	2023 State and Local Tax Collections by Type of Tax and Taxpayer Category.....	9
1-4	Suits Indexes for Selected Minnesota State and Local Taxes .....	12
1-5	Minnesota Effective Tax Rates for 2018 and 2023, State and Local Taxes by Population Decile.....	13
1-6	Minnesota Effective Tax Rates for 2018 and 2023, Individual and Business Taxes by Population Decile.....	15
1-7	Households, Household Income, Total Taxes, Effective Tax Rates, and Suits Indexes, All Taxes, 1990-2023 .....	18
1-8	Effective Tax Rates by Population Decile, All Taxes, 1990-2023 .....	20
2-1	2018 Tax Collection Amounts.....	24
2-2	2018 Population Deciles – Amounts.....	27
2-3	2018 Population Deciles – Effective Tax Rates .....	29
2-4	Effective Tax Rates by Tax Type (2018) .....	32
2-5	Household Characteristics and Average Tax Burden Amounts by Population Decile – All Households .....	35
3-1	2023 Tax Collection Amounts.....	41
3-2	2023 Population Deciles – Amounts.....	42
3-3	2023 Population Deciles – Effective Tax Rates .....	44
3-4	Effective Tax Rates by Tax Type (2023) .....	48
3-5	Change in Effective Tax Rates Between 2018 and 2023 .....	48
3-6	Projected Growth in Tax Collections Between 2018 and 2023 by Tax Type.....	53
4-1	2018 Income Deciles – Amounts .....	57
4-2	2018 Income Deciles – Effective Tax Rates.....	58

## Tables (cont.)

4-3	2023 Income Deciles – Amounts .....	59
4-4	2023 Income Deciles – Effective Tax Rates.....	60
4-5	Impact of Federal Tax Offset on Effective State and Local Tax Rates by Population Decile (Minnesota Residents, 2018).....	63
4-6	Suits Index With and Without Federal Tax Offset .....	63
4-7	Population-Decile Suits Index for Refundable Credits Property Tax Refund Payments in 2018 .....	65
4-8	Impact of Refundable Income Tax Credits on Effective Income Tax Rates.....	66
4-9	Residential Property Taxes Before and After Property Tax Refunds for 2018 (Homesteads and Rental Housing).....	67
4-10	Combined Impact of Property Tax Refunds and Refundable Income Tax Credits on Effective State and Local Tax Rates.....	68
4-11	ITEP “7-Point” Suits Index by State, Non-Senior Households in 2015 (2018 Law) .....	73
5-1	Household Characteristics and Average Tax Burden Amounts by Population Decile – Married Couples with Children.....	80
5-2	Household Characteristics and Average Tax Burden Amounts by Population Decile – Non-Senior Married Couples without Children .....	81
5-3	Household Characteristics and Average Tax Burden Amounts by Population Decile – Non-Senior Single-Person Households .....	82
5-4	Household Characteristics and Average Tax Burden Amounts by Population Decile – Single Senior Households .....	83
5-5	Household Characteristics and Average Tax Burden Amounts by Population Decile – Married Senior Households .....	84
5-6	Household Characteristics and Average Tax Burden Amounts by Population Decile – Single-Parent Households.....	85
5-7	Full-Sample Suits Index Calculated Separately for Each Household Type .....	86
A-1	Components of Total Household Income in 2018 .....	91
B-1	Business Tax Allocators .....	105
B-2	Distribution of Business Tax Burden by Taxpayer Category (2018).....	107

## Figures

E-1	Effective Tax Rates, All Minnesota Taxes .....	3
E-2	Suits Index, All Minnesota Taxes .....	3
1-1	Estimating Tax Incidence .....	6
1-2	Minnesota Tax System Impacts by Tax Type (2016, 2018, and 2023) .....	6
1-3	Minnesota Tax System Impacts: Business vs. Households .....	10
1-4	Tax Incidence after Shifting .....	11
1-5	Effective Tax Rates for 2018 and 2023, State and Local Taxes by Population Decile.....	14
1-6	Effective Tax Rates for 2018 and 2023, Individual and Business Taxes by Population Decile.....	15
1-7	Effective Tax Rates, All Minnesota Taxes, 1990-2023 .....	17
1-8	Suits Indexes, All Minnesota Taxes, 1990-2023.....	19
1-9	Effective Tax Rates for 1992 and 2018 by Population Decile .....	20
1-10	Shares of Household Income, 1990-2023.....	22
2-1	2018 Distribution of State and Local Tax Burdens by Type of Tax and Level of Government.....	25
2-2	2018 Effective Tax Rates by Population Decile, State Taxes Compared to Local Taxes .....	28
2-3	2018 Effective Tax Rates by Population Decile, Business Taxes Compared to Taxes on Individuals.....	30
2-4	2018 Tax Incidence by Tax Type .....	31
2-5	Dollars of Tax Burden and Suits Index by Type of Tax (2018).....	37
3-1	2023 Distribution of Minnesota State and Local Tax Burdens by Tax Type .....	39
3-2	Effective Tax Rates by Population Decile, State Taxes Compared to Local Taxes .....	45
3-3	Effective Tax Rates by Population Decile, Business Taxes Compared to Taxes on Individuals .....	46
3-4	2023 Tax Incidence by Tax Type .....	47
3-5	Dollars of Tax Burden and Suits Index by Type of Tax (2023).....	54

## Figures (cont.)

4-1	State and Local Effective Tax Rates for 2018, Income Deciles vs. Population Deciles.....	61
4-2	Effective Tax Rates for 2018, With and Without Federal Tax Offset .....	64
4-3	Effective Income Tax Rates by Population Decile, With and Without Refundable Credits.....	66
4-4	Effective Residential Property Tax Rates by Population Decile, Before and After Property Tax Refunds.....	67
4-5	Effective State and Local Tax Rates by Population Decile, With and Without Property Tax Refunds and Refundable Credits .....	68
4-6	Average vs. Incremental Incidence.....	70
4-7	ITEP Study Results for Minnesota, California, and All States Combined (Non-Seniors) .....	74
4-8	ITEP Study Results for Minnesota and Three States with More Regressive Tax Systems (Non-Seniors) .....	74
4-9	ITEP Study Results for Minnesota and Neighboring States (Non-Seniors) .....	75
5-1	Family Type by Population Decile.....	77
5-2	Median Income by Household Type (2018).....	78
5-3	Housing Status by Population Decile.....	86
A-1	Shares of Total Income (2018).....	92
B-1	Incidence of a Hypothetical \$120 Million Tax on Capital.....	101
C-1	Suits Index for Sales Taxes.....	109
C-2	Suits Index for the Individual Income Tax.....	110

## Executive Summary

This study reports the distribution of calendar year 2018 Minnesota state and local taxes in relation to taxpayer income, along with projections for calendar year 2023. It answers the question, “Who pays Minnesota’s state and local taxes?” The major objective is to provide taxpayers and policymakers with important information on the equity or fairness of the overall distribution of Minnesota taxes. This is the sixteenth biennial tax incidence study prepared in response to the statutory requirement enacted in 1990.

The report estimates 1) how the total Minnesota state and local tax burden on Minnesota households varies by income range, and 2) how the burden of each component of the overall state and local tax system is distributed across Minnesota households. Aggregating the impact of each component yields an estimate of the distribution of the total state and local tax burden.<sup>1</sup>

The estimates include taxes with an initial impact on businesses, such as the corporate franchise tax and the sales tax on business purchases, as well as taxes imposed directly on households. The initial impact of taxes imposed on Minnesota households and businesses is discussed first. The analysis then proceeds to estimate the final incidence of taxes on Minnesota households, after taxes imposed on businesses have been shifted to those who bear the final burden.

The report:

- Analyzes \$35.1 billion in taxes collected in 2018, a total that represents over 99.9 percent of all state and local taxes.
- Identifies the shares paid initially by households (63.5 percent by Minnesota residents and 3.9 percent by nonresidents) and the share paid initially by business (32.6 percent).
- Estimates the extent to which the business taxes are shifted to consumers (in higher prices) or labor (in lower wages), rather than being borne by owners of capital (in lower rates of return). Also estimates the extent to which the ultimate burden is “exported” to nonresident owners of capital or nonresident consumers.
- Calculates average household tax burden by income range. That burden consists of taxes imposed directly on households, such as the income tax or consumer sales tax, plus the household share of taxes initially imposed on business but shifted to households, the ultimate payers. Income is defined to include all forms of cash income, both taxable and nontaxable.
- Presents results by population decile, each decile including one-tenth of all households (the lowest-income 10 percent in the 1<sup>st</sup> decile and highest-income 10 percent in the 10<sup>th</sup> decile).

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<sup>1</sup> Throughout this study, the phrase “tax burden” refers to the burden of Minnesota’s state and local taxes on Minnesota residents. The study includes no analysis of either federal taxes or taxes imposed in other states.

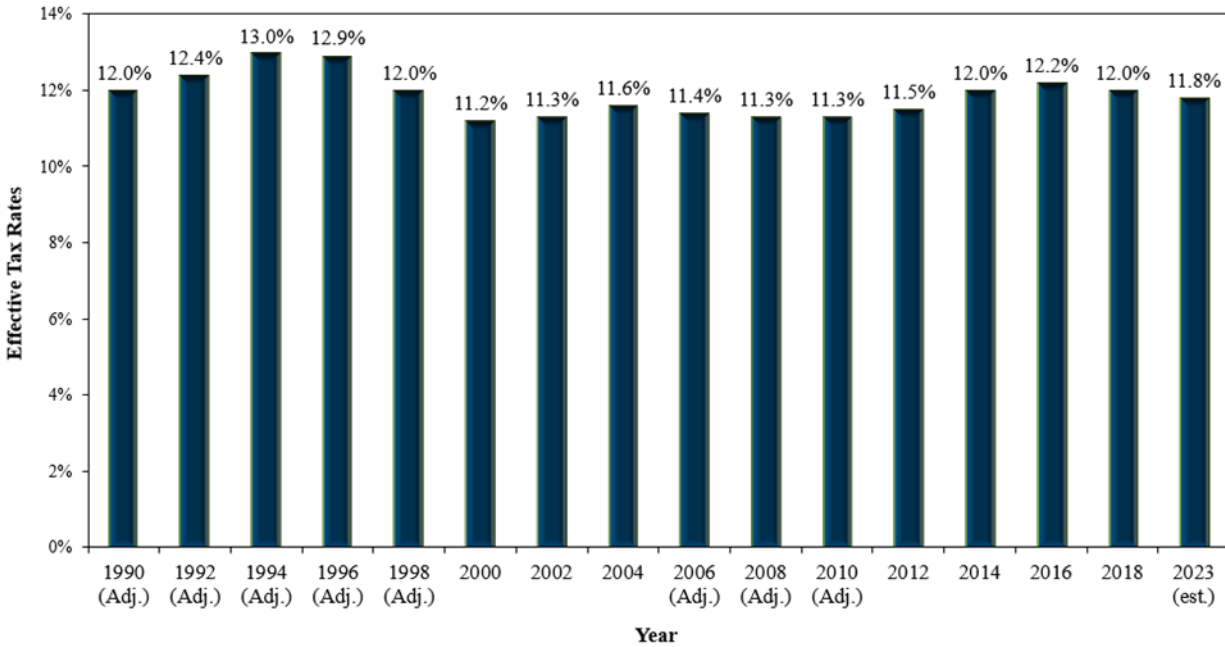
- Projects the 2018 results forward to 2023, accounting for the effects of both law changes and economic growth on the mix and level of state and local taxes.

Conclusions of the research are:

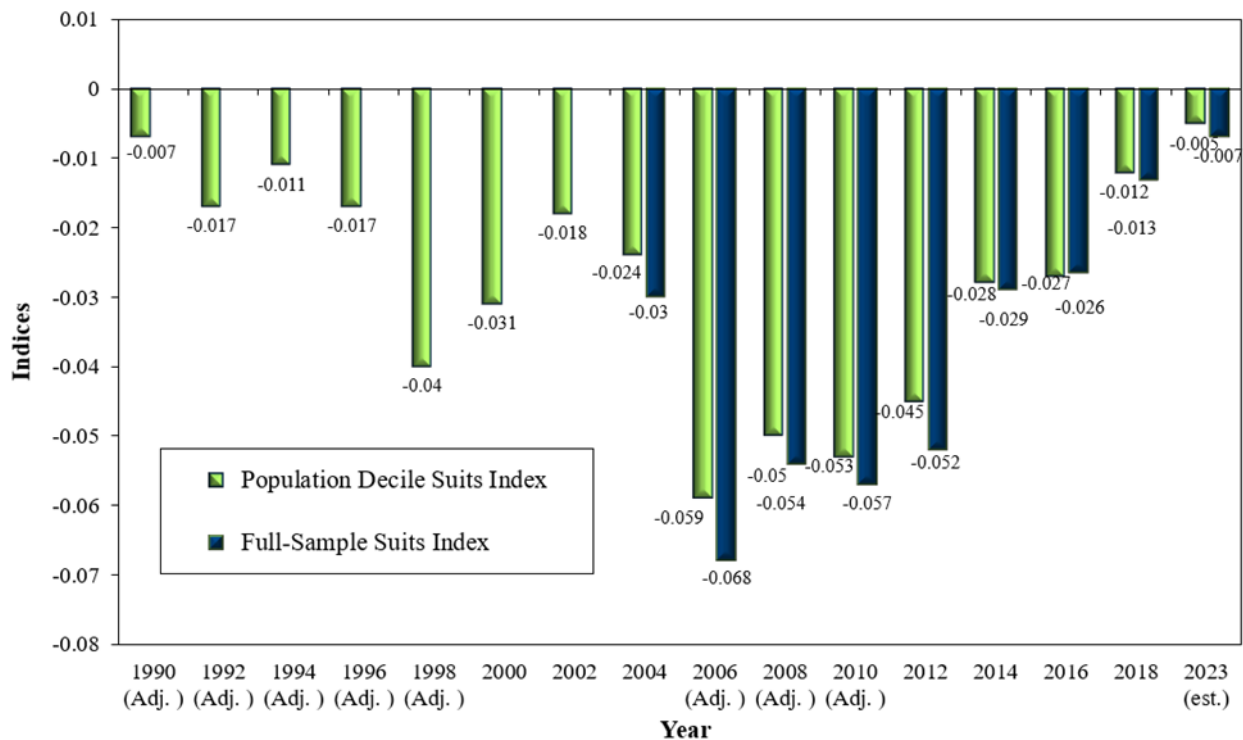
- Of the total \$35.1 billion in 2018 taxes, 83.4 percent of the burden ultimately falls on Minnesota residents (\$29.2 billion). The remaining \$5.8 billion of the tax burden is “exported” to nonresident consumers or nonresident owners of capital.
- In 2018, the state and local tax burden on Minnesota households averaged 12.0 percent of income, down from 12.2 percent in 2016.
- The local tax share of tax revenue rose from 28.6 percent in 2016 to 29.0 percent in 2018 and is projected to rise to 31.2 percent in 2023. The state tax share fell from 71.4 percent in 2016 to 71.0 percent in 2018 and is projected to fall to 68.8 percent in 2023.
- In 2018, taxes on income accounted for about 39.4 percent of state and local revenue, compared to 38.6 percent in 2016. The share is projected to return to 38.6 percent in 2023. The property tax share fell from 30.5 percent in 2016 to 29.9 percent in 2018 and is projected to rise to 31.6 percent in 2023. The consumption tax share fell from 30.9 percent in 2016 to 30.7 percent in 2018, and is projected to fall to 29.9 percent in 2023.
- The business tax share of total tax revenue increased from 32.0 percent in 2016 to 32.6 percent in 2018 and is projected to fall to 32.1 percent in 2023.
- After allowing for the shifting of business taxes, the Minnesota tax system in 2018 remained slightly regressive (as it had been in 2016). The full-sample Suits index, a measure of the progressivity or regressivity of a tax or tax system, rose (toward zero) from -0.026 in 2016 to -0.013 in 2018. This change reflects a decrease in overall regressivity.
- Minnesota’s refundable income tax credits and property tax refunds for homeowners and renters substantially reduce overall regressivity. In their absence, the 2018 Suits index would fall from -0.013 to -0.038.
- Total Minnesota income is expected to grow by 17.8 percent between 2018 and 2023. Tax receipts and tax burdens on Minnesotans are each forecast to grow more slowly (at 15.4 and 15.9 percent), so the overall effective tax rate is projected to fall from 12.0 percent to 11.8 percent of income. Effective tax rates fall in every decile.
- The full-sample Suits index is projected to rise (toward zero) from -0.013 in 2018 to -0.007 in 2023.

The sixteen biennial tax incidence studies cover a 33-year period. Comparison with earlier reports provides some historical context for the results of the current study. *Figures E-1* and *E-2* below show how effective tax rates and Suits indexes have changed over time. The effective tax rate is the ratio of tax burden to total household income. For the Suits index, positive values reflect progressivity and negative values show regressivity. To allow comparability to earlier studies, *Figure E-2* shows population-decile Suits indexes as well as the more accurate full-sample Suits indexes, which were not reported until tax year 2004. *Chapter 1* provides further explanation for these trends.

**Figure E-1**  
**Effective Tax Rates, All Minnesota Taxes<sup>2</sup>**



**Figure E-2**  
**Suits Index, All Minnesota Taxes<sup>3</sup>**



<sup>2</sup> Effective tax rates for 2006 and later years would have been 0.2 percentage points higher except for methodological changes that identified additional income. Data for 1998 is excluded because the first study excluded business taxes.

<sup>3</sup> The earliest studies (before 2000) did not include all of the taxes included in more recent studies, so both the effective tax rates (*Figure E-1*) and Suits indexes (*Figure E-2*) are adjusted to make them comparable. The published report for 2006 did not include the Health Impact Fees. The 2008 and 2010 Suits indexes were also corrected for errors in the database for those years. In 2018 a revision to federal consumption data increased the business share of consumption taxes and decreased the regressivity of sales and consumption taxes. Corrections to estate and industrial taxes had offsetting impacts on overall regressivity in 2018.

# Chapter 1: Overview of Study

## Minnesota State and Local Tax Collections

Minnesota collected \$35.1 billion in state and local taxes in 2018.<sup>4</sup> By 2023, collections are expected to rise to \$40.5 billion. This report estimates how much of the burden of total state and local taxes in each of those years falls on Minnesota residents and how the tax burden on Minnesota residents varies with income.<sup>5</sup>

Minnesota's 2018 state and local taxes are summarized in *Table 1-1*. In 2018, 71.0 percent of the \$35.1 billion of tax was collected at the state level; local governments collected the remainder, largely from property taxes. The study includes taxes paid by business as well as those paid directly by households. The 31 separate tax components included in the study account for over 99.9 percent of total state tax collections and over 99.9 percent of local tax collections. For each of the taxes, the study identifies how the burden is distributed. Combining the results for each of those components provides an estimate of the distribution of the burden of the complete state and local tax system.

The 2018 results are based on a stratified random sample of about 137,000 Minnesota households. The 2023 results are projected forward from 2018 based on the November 2020 economic forecast and are adjusted to account for law changes that took effect after 2018.

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<sup>4</sup> If the \$12 million excluded from this study were added, the total would still round to \$35.1 billion (as on *Table 1-1*).

<sup>5</sup> Throughout this study, the phrase “tax burden” refers to the burden of Minnesota’s state and local taxes on Minnesota residents. The study includes no analysis of either federal taxes or taxes imposed in other states.



**Table 1-1**  
**Minnesota State and Local Tax Collections in 2018**  
**(\$ Millions)**

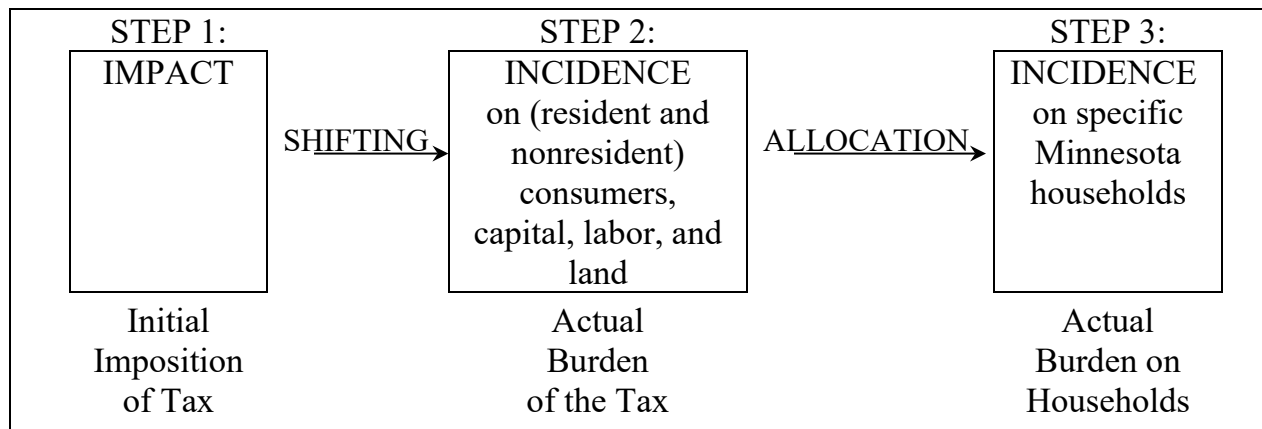
State		Local		State and Local	
<b>Included</b>		<b>Included</b>		<b>Included</b>	
Individual income tax	\$12,094	Local property taxes			
Corporate franchise tax	1,504	Homestead property taxes	\$4,398		
Estate tax	219	Property taxes on cabins and second homes	356		
General sales and use tax	6,131	Rental property taxes (residential)	1,171		
Motor vehicle sales tax	791	Other business property taxes	3,287		
Motor fuels excise taxes	937				
Alcoholic beverage excise taxes	93				
Cigarette & tobacco excise taxes	621	Subtotal	\$9,211		
Insurance premiums tax	515				
Gambling taxes	83	Mining production taxes (taconite)	94		
MinnesotaCare taxes	661	Wheelage taxes	45		
Motor vehicle registration tax	793	Local sales taxes	650		
Mortgage and deed taxes	249	Gross earnings taxes	173		
Waste taxes	90				
State property tax	818				
Property tax refunds	(723)				
<b>Total</b>	<b>\$24,878</b>	<b>Total</b>	<b>\$10,174</b>	<b>Total</b>	<b>\$35,052</b>
<b>Omitted</b>		<b>Omitted</b>		<b>Omitted</b>	
Airflight property tax		Aggregate material production tax			
Aircraft registration tax		Auxiliary forest tax			
Rural electric cooperatives tax		Contamination tax			
Contamination tax		Severed mineral interests tax			
		Unmined taconite tax			
<b>Total</b>	<b>\$11</b>	<b>Total</b>	<b>\$1</b>	<b>Total</b>	<b>\$12</b>
<b>Total Tax Collections</b>	<b>\$24,889</b>		<b>\$10,175</b>		<b>\$35,064</b>

## The Concept of Tax Incidence

Economists commonly distinguish between the *initial impact* of a tax and its *incidence*. The initial impact of a tax is on the taxpayer legally liable to pay the tax, while the incidence of a tax is the final resting place of the tax burden after any tax shifting has occurred.

Figure 1-1 illustrates the steps involved in moving from impact to tax incidence on Minnesota households.

**Figure 1-1**  
**Estimating Tax Incidence**

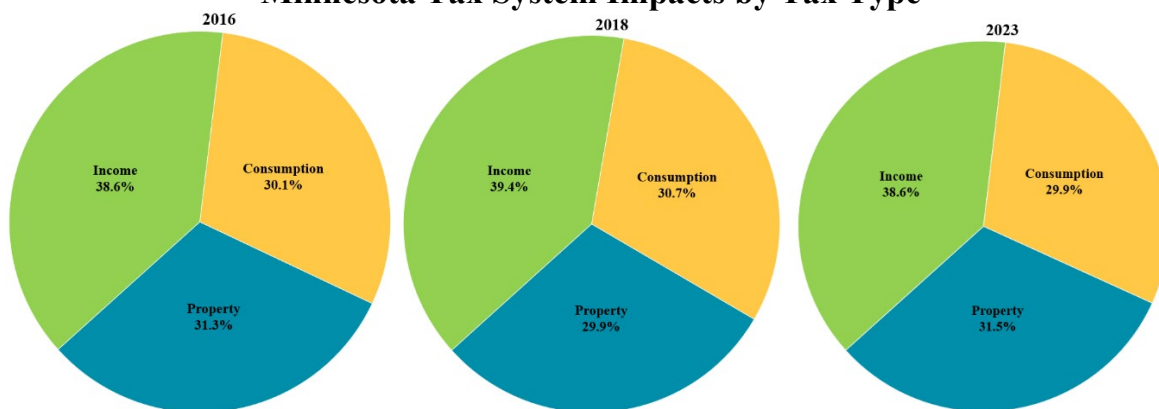


Each of the three steps shown in Figure 1-1 is discussed separately below. The major findings from this study are reviewed in the context of the three-step estimating process.

### Step 1 – Impact

Figure 1-2, derived from Tables 1-2 and 1-3, describes the revenues actually collected in 2016 and 2018 and expected to be collected in 2023. Taxes are divided into three general categories: Income, Consumption, and Property.<sup>6</sup>

**Figure 1-2**  
**Minnesota Tax System Impacts by Tax Type**



<sup>6</sup> All taxes are assigned to one of the three categories. The motor vehicle registration tax, wheelage taxes, and mortgage and deed taxes are defined as property taxes. The estate tax is defined as a tax on income. Property tax is net of property tax refunds.

The three graphs in *Figure 1-2* show that the share of taxes by tax type in 2023 will be very similar to 2016. The income tax share increased from 38.6 percent to 39.4 percent between 2016 and 2018 but is expected to return to 38.6 percent in 2023. The property tax share decreased between 2016 and 2018 but is expected to increase again in 2023.

Total household income grew 10.3 percent between 2016 and 2018 and will grow an additional 17.8 percent between 2018 and 2023 (an average of 3.6 percent per year).

- As a general rule (in the absence of any law change), revenue from taxes on income falls sharply in a recession but rises faster than income when the economy expands. Revenue from income taxes rose by 12.0 percent between 2016 and 2018, faster than the rate of income growth, but is expected to rise by 12.9 percent between 2018 and 2023, slower than the rate of income growth.
- Taxes on consumption (sales and excise taxes) are generally less responsive to changes in income. Consumption tax revenue rose by 6.4 percent between 2016 and 2018 (less than income growth) and is projected to rise by 12 percent between 2018 and 2023.
- Property taxes differ from income and consumption taxes. They are not as directly affected by economic growth. With fixed income tax rates, income tax revenue rises automatically as income rises. The same is true of sales tax revenue. In contrast, property tax levies are set to raise a fixed amount of dollars. Economic growth may eventually affect property tax levies, but only with a lag. The rate of growth in property tax levies also depends partly on changes in the system of state aid to schools and local governments. When state aid increases, this places less upward pressure on local property tax levies. Property taxes net of property tax refunds increased 9.9 percent between 2016 and 2018, below the growth of income. They are projected to rise by 23.8 percent – faster than income – between 2018 and 2023.

Another way of looking at Minnesota's tax system is to consider how tax revenues are split between state and local taxes. Between 2016 and 2018, the state's share fell from 71.4 percent to 71.0 percent. By 2023, it is expected to fall to 68.8 percent. The local share (including school taxes) grew from 28.6 percent in 2016 to 29.0 percent in 2018 and is expected to rise to 31.2 percent by 2023. Local taxes are projected to rise more quickly than state taxes between 2018 and 2023, growing by 24 percent compared to 12 percent for state tax revenue.

This study also highlights the distinction between taxes on households and taxes on business. Taxes on households include taxes paid directly by households (such as the individual income tax, homeowner property tax, vehicle registration tax on private vehicles, and the sales tax on consumer purchases). Household taxes are also defined to include taxes paid by business if the full tax is assumed to be passed on to households in higher prices. These fully-shifted taxes include excise taxes on cigarettes and alcohol, fuel taxes on fuel purchased by households, insurance taxes on homeowner insurance policies, and MinnesotaCare taxes on medical services. The term "business tax," as defined in this study, includes any tax paid by business that is *not* expected to be fully reflected in the price paid by consumers. Business taxes include, among others, the corporate franchise tax, business property taxes (including property taxes on rental housing), the sales tax on business purchases, and insurance taxes on business insurance.

**Table 1-2**  
**2018 State and Local Tax Collections by**  
**Type of Tax and Taxpayer Category**

Tax Type	Collections		Percentage by Taxpayer Category			
	Total (\$ Millions)	Percent Distribution	Households		Business	Total
			Resident	Nonresident		
<b>State Taxes</b>						
<b>Taxes on Income and Estates</b>						
Individual income tax	\$12,094	34.5%	94.1%	5.9%		100.0%
Corporation franchise tax <sup>1</sup>	1,504	4.3%			100.0%	100.0%
Estate tax	219	0.6%	95.8%	4.2%		100.0%
<b>Total Income and Estate Taxes</b>	<b>\$13,818</b>	<b>39.4%</b>	<b>83.9%</b>	<b>5.2%</b>	<b>10.9%</b>	<b>100.0%</b>
<b>Taxes on Consumption</b>						
Total sales tax	\$6,923	19.7%	47.3%	5.2%	47.5%	100.0%
General sales/use tax	6,131	17.5%	44.6%	5.9%	49.6%	100.0%
Sales tax on motor vehicles	791	2.3%	68.5%		31.5%	100.0%
Motor fuels excise taxes	937	2.7%	47.7%	5.4%	46.9%	100.0%
Alcoholic beverage excise taxes	93	0.3%	89.7%	10.3%		100.0%
Cigarette and tobacco excise taxes	621	1.8%	98.0%	2.0%		100.0%
Insurance premiums taxes	515	1.5%	81.0%		19.0%	100.0%
Gambling taxes	83	0.2%	98.0%	2.0%		100.0%
MinnesotaCare taxes	661	1.9%	91.6%	8.4%		100.0%
Solid waste management taxes	90	0.3%	41.6%		58.4%	100.0%
<b>Total Consumption Taxes</b>	<b>9,923</b>	<b>28.3%</b>	<b>56.0%</b>	<b>4.9%</b>	<b>39.1%</b>	<b>100.0%</b>
<b>Taxes on Property</b>						
State Property Tax	\$818	2.3%	4.2%	1.0%	94.8%	100.0%
Residential recreational property	43	0.1%	80.2%	19.8%		100.0%
Commercial <sup>2</sup>	506	1.4%			100.0%	100.0%
Industrial	157	0.4%			100.0%	100.0%
Utility	112	0.3%			100.0%	100.0%
Motor vehicle registration tax	793	2.3%	84.0%		16.0%	100.0%
Mortgage and deed taxes	249	0.7%	59.6%		40.4%	100.0%
<b>Total Property Taxes</b>	<b>\$1,860</b>	<b>5.3%</b>	<b>45.7%</b>	<b>0.5%</b>	<b>53.9%</b>	<b>100.0%</b>
<b>Property Tax Refunds</b>						
Homeowners	-\$501	-1.4%	100.0%			100.0%
Renters	-223	-0.6%	100.0%			100.0%
<b>Total Property Tax Refunds</b>	<b>-\$723</b>	<b>-2.1%</b>	<b>100.0%</b>			<b>100.0%</b>
<b>Total State Taxes</b>	<b>\$24,878</b>	<b>71.0%</b>	<b>69.4%</b>	<b>4.9%</b>	<b>25.7%</b>	<b>100.0%</b>
<b>Local Taxes</b>						
<b>Taxes on Property</b>	\$9,350	26.7%	50.5%	0.8%	48.8%	100.0%
General Property Tax	9,211	26.3%	50.8%	0.8%	48.4%	100.0%
Homeowners (before PTR)	4,398	12.5%	100.0%			100.0%
Residential recreational & 2nd home	356	1.0%	80.2%	19.8%		100.0%
Commercial <sup>2</sup>	1,730	4.9%			100.0%	100.0%
Industrial	527	1.5%			100.0%	100.0%
Farm (other than residence) <sup>4</sup>	630	1.8%			100.0%	100.0%
Rental Housing (before PTR) <sup>5</sup>	1,171	3.3%			100.0%	100.0%
Utility <sup>6</sup>	399	1.1%			100.0%	100.0%
Mining Production Taxes (taconite)	94	0.3%			100.0%	100.0%
Wheelage Taxes	45	0.1%	80.7%		19.3%	100.0%
<b>Taxes on Consumption</b>						
Local Sales Taxes <sup>7</sup>	650	1.9%	40.4%	11.9%	47.7%	100.0%
Local Gross Earnings Taxes	173	0.5%			100.0%	100.0%
<b>Total Local Taxes</b>	<b>\$10,174</b>	<b>29.0%</b>	<b>49.0%</b>	<b>1.5%</b>	<b>49.6%</b>	<b>100.0%</b>
<b>Total State and Local Taxes</b>	<b>\$35,052</b>	<b>100.0%</b>	<b>63.5%</b>	<b>3.9%</b>	<b>32.6%</b>	<b>100.0%</b>

<sup>1</sup>Includes taconite, iron, and other ores occupation tax

<sup>2</sup>Includes resorts, railroads, and minerals

<sup>3</sup>Second homes are 20% of residential non-homestead property

<sup>4</sup>Includes timber

<sup>5</sup>Apartments, 80% of residential non-homestead property, and rented mobile homes

<sup>6</sup>Includes wind and solar energy production taxes

<sup>7</sup>Includes lodging and other selective sales taxes

**Table 1-3**  
**2023 State and Local Tax Collections by**  
**Type of Tax and Taxpayer Category**

Tax Type	Collections		Percentage by Taxpayer Category			
	Total (\$ Millions)	Percent Distribution	Households		Business	Total
			Resident	Nonresident		
State Taxes						
Taxes on Income and Estates						
Individual income tax	\$13,840	34.2%	94.1%	5.9%		100.0%
Corporation franchise tax <sup>1</sup>	1,570	3.9%			100.0%	100.0%
Estate tax	188	0.5%	95.8%	4.2%		100.0%
Total Income and Estate Taxes	\$15,598	38.6%	84.6%	5.3%	10.1%	100.0%
Taxes on Consumption						
Total sales tax	\$7,917	19.6%	47.5%	5.2%	47.4%	100.0%
General sales/use tax	6,950	17.2%	44.6%	5.9%	49.6%	100.0%
Sales tax on motor vehicles	967	2.4%	68.5%		31.5%	100.0%
Motor fuels excise taxes	924	2.3%	47.7%	5.4%	46.9%	100.0%
Alcoholic beverage excise taxes	107	0.3%	89.7%	10.3%		100.0%
Cigarette and tobacco excise taxes	602	1.5%	98.0%	2.0%		100.0%
Insurance premiums taxes	591	1.5%	81.0%		19.0%	100.0%
Gambling taxes	144	0.4%	98.0%	2.0%		100.0%
MinnesotaCare taxes	728	1.8%	91.6%	8.4%		
Solid waste management taxes	102	0.3%	41.6%		58.4%	100.0%
Total Consumption Taxes	\$11,115	27.5%	55.9%	4.9%	39.2%	100.0%
Taxes on Property						
State Property Tax	\$779	1.9%	4.4%	1.1%	94.5%	100.0%
Residential recreational property	43	0.1%	80.2%	19.8%		100.0%
Commercial <sup>2</sup>	455	1.1%			100.0%	100.0%
Industrial	173	0.4%			100.0%	100.0%
Utility	108	0.3%			100.0%	100.0%
Motor vehicle registration tax	947	2.3%	84.0%		16.0%	100.0%
Mortgage and deed taxes	309	0.8%	59.6%		40.4%	100.0%
Total Property Taxes	\$2,035	5.0%	49.8%	0.4%	49.7%	100.0%
Property Tax Refunds						
Homeowners	-\$648	-1.6%	100.0%			100.0%
Renters	-248	-0.6%	100.0%			100.0%
Total Property Tax Refunds	-\$896	-2.2%	100.0%			100.0%
Total State Taxes	\$27,852	68.8%	70.2%	5.0%	24.9%	100.0%
Local Taxes						
Taxes on Property						
General Property Tax	\$11,626	28.7%	52.0%	0.8%	47.3%	100.0%
Homeowners (before PTR)	11,459	28.3%	52.3%	0.8%	46.9%	100.0%
Homeowners (before PTR)	5,637	13.9%	100.0%			100.0%
Residential recreational & 2 <sup>nd</sup> homes <sup>3</sup>	446	1.1%	80.2%	19.8%		100.0%
Commercial <sup>2</sup>	1,900	4.7%			100.0%	100.0%
Industrial	699	1.7%			100.0%	100.0%
Farm (other than residence) <sup>4</sup>	661	1.6%			100.0%	100.0%
Rental Housing (before PTR) <sup>5</sup>	1,660	4.1%			100.0%	100.0%
Utility <sup>6</sup>	456	1.1%			100.0%	100.0%
Mining Production Taxes (taconite)	107	0.3%			100.0%	100.0%
Wheelage Taxes	60	0.1%	80.7%		19.3%	100.0%
Taxes on Consumption						
Local Sales Taxes <sup>7</sup>	783	1.9%	40.4%	11.9%	46.8%	100.0%
Local Gross Earnings Taxes	194	0.5%			100.0%	100.0%
Total Local Taxes	\$12,603	31.2%	50.5%	1.4%	48.0%	100.0%
Total State and Local Taxes	\$40,455	100.0%	64.0%	3.9%	32.1%	100.0%

<sup>1</sup>Includes taconite, iron, and other ores occupation tax

<sup>2</sup>Includes resorts, railroads, and minerals

<sup>3</sup>Second homes are 20% of residential non-homestead property

<sup>4</sup>Includes timber

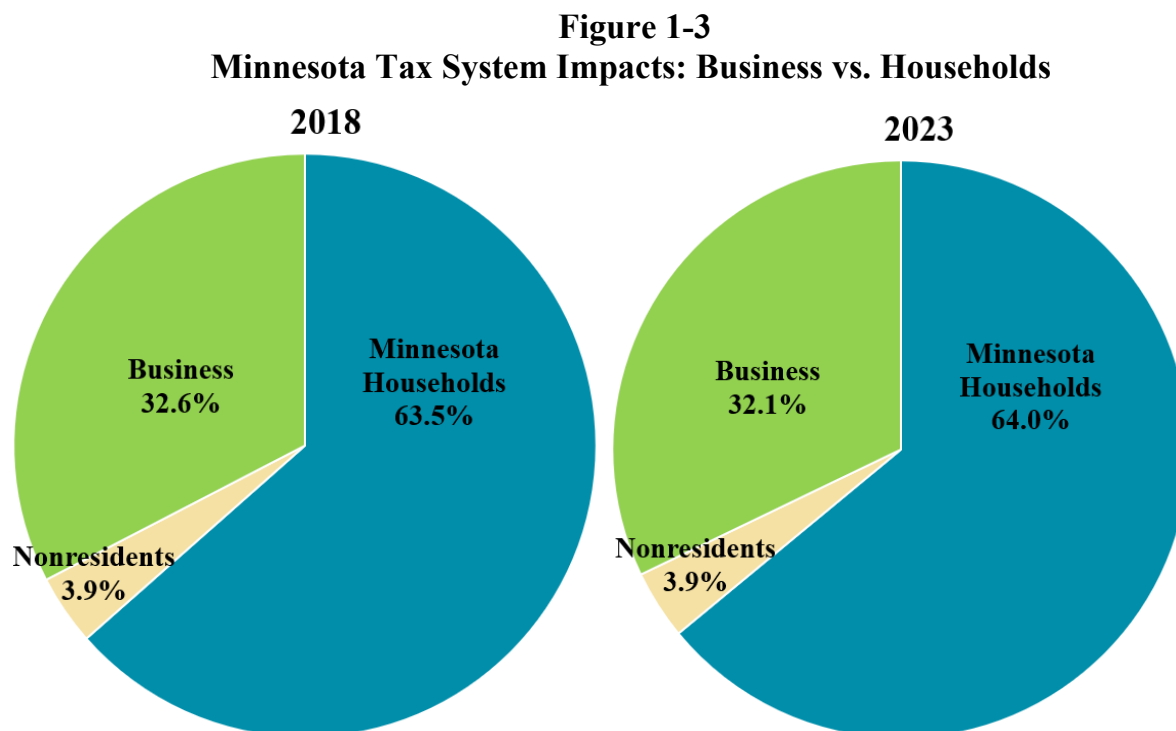
<sup>5</sup>Apartments, 80% of residential non-homestead property, and rented mobile homes

<sup>6</sup>Includes wind and solar energy production taxes

<sup>7</sup>Includes lodging and other selective sales taxes

Figure 1-3 shows that business taxes accounted for 32.6 percent of total state and local taxes in 2018, down from 32.0 percent in 2016. That share is expected to fall to 32.1 percent in 2023.

Total business taxes are projected to increase by 14 percent between 2018 and 2023, but individual taxes are projected to increase faster at 16 percent.



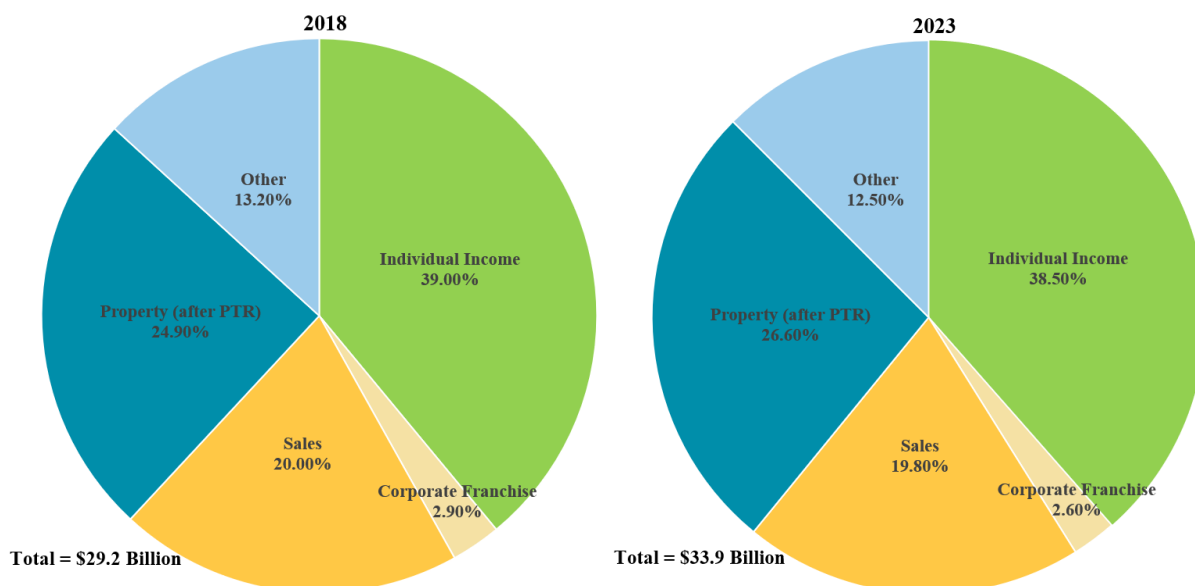
## Step 2 – Shifting

Step 2 relies on economic theory to estimate how much of the burden of each tax is “shifted” from the initial business taxpayer to households. Such shifting depends both on (a) how Minnesota tax rates compare to those in other states and (b) the nature of the market for the goods or services produced by the business being taxed. *Appendix B* explains the method used to estimate the extent to which each tax initially levied on business is shifted to consumers (in higher prices) or labor (in lower wages), and how much is borne instead by the owners of capital (in lower rates of return).

Figure 1-4 indicates that in 2018 Minnesota households paid (either directly or indirectly through shifted business tax) a total of \$29.2 billion in Minnesota state and local taxes. This equals 83.4 percent of total state and local tax collections (\$35.1 billion). The other \$5.8 billion (16.6 percent) is “exported” to nonresidents or visitors to the state. Between 2018 and 2023 the total burden on Minnesotans will rise by 15.9 percent (to \$33.9 billion). Because it increases more slowly than income (projected to increase 17.8 percent), the tax burden as percent of income will fall from 12.0 percent to 11.8 percent.

Between 2018 and 2023, the individual income tax share of the burden on Minnesota households is projected to decrease from 39.0 percent to 38.5 percent. The share of property tax (after PTR) rises from 24.9 percent to 26.6 percent. The share of sales taxes declines from 20.0 percent to 19.8 percent. Shares for corporate tax and other taxes both fall.

**Figure 1-4**  
**Tax Incidence After Shifting**



### Step 3 – Allocation to Specific Households

Step 3 combines the incidence assumptions from Step 2 with information on the income and characteristics of individuals to estimate the tax burden falling on each of Minnesota’s 2.79 million households.<sup>7</sup> Each dollar of tax not exported to a nonresident is allocated to a specific Minnesota household. The result is an estimated tax burden, or tax incidence, for each separate tax. These separate taxes are aggregated to estimate the total state and local tax burden for each household. Effective tax rates are calculated by comparing the tax burden to the household’s income.

### Tax Progressivity and the Suits Index

Taxes may be described as progressive, proportional, or regressive. The effective tax rate – that is, the ratio of taxes paid to income – can be used to compare tax burdens across income categories. A progressive tax is one in which the effective tax rate rises as income rises. A regressive tax is one in which the effective tax rate falls as income rises. However, it is sometimes difficult to summarize the overall distribution of a tax (progressive, proportional, or regressive) from the individual effective tax rates. Taxes may be progressive over some income ranges and regressive over others. The Suits index is often used as a summary measure of overall progressivity or regressivity.

<sup>7</sup> This study defines a household to include a taxpayer and any spouse or dependents. A U.S. Census household may include more than one household as defined in this study. Three single persons living together will be one Census household but three households for purposes of this study. On the other hand, a Census household can consist of a single person who is a dependent for tax purposes. Because of these definitional differences, the number of households reported in this study (2,787,506 in 2018) exceeds the number of households reported by the Census (2,194,452). A more detailed comparison is provided in the last section of *Chapter 5*.

The Suits index has numerical properties that make it easy to identify the degree of progressivity or regressivity of a tax. A proportional tax has a Suits index equal to zero; a progressive tax has a positive index number in the range between 0 and +1. In the extreme case, if the total tax burden were paid by the richest household, the index would be a value of +1. For a regressive tax, the Suits index has a negative value between 0 and -1, with -1 being the most regressive value. (For a more complete description of the Suits index, see *Appendix C*.)

*Table 1-4* presents full-sample Suits indexes for selected Minnesota state and local tax categories in 2018 and 2023. The only major progressive tax is the personal income tax. Consumption taxes are the most regressive category. Taken as a whole, the system of Minnesota taxes was regressive in 2018 (a full-sample Suits index of -0.013). State taxes were progressive (+0.049), and local taxes were regressive (-0.171).

Between 2018 and 2023, Minnesota's overall Suits index is expected to rise (moving toward zero) from -0.013 to -0.007.

**Table 1-4**  
**Suits Indexes for Selected**  
**Minnesota State and Local Taxes**

<b>Tax Category</b>	<b>2018 Suits Index</b>	<b>2023 Suits Index</b>
Personal Income Tax	+0.244	+0.241
Sales Taxes (State & Local)	-0.196	-0.183
Business Taxes	-0.156	-0.146
Individual Taxes	+0.031	+0.036
All State Taxes	+0.049	+0.061
All Local Taxes	-0.171	-0.162
<b>Total Taxes</b>	<b>-0.013</b>	<b>-0.007</b>

### *Effective Tax Rates by Decile*

For analytical purposes, Minnesota's households are divided into ten equal groups, or deciles. Each of these ten population deciles includes 10 percent of all households. The bottom (1<sup>st</sup>) decile includes the tenth with lowest incomes; the top (10<sup>th</sup>) decile includes the tenth with highest incomes. Income is defined to include all cash income, whether taxable or not. It includes nontaxable social security, interest, and pension income, as well as nontaxable workers' compensation and cash payments from the Minnesota Family Investment Program (MFIP).<sup>8</sup>

<sup>8</sup> The database captures nontaxable income reported on income tax returns and property tax refund returns, along with workers' compensation and welfare income from administrative sources. For those filing neither income tax nor property tax returns, additional wage and nonwage income is included if reported on W2s or 1099s. For this study, household income does not include in-kind benefits such as food stamps, housing subsidies, energy assistance, or fringe benefits provided by employers. For more information on how income is defined, see *Appendix A* of this report.



Because the information for the first decile includes data anomalies and measurement problems discussed in the box at the end of this section, effective tax rates for the first decile are not reliable.

As *Table 1-5* shows, Minnesota's state and local tax system is progressive between the 3<sup>rd</sup> and 6<sup>th</sup> deciles and regressive in the 10<sup>th</sup> decile. It is approximately proportional in the 7<sup>th</sup> through 9<sup>th</sup> deciles. For 2018, effective tax rates rose from a low of 11.1 percent of income in the 4<sup>th</sup> decile to 12.0 in the 7<sup>th</sup> to 9<sup>th</sup> deciles, but then falls to 11.8 percent in the 10<sup>th</sup> decile.<sup>9</sup>

Between 2018 and 2023, effective tax rates are projected to fall in every decile.

As shown in *Table 1-5*, Minnesota residents paid an estimated 12.0 percent of their 2018 total income in state and local taxes. Under current law (and with the November 2020 economic forecast), this is expected to fall to 11.8 percent in 2023. For 2018, the effective tax rate was 8.6 percent for state taxes and 3.4 percent for local taxes. Between 2018 and 2023, the effective state tax rate is projected to fall by 0.4 percentage points and the effective local tax rate is projected to rise by 0.2 percentage points.

**Table 1-5**  
**Minnesota Effective Tax Rates for 2018 and 2023<sup>1</sup>**  
**State and Local Taxes by Population Decile**

Population Decile	2018			2023		
	State	Local	Total	State	Local	Total
<b>First</b>	15.8%	13.1%	28.9%	12.4%	12.3%	24.7%
<b>Second</b>	7.3%	5.1%	12.5%	6.2%	5.3%	11.5%
<b>Third</b>	6.5%	4.9%	11.5%	5.8%	5.1%	10.8%
<b>Fourth</b>	6.9%	4.1%	11.1%	6.4%	4.1%	10.5%
<b>Fifth</b>	7.4%	4.1%	11.5%	6.9%	4.3%	11.2%
<b>Sixth</b>	7.7%	4.2%	11.9%	7.3%	4.6%	11.8%
<b>Seventh</b>	8.0%	4.0%	12.0%	7.6%	4.3%	11.9%
<b>Eighth</b>	8.3%	3.7%	12.0%	8.0%	3.8%	11.9%
<b>Ninth</b>	8.6%	3.4%	12.0%	8.4%	3.7%	12.1%
<b>Tenth</b>	9.3%	2.5%	11.8%	9.0%	2.6%	11.6%
<b>Total</b>	8.6%	3.4%	12.0%	8.2%	3.6%	11.8%

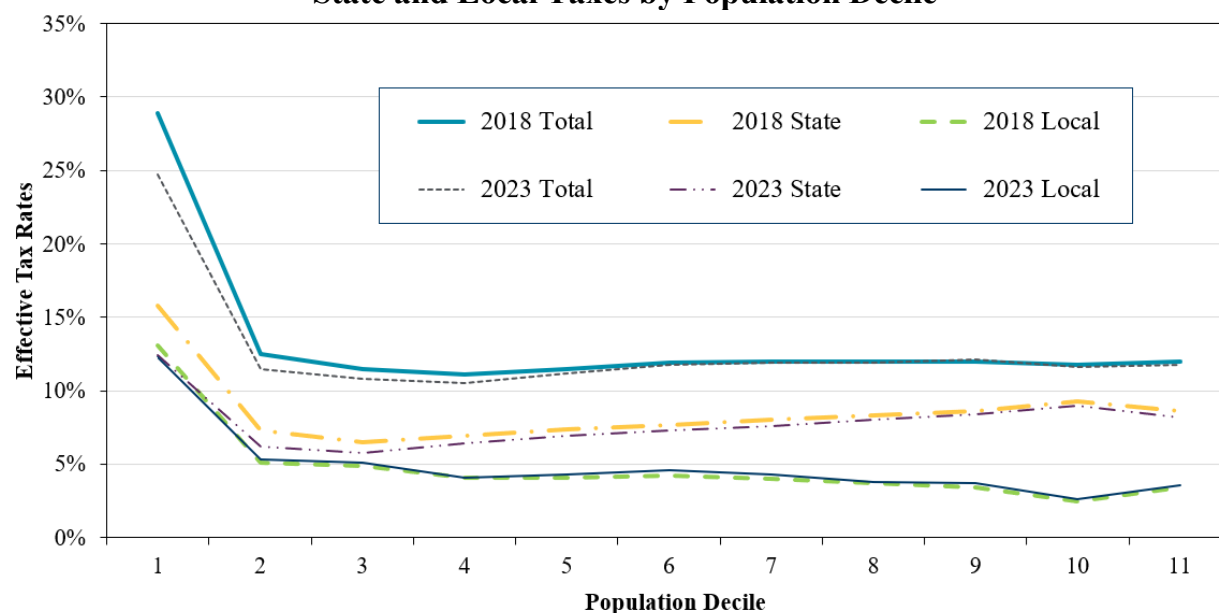
<sup>1</sup>Parts may not sum to totals due to rounding.

<sup>9</sup> The income ranges for each population decile are shown in *Table 2-2* (for 2018) and *Table 3-2* (for 2023).

As shown in *Figure 1-5*, state tax burdens and local tax burdens are distributed quite differently. Total state taxes for 2018 (individual and business combined) were progressive with effective tax rates rising continuously from 6.5 percent in the 3<sup>rd</sup> decile to 8.6 percent in the 9<sup>th</sup> decile and 9.3 percent in the 10<sup>th</sup> decile. In contrast, effective local tax rates, primarily local property taxes (before any state property tax refunds), declined steadily with income and were regressive overall.

Between 2018 and 2023, reductions in effective state tax rates are greatest in the 1<sup>st</sup> and 2<sup>nd</sup> deciles. Effective tax rates for local taxes, in contrast, rise in all except the first decile.

**Figure 1-5**  
**Effective Tax Rates for 2018 and 2023**  
**State and Local Taxes by Population Decile**



*Table 1-6* and *Figure 1-6* show that the patterns of effective rates for taxes paid by individuals versus businesses are also quite different. For 2018, effective rates for taxes paid by individuals increased from 6.4 percent of income in the 3<sup>rd</sup> decile to 9.6 percent in the 9<sup>th</sup> decile, and then declined to 9.5 percent in the 10<sup>th</sup> decile.

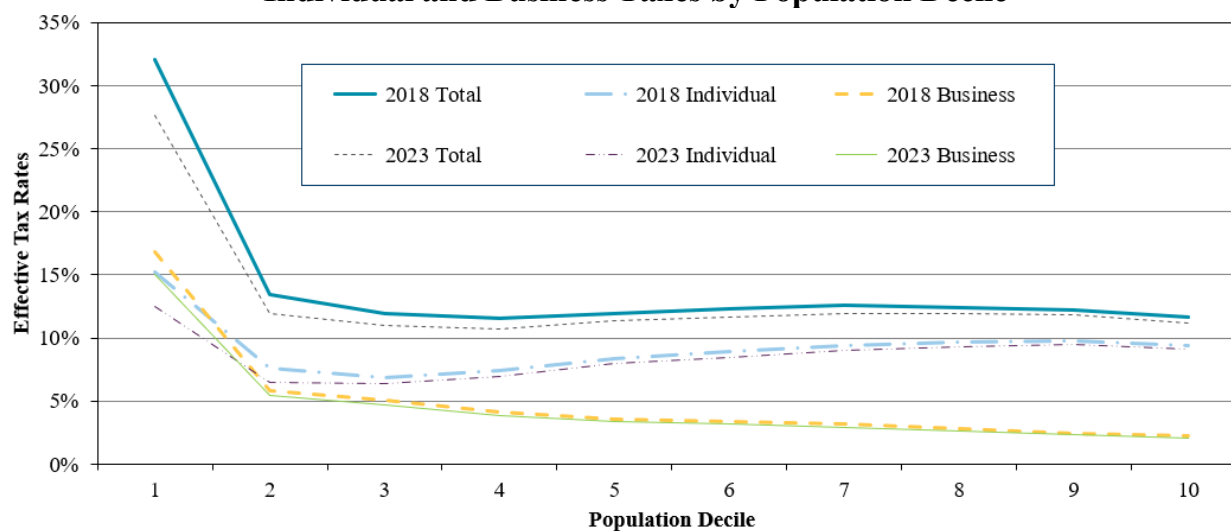
In contrast, Minnesota state and local taxes on businesses (after shifting) are regressive, with effective tax rates for 2018 falling from 5.9 to 2.3 percent of income between the 2<sup>nd</sup> and 10<sup>th</sup> deciles. The overall effective rate for taxes on businesses after shifting was 2.9 percent and on individuals was 9.1 percent in 2018. Between 2018 and 2023, effective tax rates for individual taxes fall for the first six and the 10<sup>th</sup> deciles but are unchanged in the 7<sup>th</sup> and 8<sup>th</sup> deciles. The 9<sup>th</sup> decile is the only decile with an increase in the effective rate.

**Table 1-6**  
**Minnesota Effective Tax Rates for 2018 and 2023<sup>1</sup>**  
**Individual and Business Taxes by Population Decile**

Population Decile	2018			2023		
	Individual	Business	Total	Individual	Business	Total
First	13.1%	15.8%	28.9%	10.7%	14.0%	24.7%
Second	6.6%	5.9%	12.5%	5.8%	5.7%	11.5%
Third	6.4%	5.1%	11.5%	6.0%	4.8%	10.8%
Fourth	7.0%	4.0%	11.1%	6.9%	3.6%	10.5%
Fifth	8.0%	3.5%	11.5%	7.9%	3.3%	11.2%
Sixth	8.7%	3.2%	11.9%	8.6%	3.2%	11.8%
Seventh	9.1%	2.9%	12.0%	9.1%	2.8%	11.9%
Eighth	9.5%	2.6%	12.0%	9.5%	2.4%	11.9%
Ninth	9.6%	2.4%	12.0%	9.7%	2.4%	12.1%
Tenth	9.5%	2.3%	11.8%	9.4%	2.3%	11.6%
<b>Total</b>	<b>9.1%</b>	<b>2.9%</b>	<b>12.0%</b>	<b>9.0%</b>	<b>2.8%</b>	<b>11.8%</b>

<sup>1</sup>Parts may not sum to totals due to rounding.

**Figure 1-6**  
**Effective Tax Rates for 2018 and 2023**  
**Individual and Business Taxes by Population Decile**



### ***Effective Tax Rates in the 1<sup>st</sup> Decile***

As shown in *Table 1-5*, the total 2018 effective tax rate of 28.9 percent for taxpayers in the 1<sup>st</sup> decile is much higher than the rates in other deciles.

The effective tax rate for the 1<sup>st</sup> decile is overstated for several reasons. First, the lowest decile includes households who have temporarily low incomes or have better overall economic well-being than was indicated by their money income in 2018. A portion of retirees, for example, may be living primarily on savings or other assets but report small amounts of annual money income received. Due to unemployment or business fluctuations, some households who normally have higher incomes are also included in the first decile. A small portion of all first-decile households were in this decile only because they reported business losses or large capital losses for income tax purposes in 2018.

Second, effective tax rates for the 1<sup>st</sup> decile are overstated because income is understated. The incidence sample was unable to identify all sources of income. Many first-decile households filed neither an income tax nor a property tax refund return. The Incidence Study identified some other sources of income for these households, but many had additional sources of income that were not identified. An underestimate of household income generally causes effective tax rates to be overestimated.

Household income is also underestimated in the *Consumer Expenditure Survey* used to estimate sales and excise tax burdens. To the extent that income was subject to relatively greater underreporting than consumption, particularly for low-income households, the taxable consumption expenditures calculated from CES will be overstated.

While this study does adjust for negative incomes for a small number of households, no attempt has been made to adjust for possible underreported or unidentified sources of income or for other differences between transitory and long-run measures of income. By including only money income, the substantial amounts of food stamps and housing subsidies received by the poor are ignored in this study. Consequently, money income at the low end of the income distribution does not provide an accurate measure of overall economic well-being. For all of these reasons, effective tax rates in the 1<sup>st</sup> decile are overstated by an unknown but possibly significant amount.

If the 1<sup>st</sup> decile were excluded, the full-sample Suits index for 2018 would rise from -0.013 to -0.001, just less than proportional.<sup>10</sup>

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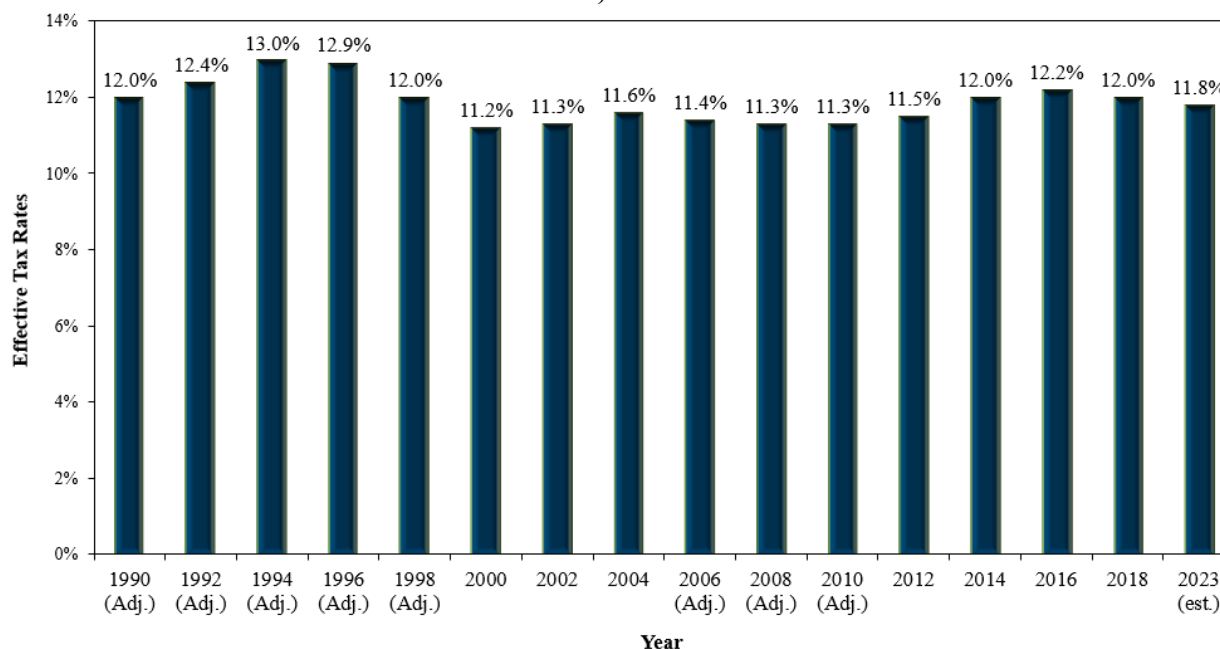
<sup>10</sup> The remaining regressivity is primarily the result of the lower effective tax rate for the top decile. If both the 1<sup>st</sup> and 10<sup>th</sup> deciles were excluded, the full-sample Suits index would rise to +0.082 – progressive.

## Historical Comparison with Earlier Studies

Incidence data has been collected and published in a series of studies, of which this is the sixteenth. Comparable data extends back to 1990. It is interesting to consider the pattern of effective tax rates and Suits indexes over that time. This period illustrates the effect of the business cycle on incomes and tax receipts. It includes both periods of very rapid growth in the mid- and late 1990's, the slowdown of the early 1990's, the contraction from 2000 to 2002, solid growth between 2002 and 2008, recession in 2010, and recovery from 2012 and 2016.

As shown in *Figure 1-7*, effective tax rates over the period 1990–2012 first rise but then fall and remain well below those in 1992 to 1996. The effective tax rate for the tax system as a whole was 12.0 percent in 1990. Effective tax rates rose to 13.0 percent just four years later in 1994, before beginning a sustained decline to 11.2 percent in 2000. The decline through 2000 was attributable partly to tax cuts and partly to income growth, especially in the late 1990's, that outstripped tax collections (see *Table 1-7*). As the economy emerged from recession after 2002, the effective tax rate rose to 11.6 percent in 2004, and remained fairly constant (11.3 to 11.5 percent) through 2012. From 2014 through 2018 the effective tax rate has been between 12.0 and 12.2 percent and is projected to fall to 11.8 percent in 2023.

**Figure 1-7**  
**Effective Tax Rates, All Minnesota Taxes<sup>11</sup>**



<sup>11</sup> Because earlier studies (before 2000) did not include all of the taxes included in more recent studies, effective tax rates (*Figure 1-7*) and Suits indexes (*Figure 1-8*) are adjusted to make them comparable. Unadjusted effective tax rates (reported in the published studies) were 11.8%, 12.1%, 12.9%, 12.7%, and 11.4% for 1990–1998. Health Impact Fees were excluded in 2006 but included starting in 2008, so 2006 numbers are adjusted to include the HIF in that year as well. Effective tax rates for 2008 and 2010 are also adjusted downward to correct errors in the published numbers. A change in methodology starting in 2006 identified additional income. By increasing measured income, this caused effective tax rates to fall by roughly 0.2 percentage points in later years.

Changes in the population-decile Suits index are shown in *Table 1-7* and *Figure 1-8*. The tax system was essentially proportional in 1990, with a population-decile Suits index near zero. The population-decile Suits index fell from -0.017 in 1992 to a low of -0.040 in 1998. It rebounded somewhat in 2000 and 2002 and then declined significantly to a low of -0.059 in 2006. Since then, it has been generally trending upwards to a high of -0.012 in 2018 and a projected -0.005 in 2023.

*Table 1-7* and *Figure 1-8* also show the more accurate full-sample Suits index for years 2004 and after. This report generally refers to the full-sample Suits index, but it was not reported until tax year 2004.

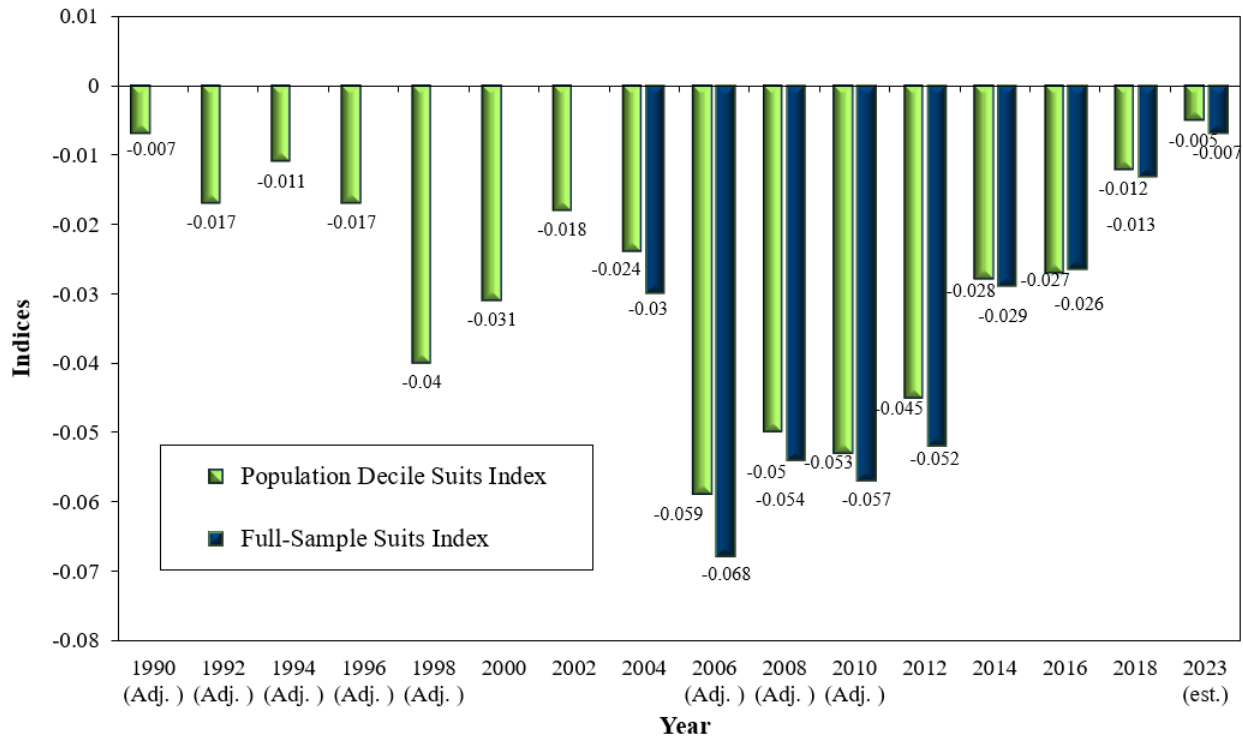
**Table 1-7**  
**Households, Household Income, Total Taxes,**  
**Effective Tax Rates, and Suits Indexes, All Taxes, 1990-2023**

Year	Number of Households	Household Income (\$ Thousands)	Total Taxes as Imposed (\$ Thousands)	Tax Dollars Included in Study (%)	Total Taxes After Shifting (\$ Thousands)	Effective Tax Rate	Population Decile Suits Index	Full-Sample Suits Index
1990	2,072,488	\$65,842,600	\$9,575,000	97.1%	\$7,747,743	11.8%	-0.007	N/A
1992	2,120,967	74,410,299	11,050,000	96.9%	8,991,383	12.1%	-0.017	N/A
1994	2,148,820	80,148,374	12,539,000	98.0%	10,323,412	12.9%	-0.011	N/A
1996	2,193,971	93,272,563	14,495,000	98.0%	11,886,823	12.7%	-0.017	N/A
1998	2,232,670	114,610,957	16,137,000	97.8%	13,526,348	11.8%	-0.040	N/A
2000	2,322,380	132,094,974	17,599,000	99.8%	14,809,590	11.2%	-0.031	N/A
2002	2,340,070	127,311,429	17,174,000	99.9%	14,412,365	11.3%	-0.018	N/A
2004	2,363,258	138,824,077	19,313,000	99.9%	16,170,469	11.6%	-0.024	-0.030
2006	2,448,872	165,040,421	22,310,000	99.9%	18,753,567	11.4%	-0.059	-0.068
2008	2,541,183	173,854,675	23,796,000	99.9%	19,573,643	11.3%	-0.050	-0.054
2010	2,575,184	175,349,202	23,846,000	99.9%	19,827,961	11.3%	-0.053	-0.057
2012	2,580,561	194,079,578	26,983,000	99.9%	22,304,145	11.5%	-0.045	-0.052
2014	2,660,914	208,192,948	29,951,000	99.8%	25,030,270	12.0%	-0.028	-0.029
2016	2,716,900	221,139,236	31,975,000	99.96%	26,954,961	12.2%	-0.027	-0.026
2018	2,787,506	243,853,626	35,052,000	99.96%	29,220,786	12.0%	-0.012	-0.013
2023 (est.)	2,880,894	287,156,049	40,454,000	99.95%	33,870,361	11.9%	-0.005	-0.007

Interval	Household Growth	Income Growth	Post-Shifting Tax Growth
1990-1992	2.3%	13.0%	16.1%
1992-1994	1.3%	7.7%	14.8%
1994-1996	2.1%	16.4%	15.1%
1996-1998	1.8%	22.9%	13.8%
1998-2000	4.0%	15.3%	9.5%
2000-2002	0.8%	-3.6%	-2.7%
2002-2004	1.0%	9.0%	12.2%
2004-2006	3.6%	18.9% *	16.0%
2006-2008	3.8%	5.3%	4.4%
2008-2010	1.3%	0.9%	1.3%
2010-2012	0.2%	10.7%	12.5%
2012-2014	3.1%	7.3%	12.2%
2014-2016	2.1%	6.2%	7.7%
2016-2018	2.6%	10.3%	8.4%
2018-2023 (est.)	3.4%	17.8%	15.9%

\*Two percentage points was due to more complete data on income.

**Figure 1-8**  
**Suits Indexes, All Minnesota Taxes 1990-2023<sup>12</sup>**



*Table 1-8* shows effective tax rates by decile for each incidence study year. It is interesting to compare the pattern of effective tax rates in 1990 and 1992 with those for more recent years. *Figure 1-9* compares effective tax rates in 1992 and 2018. In 1992, effective tax rates were virtually the same for deciles 2 through 10. All were between 11.9 percent and 12.3 percent. Moreover, the tax rate was only slightly lower for the top 1 percent (at 11.6 percent of income).

The pattern has been quite different in more recent years, including 2018:

- The lower deciles (3 and 4) have effective tax rates significantly lower than the average for deciles 5 through 8. That pattern has shifted in recent years. In 2016 and 2018, the effective rate in the 5<sup>th</sup> decile has been closer to the 3<sup>rd</sup> and 4<sup>th</sup> decile rates.
- Effective tax rates drop between the 9<sup>th</sup> and 10<sup>th</sup> deciles. The drop was largest in 1998 (dropping from 12.5 percent of income to 10.6 percent of income, or by 1.9 percentage points). The difference fell to 1.0 percentage point in 2002 but rose to 1.7 percentage points in 2006 and 1.3 percentage points in 2008, 2010, and 2012. Since then the difference has been much smaller. In 2018, the difference is 0.2 percentage points, rising to 0.5 points in 2023.

Each of these two patterns has been found consistently in recent studies, regardless of the point in the business cycle. The lower rates in the 3<sup>rd</sup> through 5<sup>th</sup> deciles reflect the increased role of refundable income tax credits and property tax refunds.

<sup>12</sup> For an explanation of these adjustments, see footnote 3 on page 3.

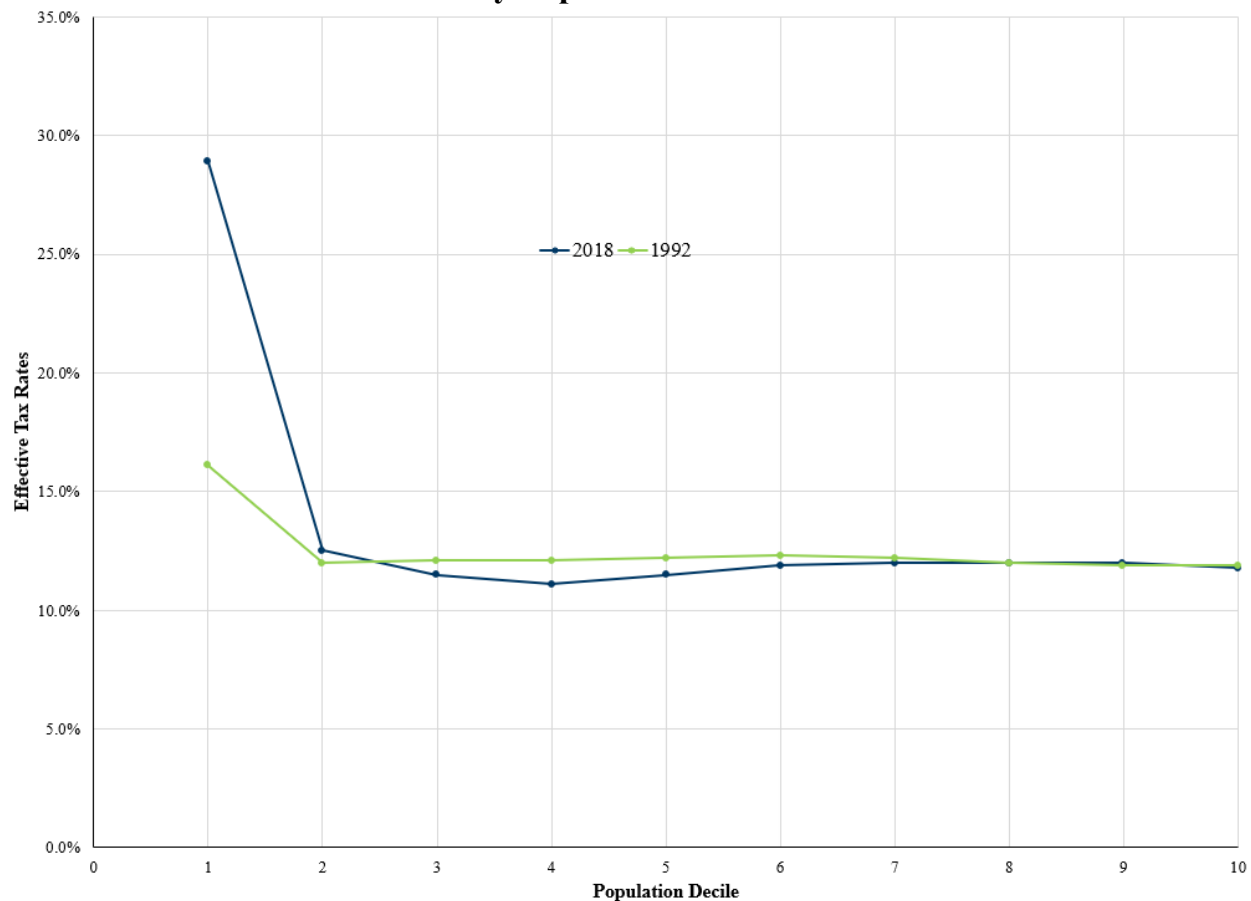
The pattern of lower effective tax rates in the 3<sup>rd</sup> and 4<sup>th</sup> deciles disappeared temporarily in 2010, but it returned starting in 2012. The one-year aberration reflects law changes that temporarily reduced property tax refunds for renters by 16 percent between 2008 and 2010.

In 2016, for the first time, the effective tax rate in the 5<sup>th</sup> decile was below the overall average effective tax rate. That has continued in 2018, when the 6<sup>th</sup> decile rate was also below the average effective rate.

**Table 1-8**  
**Effective Tax Rates by Population Decile**  
**All Taxes, 1990–2023**

Decile	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016	2018	2023 (est.)
First	17.9%	16.1%	17.3%	17.8%	20.2%	17.4%	18.2%	18.9%	25.2%	31.4%	31.1%	28.3%	29.9%	32.1%	28.9%	24.7%
Second	11.1%	12.0%	12.3%	12.0%	11.3%	9.8%	10.5%	11.3%	13.2%	12.7%	13.5%	12.9%	13.9%	13.4%	12.5%	11.5%
Third	10.7%	12.1%	11.8%	12.2%	10.8%	10.6%	10.1%	10.5%	12.0%	11.3%	11.9%	11.5%	11.9%	11.9%	11.5%	10.8%
Fourth	11.3%	12.1%	12.8%	12.5%	12.0%	11.1%	11.0%	11.5%	11.9%	11.5%	11.3%	11.4%	11.5%	11.5%	11.1%	10.5%
Fifth	11.1%	12.2%	12.8%	13.0%	12.1%	11.5%	11.4%	11.9%	12.7%	11.8%	11.8%	12.3%	12.1%	11.9%	11.5%	11.2%
Sixth	11.8%	12.3%	13.2%	13.1%	13.1%	12.3%	11.9%	12.2%	12.4%	12.0%	12.1%	12.2%	12.3%	12.3%	11.9%	11.8%
Seventh	12.0%	12.2%	13.0%	13.1%	12.9%	12.0%	12.0%	12.3%	12.3%	11.8%	11.9%	12.2%	12.4%	12.6%	12.0%	11.9%
Eighth	11.9%	12.0%	13.0%	13.0%	12.9%	12.0%	11.8%	12.3%	12.0%	11.9%	11.8%	12.1%	12.2%	12.4%	12.0%	11.9%
Ninth	11.8%	11.9%	13.0%	13.0%	12.5%	11.9%	11.7%	12.3%	11.8%	11.5%	11.5%	11.8%	11.9%	12.3%	12.0%	12.1%
Tenth	11.7%	11.9%	12.6%	12.2%	10.6%	10.3%	10.7%	10.9%	10.1%	10.2%	10.2%	10.5%	11.5%	11.6%	11.8%	11.6%
Total	11.8%	12.1%	12.9%	12.7%	11.8%	11.2%	11.3%	11.6%	11.4%	11.3%	11.3%	11.5%	12.0%	12.2%	12.0%	11.8%
Top 5%	11.6%	11.8%	12.3%	11.9%	10.1%	9.9%	10.5%	10.5%	9.7%	9.9%	10.0%	10.2%	11.3%	11.6%	11.8%	11.6%
Top 1%	11.2%	11.6%	11.8%	11.0%	8.3%	8.4%	9.0%	9.6%	8.9%	9.8%	9.5%	9.8%	11.5%	11.8%	11.50%	11.3%

**Figure 1-9**  
**Effective Tax Rates for 1992 and 2018**  
**By Population Decile**





Although the historical changes in the degree of regressivity are due partly to changes in tax laws, the role of the business cycle may be even more important. During the past two decades, income inequality has generally risen during times of rapid growth and fallen during economic contractions. The years of greatest regressivity (1998, 2000, and 2006-2012) were years when the distribution of income was most unequal, due in some years to unusually high capital gains income.

As shown in *Figure 1-10*, the income share of the top 5 percent and top 1 percent of Minnesota households was unusually high in those years. In 1998 and 2000, the top 5 percent of households accounted for 31.4 percent of total household income, up from an average of only 26.4 percent in 1990-1994. It was even higher (at 32.2 percent) in 2006 and remained high by historical standards in both 2008 (at 31.1 percent) and 2010 (at 30.9 percent). Despite the recession, the share of income received by the top 5 percent did not drop much in 2010. This was unlike 2002 (following the 2001 recession) when it fell from 31.4 percent to 28.1 percent. In 2012, the income share of the top 5 percent (at 32.7 percent) was even higher than in 1998, and it has remained above 31 percent each year since then, at 31.9 percent in 2018 and an estimated 31.0 percent in 2023.

The pattern is similar for the share of income received by the top 1 percent of Minnesota households. In 1998 and 2000, the top 1 percent received 17 percent of total income, up from an average of 13.4 percent in the earlier study years. After a drop to 13.9 percent in 2002, the share of the top 1 percent rose to 17.2 percent in 2006 before falling to 16.2 percent in 2008 and 16.0 percent in 2010. In 2012, the income share of the top 1 percent (at 17.5 percent) was even higher than in 1998. It remains high at 16.5 percent in 2018, declining to a projected 15.8 percent in 2023.

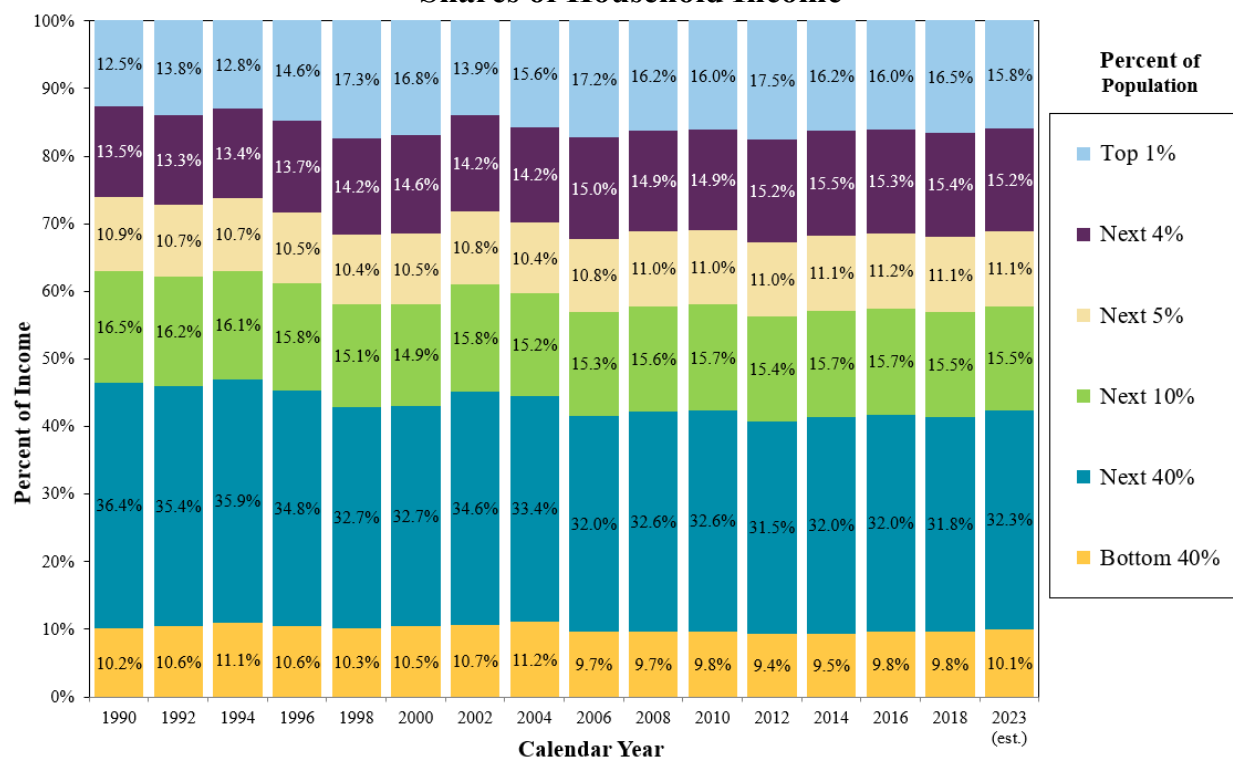
This concentration of income by itself, with no change in tax law, will increase the measured regressivity of the tax system. Lower regressivity in earlier recession years (such as 2002) partly reflected the lower share of income at the top. A substantial portion of the increase in regressivity in the years 2006 to 2012 was likely the result of the unusually high share of income received by the highest income Minnesotans.<sup>13</sup>

The income share of the bottom 40 percent dropped below 10 percent in 2006 for the first time since these studies began. It remains below 10 percent in 2018 (at 9.8 percent) but is projected to rise to 10.1 percent in 2023.

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<sup>13</sup> A simple correlation between the population-decile Suits index and the share of income received by the top decile (1990-2012) is -0.92, suggesting that the variation in income inequality could explain much of the variation in the Suits index. through 2012. For the period 1990-2018, the correlation decreases to -0.69, indicating that since 2012 income inequality alone cannot explain the variability in the Suits index. Law changes may have played an increasing role, although income inequality remains a significant factor.

**Figure 1-10  
Shares of Household Income**



Tax policy can certainly affect the degree of regressivity, but it is difficult to identify tax changes that are large enough to move the Suits index by as much as it has moved year-to-year over the last 20 years. Trends in income inequality are certainly responsible for much of the pattern shown above.

Changes in the distribution of the tax burden between 2012 and 2014, though, were clearly due mostly to major tax law changes enacted in 2013 and 2014. Those changes included the new top income tax rate, expanded property tax refunds, an increase in the Working Family Credit, higher cigarette taxes, and lower estate taxes. The *2015 Minnesota Tax Incidence Study* (pp.54-55) estimated that those law changes would raise the Suits index by 0.018. The reduced regressivity of the Minnesota's state and local tax system between 2012 and 2014 is due primarily to state law changes enacted in 2013 and 2014. Law changes in 2017 and 2019 further reduced the regressivity of system.

## Chapter 2: Principal Results, 2018

This chapter examines the state and local tax burdens imposed on Minnesota taxpayers in 2018. Taxes paid by businesses as well as those paid directly by households are included. The taxes included account for over 99 percent of Minnesota state and local tax revenue in 2018.

Only Minnesota taxes paid by residents are included in the analysis below; Minnesota taxes paid by nonresidents and taxes Minnesota residents pay to the federal government or to other states are excluded. For business taxes, the study estimates the extent to which they are shifted forward to Minnesota consumers (in higher prices), shifted backward to Minnesota workers (in lower wages), or borne by owners of capital (in lower rates of return).

### Total Tax Burden

For 2018, Minnesota residents paid a total of \$29.2 billion in Minnesota state and local taxes while receiving \$243.9 billion in total money income.<sup>14</sup> Minnesota residents thus paid 12.0 percent of their total income in state and local taxes.

Details of Minnesota tax collections before and after tax shifting are shown in *Table 2-1*. Of the \$35.1 billion in total tax collections in 2018, \$29.2 billion (83.4 percent) of the total burden falls on Minnesotans, directly or indirectly. The other 16.6 percent (\$5.8 billion) is exported to nonresident consumers and owners of capital.

As shown in the “as imposed” columns of *Table 2-1*, \$22.3 billion (64 percent) of the total tax is imposed directly on Minnesota households. Another \$1.4 billion (4 percent) is paid by out-of-state visitors. The remaining \$11.4 billion (32 percent) is initially imposed on businesses.

The burden of the business taxes is partially shifted to consumers (in higher prices) or in some cases to labor (in lower wages). Only a portion of business taxes is borne by capital owners as a lower rate of return on their investment. Part of the burden of business taxes is also shifted to nonresidents. This study estimates the degree to which such shifting occurs and then allocates the estimated burden to Minnesota households based on each household’s sources of income and patterns of spending. (An explanation of tax shifting and the method of estimating the incidence of business taxes is included in the *Appendix B*.)

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<sup>14</sup> Total money income includes all cash income, whether taxable or nontaxable. It includes nontaxable social security, interest, and retirement income, nontaxable workers’ compensation payments, and cash payments from the Minnesota Family Investment Program (MFIP). Income excludes the value of fringe benefits and in-kind benefits such as food stamps, rent subsidies, and energy assistance. For a more complete description of the definition of household income, see *Appendix A* of this study.

**Table 2-1**  
**2018 Tax Collection Amounts (\$ Millions)**

Tax Type	Total	As Imposed			After shifting		Full-Sample Suits Index
		MN HH's	NR	Business	Minnesota	Exported	
<b>State Taxes</b>							
<b>Taxes on Income and Estates</b>							
Individual income tax	\$12,094	\$11,383	\$711		\$11,383	\$711	+0.244
Corporation franchise tax <sup>1</sup>	1,504			\$1,504	843	661	-0.142
Estate tax	219	210	9		210	9	+0.354
<b>Total Income and Estate Taxes</b>	<b>\$13,818</b>	<b>\$11,593</b>	<b>\$720</b>	<b>\$1,504</b>	<b>\$12,436</b>	<b>\$1,382</b>	<b>+0.220</b>
<b>Taxes on Consumption</b>							
Total sales tax	\$6,923	\$3,275	\$359	\$3,289	\$5,380	\$1,542	-0.197
General sales/use tax	6,131	2,733	359	3,040	4,713	1,418	-0.207
Sales tax on motor vehicles	791	542		249	667	124	-0.126
Motor fuels excise taxes	937	447	51	440	606	331	-0.323
Alcoholic beverage excise taxes	93	83	10	0	83	10	-0.160
Cigarette and tobacco excise taxes	621	609	12	0	609	12	-0.583
Insurance premiums taxes	515	417		98	470	45	-0.304
Gambling taxes	83	82	2		82	2	-0.481
MinnesotaCare taxes	661	606	56		606	56	-0.338
Solid waste management taxes	90	37		53	74	16	-0.397
<b>Total Consumption Taxes</b>	<b>\$9,923</b>	<b>\$5,555</b>	<b>\$489</b>	<b>\$3,879</b>	<b>\$7,909</b>	<b>\$2,014</b>	<b>-0.258</b>
<b>Taxes on Property</b>							
State Property Tax	\$818	\$34	\$8	\$775	\$413	\$405	-0.071
Residential recreational property	43	34	8		34	8	-0.138
Commercial <sup>2</sup>	506			506	275	231	-0.052
Industrial	157			157	33	124	0.124
Utility	112			112	69	42	-0.207
Motor vehicle registration tax	793	666		127	755	38	-0.206
Mortgage and deed taxes	249	149		101	208	42	-0.003
<b>Total Property Taxes</b>	<b>\$1,860</b>	<b>\$849</b>	<b>\$8</b>	<b>\$1,002</b>	<b>\$1,375</b>	<b>\$485</b>	<b>-0.135</b>
<b>Property Tax Refunds</b>							
Homeowners	-\$501	-\$501			-\$501		+0.634
Renters	-223	-223			-223		+0.878
<b>Total Property Tax Refunds</b>	<b>-\$723</b>	<b>-\$723</b>			<b>-\$723</b>		<b>+0.709</b>
<b>Total State Taxes</b>	<b>\$24,878</b>	<b>\$17,275</b>	<b>\$1,218</b>	<b>\$6,385</b>	<b>\$20,997</b>	<b>\$3,881</b>	<b>+0.049</b>
<b>Local Taxes</b>							
<b>Taxes on Property</b>	\$9,350	\$4,720	\$70	\$4,560	\$7,651	\$1,699	-0.170
General Property Tax	9,211	4,684	70	4,457	7,599	1,612	-0.170
Homeowners (before PTR)	4,398	4,398			4,398		-0.181
Residential recreational & 2 <sup>nd</sup> homes <sup>3</sup>	356	285	70		285	70	-0.039
Commercial <sup>2</sup>	1,730			1,730	941	789	-0.052
Industrial	527			527	112	415	0.124
Farm (other than residence) <sup>4</sup>	630			630	629	2	-0.166
Rental Housing (before PTR) <sup>5</sup>	1,171			1,171	986	185	-0.299
Utility <sup>6</sup>	399			399	248	151	-0.207
Mining Production Taxes (taconite)	94			94	9	85	0.303
Wheelage Taxes	45	37		9	43	3	-0.327
<b>Taxes on Consumption</b>							
Local Sales Taxes <sup>7</sup>	650	263	77	310	465	185	-0.185
Local Gross Earnings Taxes	173			173	108	66	-0.207
<b>Total Local Taxes</b>	<b>\$10,174</b>	<b>\$4,983</b>	<b>\$148</b>	<b>\$5,043</b>	<b>\$8,224</b>	<b>\$1,950</b>	<b>-0.171</b>
<b>Total State and Local Taxes</b>	<b>\$35,052</b>	<b>\$22,258</b>	<b>\$1,366</b>	<b>\$11,428</b>	<b>\$29,221</b>	<b>\$5,831</b>	<b>-0.013</b>

<sup>1</sup>Includes occupation tax on taconite, iron, and other ores

<sup>6</sup>Includes wind and solar energy production taxes.

<sup>2</sup>Includes resorts, railroads, and minerals.

<sup>7</sup>Includes lodging and other selective sales taxes.

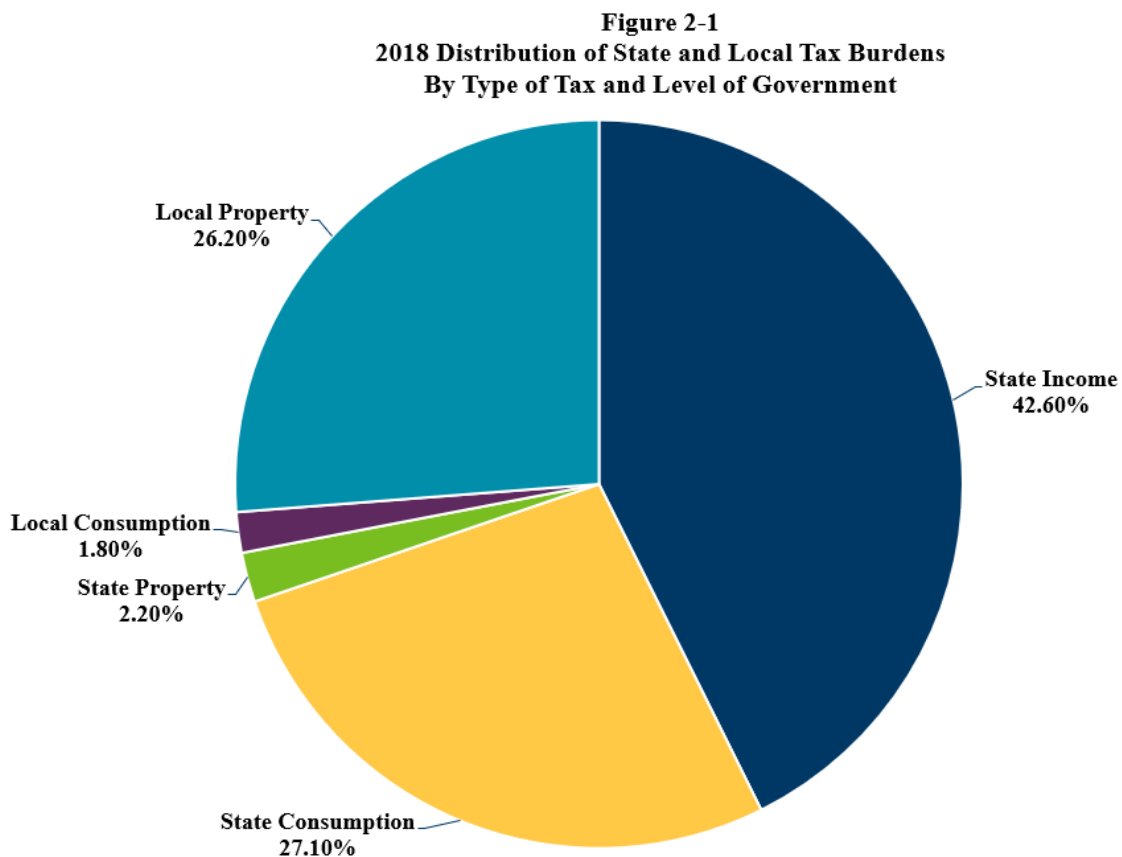
<sup>3</sup>Second homes are 20% of residential non-homestead property. <sup>4</sup>Includes timber.

<sup>5</sup>Apartments, 80% of residential non-homestead property, and rented mobile homes.

The “after shifting” columns in *Table 2-1*, show that some taxes are borne by Minnesotans in much greater proportions than are others. Of the large state taxes, the income tax is borne almost entirely by Minnesota residents, who pay 94 percent of total collections. Minnesota residents bear a smaller share of the general sales tax burden (77 percent). At the other end of the scale, Minnesotans are estimated to bear only 21 percent of the burden of property taxes on industrial property. Minnesotans are estimated to bear 57 percent of the burden of the total tax imposed on business.

*Table 2-1* assigns each tax to one of three broad categories. Each tax is either a tax on income, a tax on consumption, or a tax on property. *Figure 2-1* shows each category’s share of the total state and local tax burden for Minnesotans. It also distinguishes state taxes from local taxes. About 72 percent of the total burden is from state taxes; the other 28 percent is from local taxes. By tax category, 43 percent of the burden is from taxes on income, 28 percent from taxes on property, and 29 percent from taxes on consumption.

Local taxes are primarily taxes on property, with a relatively small portion on consumption (local sales taxes). State taxes are primarily on income or consumption, with a relatively small portion on property.



## Taxes by Population Decile

To summarize the distribution of tax burdens by income level, the population of Minnesota households is divided into ten equal-sized groups or *deciles* of households ranked by household income levels. By definition, the 1<sup>st</sup> decile includes the 10 percent of households with the lowest incomes and the 10<sup>th</sup> decile includes the 10 percent of households with the highest incomes. There were 278,751 households in each population decile. The total burden by tax type for each decile is summarized in *Table 2-2*. The table also shows the tax burden on the top 5 percent and top 1 percent of households.

Taxpayers in the top decile (incomes of \$164,720 and over) bore 42 percent of the total tax burden while having 43 percent of total income. By tax type, taxpayers in the top decile paid 59 percent of the individual income tax, 29 percent of the consumer sales tax, 29 percent of the gross homeowner local property tax (before property tax refunds), and 35 percent of business taxes.<sup>15</sup>

In contrast, taxpayers in the bottom decile (incomes of \$12,826 and below) bore 2.1 percent of the total tax burden and received 0.9 percent of total income. The bottom-decile taxpayers had a negative net individual income tax burden due to refundable tax credits. First-decile households paid 3.5 percent of consumer sales taxes, 1.8 percent of gross homeowner property tax, and 3.9 percent of business taxes.

## Overall Effective Tax Rates

To evaluate the fairness or equity in the distribution of tax burdens by income level, tax burdens may be compared to the underlying distribution of income. This section examines this relationship in more detail.

A key measure used to analyze tax equity is the effective tax rate, which is defined as the ratio of taxes to income. Effective tax rates measure the percentage of income paid in taxes and can be compared for different levels of income.

Effective tax rates by population decile and tax type are reported in *Table 2-3*. The effective tax rate for all Minnesota state and local taxes combined is shown in the last column in the lower section of the table. For all households combined, the effective tax rate is 12.0 percent. Effective tax rates rise from a low of 11.1 percent of income in the 4<sup>th</sup> decile to 12.0 percent in the 7<sup>th</sup>, 8<sup>th</sup>, and 9<sup>th</sup> deciles, but then fall to 11.8 percent in the 10<sup>th</sup> decile. For the top 5 percent of households the effective tax rate is 11.8 percent, falling to 11.5 percent of income for the top 1 percent.

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<sup>15</sup> The term “business tax,” as defined in this study, includes any tax paid by business that is *not* expected to be fully reflected in the price paid by consumers. Business taxes include, among others, the corporate franchise tax, business property taxes (including property taxes on rental housing), the sales tax on business purchases, and insurance taxes on business insurance.

Table 2-2

## 2018 Population Deciles - Amounts (\$ Thousands)

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$12,826 & Under	278,751	\$2,170,709	-\$14,011	\$32,463	\$113,858	\$83,525	\$197,383	-\$46,205	\$17,327	\$86,941	\$56,971	\$11,631
Second	\$12,827 - \$21,235	278,751	4,734,210	-31,900	32,063	147,334	86,083	233,418	-81,429	12,933	96,499	77,606	7,348
Third	\$21,236 - \$30,194	278,751	7,159,032	17,107	39,498	173,342	104,017	277,359	-98,795	16,541	105,740	100,653	9,799
Fourth	\$30,195 - \$39,804	278,751	9,730,975	145,035	45,785	196,888	119,008	315,896	-99,141	19,270	113,792	122,702	11,136
Fifth	\$39,805 - \$51,162	278,751	12,639,950	325,670	51,700	223,064	133,657	356,721	-101,532	22,151	118,762	154,767	12,599
Sixth	\$51,163 - \$65,832	278,751	16,210,574	514,908	61,885	260,453	158,161	418,614	-108,368	27,830	124,309	191,625	15,640
Seventh	\$65,833 - \$86,043	278,751	21,008,549	764,077	75,410	321,427	191,982	513,409	-90,500	33,814	135,226	233,408	19,590
Eighth	\$86,044 - \$111,353	278,751	27,586,567	1,147,367	92,055	400,069	233,017	633,087	-78,965	41,315	149,632	286,959	23,479
Ninth	\$113,535 - \$164,719	278,751	37,698,635	1,753,580	118,206	496,362	294,339	790,701	-15,676	56,674	164,532	349,568	30,893
Tenth	\$164,720 & Over	278,751	104,914,425	6,761,543	293,669	941,870	701,776	1,643,647	-2,849	164,752	203,054	592,624	93,990
<b>Totals</b>		2,787,506	\$243,853,626	\$11,383,375	\$842,735	\$3,274,668	\$2,105,566	\$5,380,234	-\$723,460	\$412,608	\$1,298,489	\$2,166,884	\$236,106
<b>Top 5%</b>	Over \$235,073	139,385	\$77,737,026	\$5,364,352	\$212,319	\$624,470	\$502,686	\$1,127,156	-\$1,045	\$124,210	\$114,619	\$377,733	\$71,749
<b>Top 1%</b>	Over \$577,540	27,882	40,203,762	3,083,507	102,396	259,289	238,336	497,624	-69	65,883	34,630	142,305	37,139

Population Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes <sup>2</sup>
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>		
First	\$77,210	\$28,249	\$30,720	\$58,970	\$140,875	\$121,932	\$21,955
Second	94,938	50,557	13,447	64,004	162,425	54,254	26,478
Third	146,536	63,812	18,364	82,176	234,754	86,654	31,694
Fourth	188,874	68,008	21,116	89,125	285,884	80,898	36,395
Fifth	270,339	66,514	23,117	89,630	375,036	96,161	41,606
Sixth	394,485	64,253	31,369	95,622	511,159	118,885	49,072
Seventh	507,908	39,966	37,653	77,619	611,516	167,315	59,969
Eighth	653,110	29,256	43,743	72,998	757,310	194,923	73,466
Ninth	805,332	24,037	60,599	84,636	944,233	248,683	90,937
Tenth	1,259,722	15,696	255,256	270,952	1,646,164	760,302	192,879
<b>Totals</b>	\$4,398,453	\$450,348	\$535,384	\$985,732	\$5,669,357	\$1,930,008	\$624,450
<b>Top 5%</b>	\$762,006	\$7,120	\$208,470	\$215,590	\$1,051,930	\$581,224	\$133,439
<b>Top 1%</b>	217,904	1,635	123,996	125,631	370,471	245,082	59,921

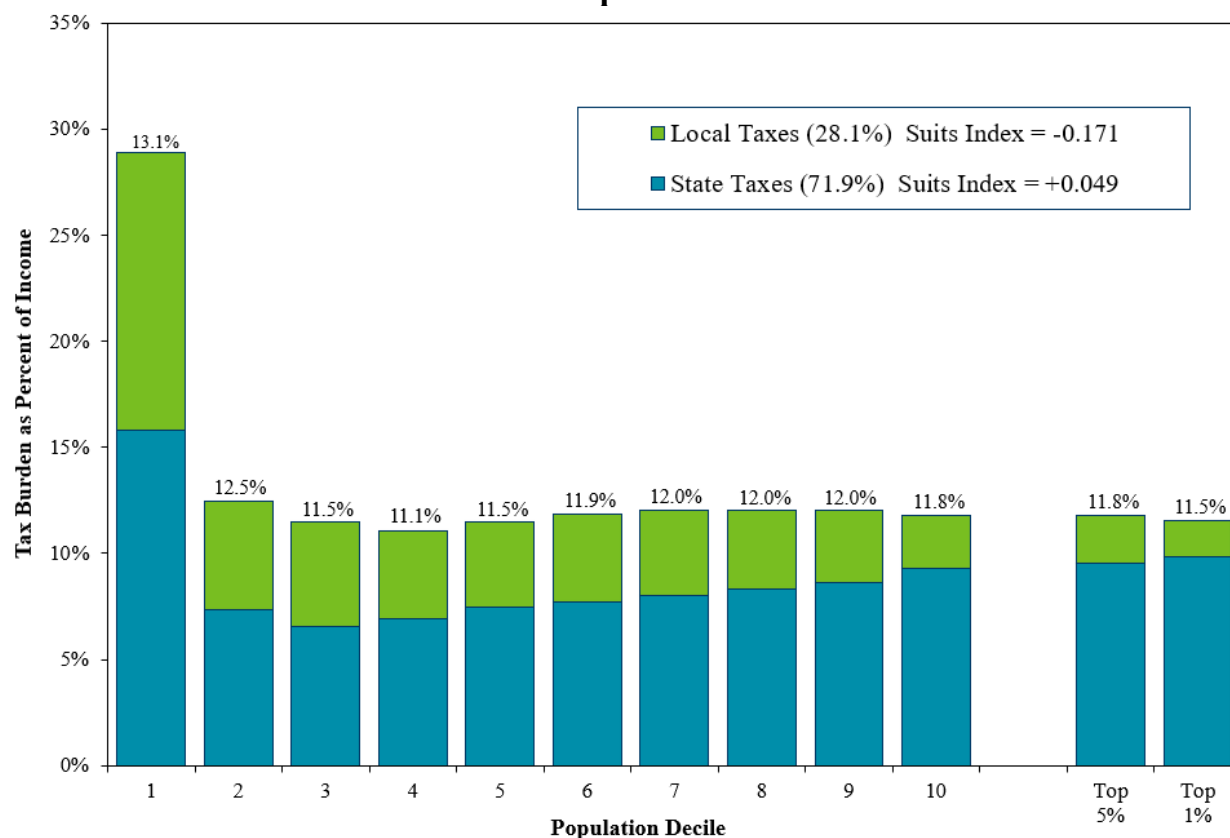
Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
\$284,762	\$192,592	\$149,908	\$342,500	\$627,262
243,158	201,276	145,262	346,539	589,696
353,102	290,226	177,678	467,903	821,006
403,177	470,486	203,990	674,476	1,077,654
512,803	711,379	229,460	940,838	1,453,641
679,116	972,528	273,914	1,246,443	1,925,559
838,800	1,350,983	333,451	1,684,434	2,523,234
1,025,698	1,890,063	404,867	2,294,929	3,320,628
1,283,853	2,732,344	516,133	3,248,478	4,532,331
2,599,345	8,462,797	1,287,633	9,750,429	12,349,775
<b>\$8,223,815</b>	<b>\$17,274,675</b>	<b>\$3,722,296</b>	<b>\$20,996,971</b>	<b>\$29,220,786</b>
\$1,766,593	\$6,456,596	\$934,496	\$7,391,093	\$9,157,686
675,474	3,509,872	453,543	3,963,415	4,638,889

<sup>1</sup> Includes seasonal recreational residential (cabins) and second homes.<sup>2</sup> Includes taconite production tax and wheelage taxes.

## State Taxes Compared to Local Taxes

As shown in *Figure 2-2*, the distribution of the burden of state taxes differs greatly from that of local taxes. The effective state tax rate rises with income (from the 3<sup>rd</sup> to 10<sup>th</sup> decile) and continues to rise for the top 5 and top 1 percent. In contrast, the effective local tax rate falls steadily as income rises.

**Figure 2-2**  
**Effective Tax Rates by Population Decile**  
**State Taxes Compared to Local Taxes**



The Suits index for state taxes is +0.049, meaning that (as seen in *Figure 2-2*) state taxes are progressive. In contrast, the Suits index for local taxes is -0.171 (regressive). When combined, the Suits index for all Minnesota state and local taxes is -0.013 (regressive).

A tax is said to be regressive if effective tax rates fall with income. A regressive tax claims a smaller share of household income as income rises. If effective tax rates rise with income, a tax is said to be progressive. A progressive tax claims an increasing share of household income as income rises. If the effective tax rate remains constant as income rises, the tax is said to be proportional.

The Suits index is a useful summary measure of regressivity or progressivity. A regressive tax has a negative Suits index (between 0 and -1). A progressive tax has a positive Suits index (between 0 and +1). The more regressive or progressive, the further the Suits index will be from zero. (See *Appendix C* for a more complete description of the Suits index.)



Table 2-3

## 2018 Population Deciles - Effective Tax Rates

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$12,826 & Under	278,751	\$2,170,709	- 0.6%	1.5%	5.2%	3.8%	9.1%	- 2.1%	0.8%	4.0%	2.6%	0.5%
Second	\$12,827 - \$21,235	278,751	4,734,210	- 0.7%	0.7%	3.1%	1.8%	4.9%	- 1.7%	0.3%	2.0%	1.6%	0.2%
Third	\$21,236 - \$30,194	278,751	7,159,032	0.2%	0.6%	2.4%	1.5%	3.9%	- 1.4%	0.2%	1.5%	1.4%	0.1%
Fourth	\$30,195 - \$39,804	278,751	9,730,975	1.5%	0.5%	2.0%	1.2%	3.2%	- 1.0%	0.2%	1.2%	1.3%	0.1%
Fifth	\$39,805 - \$51,162	278,751	12,639,950	2.6%	0.4%	1.8%	1.1%	2.8%	- 0.8%	0.2%	0.9%	1.2%	0.1%
Sixth	\$51,163 - \$65,832	278,751	16,210,574	3.2%	0.4%	1.6%	1.0%	2.6%	- 0.7%	0.2%	0.8%	1.2%	0.1%
Seventh	\$65,833 - \$86,043	278,751	21,008,549	3.6%	0.4%	1.5%	0.9%	2.4%	- 0.4%	0.2%	0.6%	1.1%	0.1%
Eighth	\$86,044 - \$113,534	278,751	27,586,567	4.2%	0.3%	1.5%	0.8%	2.3%	- 0.3%	0.1%	0.5%	1.0%	0.1%
Ninth	\$113,535 - \$164,719	278,751	37,698,635	4.7%	0.3%	1.3%	0.8%	2.1%	0.0%	0.2%	0.4%	0.9%	0.1%
Tenth	\$164,720 & Over	278,751	104,914,425	6.4%	0.3%	0.9%	0.7%	1.6%	0.0%	0.2%	0.2%	0.6%	0.1%
Totals		2,787,506	\$243,853,626	4.7%	0.3%	1.3%	0.9%	2.2%	- 0.3%	0.2%	0.5%	0.9%	0.1%
Top 5%	Over \$235,073	139,385	\$77,737,026	6.9%	0.3%	0.8%	0.6%	1.4%	0.0%	0.2%	0.1%	0.5%	0.1%
Top 1%	Over \$577,540	27,882	40,203,762	7.7%	0.3%	0.6%	0.6%	1.2%	0.0%	0.2%	0.1%	0.4%	0.1%

Population Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes <sup>2</sup>	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>		
First	3.6%	1.3%	1.4%	2.7%	6.5%	5.6%	1.0%
Second	2.0%	1.1%	0.3%	1.4%	3.4%	1.1%	0.6%
Third	2.0%	0.9%	0.3%	1.1%	3.3%	1.2%	0.4%
Fourth	1.9%	0.7%	0.2%	0.9%	2.9%	0.8%	0.4%
Fifth	2.1%	0.5%	0.2%	0.7%	3.0%	0.8%	0.3%
Sixth	2.4%	0.4%	0.2%	0.6%	3.2%	0.7%	0.3%
Seventh	2.4%	0.2%	0.2%	0.4%	2.9%	0.8%	0.3%
Eighth	2.4%	0.1%	0.2%	0.3%	2.7%	0.7%	0.3%
Ninth	2.1%	0.1%	0.2%	0.2%	2.5%	0.7%	0.2%
Tenth	1.2%	0.0%	0.2%	0.3%	1.6%	0.7%	0.2%
Totals	1.8%	0.2%	0.2%	0.4%	2.3%	0.8%	0.3%
Top 5%	1.0%	0.0%	0.3%	0.3%	1.4%	0.7%	0.2%
Top 1%	0.5%	0.0%	0.3%	0.3%	0.9%	0.6%	0.1%

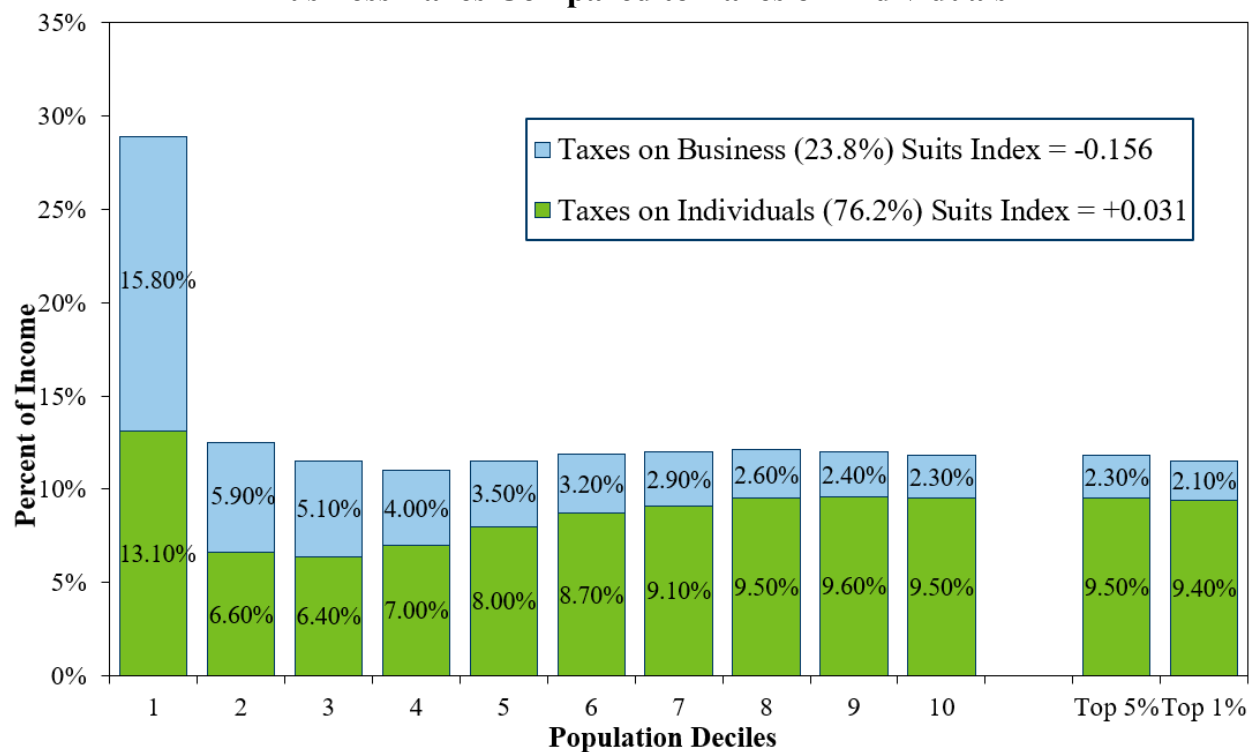
Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
13.1%	8.9%	6.9%	15.8%	28.9%
5.1%	4.3%	3.1%	7.3%	12.5%
4.9%	4.1%	2.5%	6.5%	11.5%
4.1%	4.8%	2.1%	6.9%	11.1%
4.1%	5.6%	1.8%	7.4%	11.5%
4.2%	6.0%	1.7%	7.7%	11.9%
4.0%	6.4%	1.6%	8.0%	12.0%
3.7%	6.9%	1.5%	8.3%	12.0%
3.4%	7.2%	1.4%	8.6%	12.0%
2.5%	8.1%	1.2%	9.3%	11.8%
3.4%	7.1%	1.5%	8.6%	12.0%
2.3%	8.3%	1.2%	9.5%	11.8%
1.7%	8.7%	1.1%	9.9%	11.5%

<sup>1</sup> Includes seasonal recreational residential (cabins) and second homes.<sup>2</sup> Includes taconite production tax and wheelage taxes.

## Business Taxes Compared to Taxes on Individuals

Figure 2-3 compares taxes on business with taxes paid by individuals. It illustrates that taxes on business are regressive, with effective tax rates falling with income and a Suits index of -0.156. Taxes on individuals are progressive, with effective tax rates rising with income between the 3<sup>rd</sup> and 9<sup>th</sup> deciles before falling slightly in the 10<sup>th</sup>, and a Suits index of +0.031.

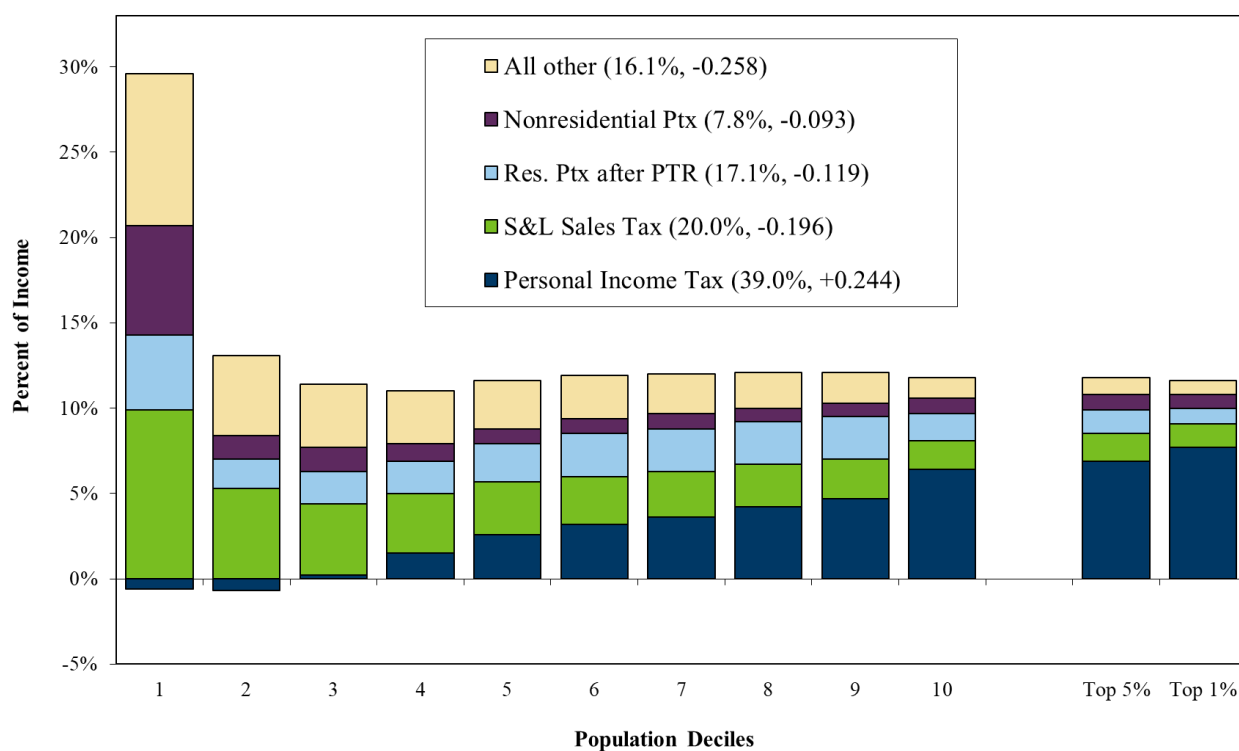
**Figure 2-3**  
**Effective Tax Rates by Population**  
**Business Taxes Compared to Taxes on Individuals**



## Summary of 2018 Tax Burden by Major Tax Type

Figure 2-4 and Table 2-4 summarize how the 2018 tax burden of the major tax categories varies by population decile. The categories for this table combine both the individual and business components of these tax types. For example, the state and local sales tax total includes both the consumer and business portions (and includes the sales tax on motor vehicles). Residential property tax after PTR includes both homeowner and rental property taxes, along with cabins, and nets out the impact of homeowner and renter property tax refunds.

**Figure 2-4**  
**2018 Tax Incidence by Tax Type**



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

**Table 2-4**  
**Effective Tax Rates by Tax Type (2018)**

<b>Population Decile</b>	<b>Personal Income Tax</b>	<b>Residential Property Taxes*</b>	<b>Other Property Taxes</b>	<b>State &amp; Local Sales Taxes</b>	<b>All Other S&amp;L Taxes</b>
<b>First</b>	-0.6%	4.4%	6.4%	9.9%	8.9%
<b>Second</b>	-0.7%	1.7%	1.4%	5.3%	4.7%
<b>Third</b>	0.2%	1.9%	1.4%	4.2%	3.7%
<b>Fourth</b>	1.5%	1.9%	1.0%	3.5%	3.1%
<b>Fifth</b>	2.6%	2.2%	0.9%	3.1%	2.8%
<b>Sixth</b>	3.2%	2.5%	0.9%	2.8%	2.5%
<b>Seventh</b>	3.6%	2.5%	0.9%	2.7%	2.3%
<b>Eighth</b>	4.2%	2.5%	0.8%	2.5%	2.1%
<b>Ninth</b>	4.7%	2.5%	0.8%	2.3%	1.8%
<b>Tenth</b>	6.4%	1.6%	0.9%	1.7%	1.2%
<b>Total</b>	<b>4.7%</b>	<b>2.0%</b>	<b>0.9%</b>	<b>2.4%</b>	<b>1.9%</b>
<b>Top 5%</b>	6.9%	1.4%	0.9%	1.6%	1.0%
<b>Top 1%</b>	7.7%	0.9%	0.8%	1.4%	0.8%
<b>Total Tax Burden</b>	<b>39.0%</b>	<b>17.0%</b>	<b>7.9%</b>	<b>20.0%</b>	<b>16.1%</b>
<b>Suits Index</b>	+0.244	-0.119	-0.093	-0.196	-0.258

\*Residential property taxes are net of property tax refunds.

### ***Individual Income Tax***

The individual income tax accounts for about 39 percent of the total state and local tax burden. Because of its graduated tax rate structure and allowance of personal exemptions and deductions, the individual income tax is, by design, progressive. As seen in *Table 2-4*, effective tax rates rose significantly with increases in household income. At the low end, the effective tax rate for the income tax was negative for the first two deciles, showing the impact of three refundable low-income credits (which can more than offset any income tax liabilities).<sup>16</sup> It rose steadily from 1.5 percent of income for the 4<sup>th</sup> decile to 6.4 percent for the 10<sup>th</sup> decile. The top 5 percent and 1 percent of households have even higher effective tax rates, at 6.9 and 7.7 percent respectively. The Suits index of +0.244 reflects its considerable progressivity.

*Figure 2-4* (above) clearly demonstrates the importance of the progressive income tax in offsetting most of the regressivity of other taxes.

<sup>16</sup> For more detail on the impact of these refundable credits on the distribution of the overall tax burden, see *Chapter 4, Section C*.

### ***Residential Property Taxes (After PTR)***

Residential property taxes include the tax on both owned homes and rental property. The burden shown here includes the impact of state property tax refunds for both homeowners and renters. The property tax refunds (\$723 million in 2018) offset 12.8 percent of the residential property tax burden, and the refunds offset a much higher portion in the lowest five deciles. Residential property taxes net of PTR account for about 17 percent of the total state and local tax burden.

Effective tax rates rise from 1.7 percent of income in the 2<sup>nd</sup> decile to 2.5 percent of income in the 6<sup>th</sup> through 9<sup>th</sup> deciles before falling to 1.6 percent in the 10<sup>th</sup> decile. The Suits index of -0.119 (regressive) shows that the impact of the sharp drop in the 10<sup>th</sup> decile well outweighs the increasing effective tax rates over the lower deciles.

Although residential property tax burdens (after PTR) are regressive, they are noticeably less regressive than either sales taxes or “all other taxes.” This is mostly due to the impact of property tax refunds. In their absence, the Suits index for residential property taxes would be -0.194 – much closer to that of state and local sales taxes (-0.196).<sup>17</sup>

### ***Nonresidential Property Taxes***

These include commercial and industrial taxes along with taxes on utilities and farm property. Like other business taxes, the incidence of these taxes depends on the extent to which the tax burden is borne by property owners rather than shifted to others through higher prices or lower wages. Incidence models estimate these taxes to be regressive, but less so than sales taxes.<sup>18</sup>

### ***State and Local Sales Taxes***

State and local sales taxes (including the sales tax on motor vehicles) account for about 20.0 percent of the total state and local tax burden. In agreement with other incidence studies, this analysis finds the sales tax to be regressive. Higher income households spend a smaller portion of their income on items subject to the sales tax. This is partly due to their higher savings rates and partly to the mix of consumer goods and services they buy. Hence, tax burdens as a proportion of income tend to decline as one moves up the income scale.

For 2018, the effective state and local sales tax rate falls from 5.3 percent in the 2<sup>nd</sup> decile to 1.7 percent in the 10<sup>th</sup> decile. Sales taxes overall are much more regressive than property taxes (after PTR), with a Suits index of -0.196.

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<sup>17</sup> For more detail on the impact of property tax refunds on residential property taxes, see in *Chapter 4, Section C*.

<sup>18</sup> This is less true of the portion of nonresidential property taxes that falls on utility property because more of those taxes are passed along to consumers in higher prices.

## ***Other Taxes***

The “all other taxes” category in *Table 2-4* includes one progressive tax (the estate tax) and many regressive taxes, including excise taxes on motor fuels, tobacco, and alcohol, the motor vehicle registration tax, solid waste management taxes, mortgage and deed taxes, insurance premiums taxes, gambling taxes, and MinnesotaCare taxes. These assorted taxes account for just over 16 percent of Minnesota’s state and local tax burden, and their combined impact is more regressive than state and local sales taxes, with a Suits index of -0.258.

## **Representative Households**

*Table 2-5* presents average tax burdens for households in each decile. For example, in the 6<sup>th</sup> decile (average income \$58,154), the average Minnesota state and local tax burden of \$6,908 includes \$1,257 of property taxes after PTR, \$1,847 of income tax, \$934 of state consumer sales tax, \$399 of excise taxes, \$860 of other taxes on individuals, and \$1,610 of taxes on businesses.

*Table 2-5* also shows how demographic characteristics vary across deciles. As incomes rise, the percentage of households who are married rises from 7 percent in the 1<sup>st</sup> decile to 88 percent in the 10<sup>th</sup> decile. The percentage who are homeowners rises from 15 percent in the 1<sup>st</sup> decile to 93 percent in the 10<sup>th</sup>. The percentage who have children rises from 15 percent in the 1<sup>st</sup> decile to 52 percent in the 10<sup>th</sup>.

*Chapter 5* includes similar tables by demographic groups. *Table 5-1* is limited to married couples with children, *Table 5-2* is limited to non-senior married couples without children, *Table 5-3* is limited to single-person households with no children, *Table 5-4* is limited to single seniors, *Table 5-5* is limited to married seniors, and *Table 5-6* is limited to single parents. These tables provide a better understanding of the tax burden for typical taxpayers. They summarize the tax burden for households of the same family type and show how it varies with income. Anyone interested in tax burdens for representative households should use the *Chapter 5* tables rather than *Table 2-5*.

Table 2-5

# Household Characteristics and Average Tax Burden Amounts by Population Decile All Households

Each Decile Contains 278,751 Households

HOUSEHOLD CHARACTERISTICS	Population Decile										Total
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	
Number of Households	278,751	278,751	278,751	278,751	278,751	278,751	278,751	278,751	278,751	278,751	2,787,506
Average Household Income	\$7,787	\$16,984	\$25,683	\$34,909	\$45,345	\$58,154	\$75,367	\$98,965	\$135,241	\$376,374	\$87,481
Maximum Household Income	\$12,826	\$21,235	\$30,194	\$39,804	\$51,162	\$65,832	\$86,043	\$113,534	\$164,719		
Percent with Earned Income <sup>1</sup>	47%	57%	71%	79%	81%	81%	82%	85%	88%	92%	76%
Average Earned Income <sup>1</sup>	\$9,542	\$15,235	\$23,349	\$31,627	\$39,643	\$48,856	\$61,946	\$79,281	\$107,133	\$224,757	\$71,505
Homeowners <sup>2</sup>	15%	20%	29%	35%	47%	62%	74%	84%	89%	93%	55%
Married	7%	8%	11%	15%	23%	35%	53%	71%	83%	88%	39%
Seniors	17%	25%	25%	22%	24%	29%	29%	27%	23%	20%	24%
Households with Children	15%	20%	24%	26%	23%	23%	28%	35%	44%	52%	29%
Average Market Value	\$196,016	\$147,677	\$155,926	\$165,109	\$165,334	\$194,195	\$199,194	\$214,630	\$259,724	\$373,654	\$231,190
Average Monthly Rent	\$192	\$367	\$552	\$673	\$776	\$902	\$960	\$1,118	\$1,295	\$1,518	\$624
<b>AVERAGE TAX BURDENS</b>											
Local Property Tax											
All Households											
Total Tax	\$378	\$522	\$755	\$922	\$1,208	\$1,646	\$1,965	\$2,448	\$2,975	\$4,575	\$1,739
-Property Tax Refund	<u>-166</u>	<u>-292</u>	<u>-354</u>	<u>-356</u>	<u>-364</u>	<u>-389</u>	<u>-325</u>	<u>-283</u>	<u>-56</u>	<u>-10</u>	<u>-260</u>
Tax after PTR	\$212	\$230	\$401	\$566	\$844	\$1,257	\$1,640	\$2,165	\$2,919	\$4,565	\$1,479
Renters Only											
Total Tax on Rental Unit	\$576	\$1,037	\$1,392	\$1,643	\$1,851	\$2,099	\$2,200	\$2,561	\$2,955	\$3,472	\$1,532
Renters Share of Tax	222	399	536	632	712	808	847	985	1,137	1,336	590
-Property Tax Refund	<u>-229</u>	<u>-425</u>	<u>-427</u>	<u>-411</u>	<u>-343</u>	<u>-222</u>	<u>-35</u>	<u>-4</u>	<u>0</u>	<u>0</u>	<u>-300</u>
Tax after PTR	-\$7	-\$26	\$109	\$221	\$369	\$586	\$812	\$981	\$1,137	\$1,336	\$290
Homeowners Only											
Total Tax on Home	\$1,811	\$1,689	\$1,837	\$1,929	\$2,069	\$2,299	\$2,465	\$2,778	\$3,237	\$4,849	\$2,878
-Property Tax Refund	<u>-412</u>	<u>-514</u>	<u>-616</u>	<u>-575</u>	<u>-545</u>	<u>-534</u>	<u>-431</u>	<u>-335</u>	<u>-63</u>	<u>-11</u>	<u>-328</u>
Homeowners Tax after PTR	\$1,399	\$1,175	\$1,221	\$1,354	\$1,524	\$1,765	\$2,034	\$2,443	\$3,174	\$4,838	\$2,550
State Income Tax	-\$50	-\$114	\$61	\$520	\$1,168	\$1,847	\$2,741	\$4,116	\$6,291	\$24,257	\$4,084
State Sales Tax	408	529	622	706	800	934	1,153	1,435	1,781	3,379	1,175
State Excise Taxes	291	319	348	372	385	399	429	468	506	568	409
Other Taxes	260	340	442	537	690	860	1,049	1,288	1,636	2,892	999
Business Taxes <sup>3</sup>	1,128	812	1,072	1,164	1,326	1,610	2,039	2,440	3,128	8,643	2,336
<b>Total State and Local Tax Burden</b>	<b>\$2,250</b>	<b>\$2,115</b>	<b>\$2,945</b>	<b>\$3,866</b>	<b>\$5,215</b>	<b>\$6,908</b>	<b>\$9,052</b>	<b>\$11,913</b>	<b>\$16,259</b>	<b>\$44,304</b>	<b>\$10,483</b>
Effective Tax Rate for all Taxes	28.9%	12.5%	11.5%	11.1%	11.5%	11.9%	12.0%	12.0%	12.0%	11.8%	12.0%

<sup>1</sup>Earned income includes wage and self-employment income.

<sup>2</sup>Homeowners include farm homesteads.

<sup>3</sup>For this table and those in Chapter 5 only, Business Taxes do not include the share of Rental Property Taxes borne by the renter.

## Minnesota's Diversified Tax Portfolio in 2018

The state and local tax structure should be viewed as an integrated system. Minnesota's diversified tax portfolio includes many taxes, and it is important to consider the system as a whole rather than focusing on just a single part. This study helps focus attention on the system as a whole.

The right-hand column of *Table 2-1* (on page 24) reports the Suits index for each tax. The Suits index for the overall state and local tax system (-0.013) is a weighted average of the Suits indexes for each of the individual taxes. In that calculation, each tax's weight is that tax's share of the total burden. As a result, the overall Suits index is most affected by the taxes with the largest burden, though a smaller tax that is very progressive (such as the estate tax) or very regressive (such as the cigarette tax) can also have a substantial impact.

*Figure 2-5* provides a visual presentation of the Suits indexes for each of the individual tax types. The magnitude of each tax's burden is represented by the size and height of the circle, and the circles are arranged by Suits index on a line with values between -1 (most regressive) and +1 (most progressive).

Only three circles are located to the right of zero. The individual income tax and the estate tax are progressive taxes. The property tax refunds circle is also on the far right side of the figure because their impact is highly progressive.<sup>19</sup> Two other tax categories (mortgage and deed taxes and the property tax on cabins and second homes) are the least regressive of the remaining taxes, with Suits indexes of -0.003 and -0.049, respectively.

Homeowner property taxes and the sales tax are among a larger group of taxes with Suits indexes between -0.126 and -0.206. Even more regressive taxes (with Suits indexes between -0.299 and -0.397) include the property tax on rental housing, the MinnesotaCare taxes, the motor fuels excise tax, and taxes on insurance premiums. The two most regressive taxes (Suits indexes of -0.481 and -0.583) are lawful gambling and the cigarette and tobacco taxes.

Minnesota's income tax, property tax refunds, and estate tax are effective in offsetting almost all of the regressivity of other taxes. The full portfolio (with a Suits index of -0.013) is less regressive than almost any of the other tax types.

The overall tax structure can be made more or less regressive by either (1) changing the mix of taxes in the tax portfolio or (2) reducing the regressivity of a particular tax by changing the tax base or (in some cases) adjusting tax rates.

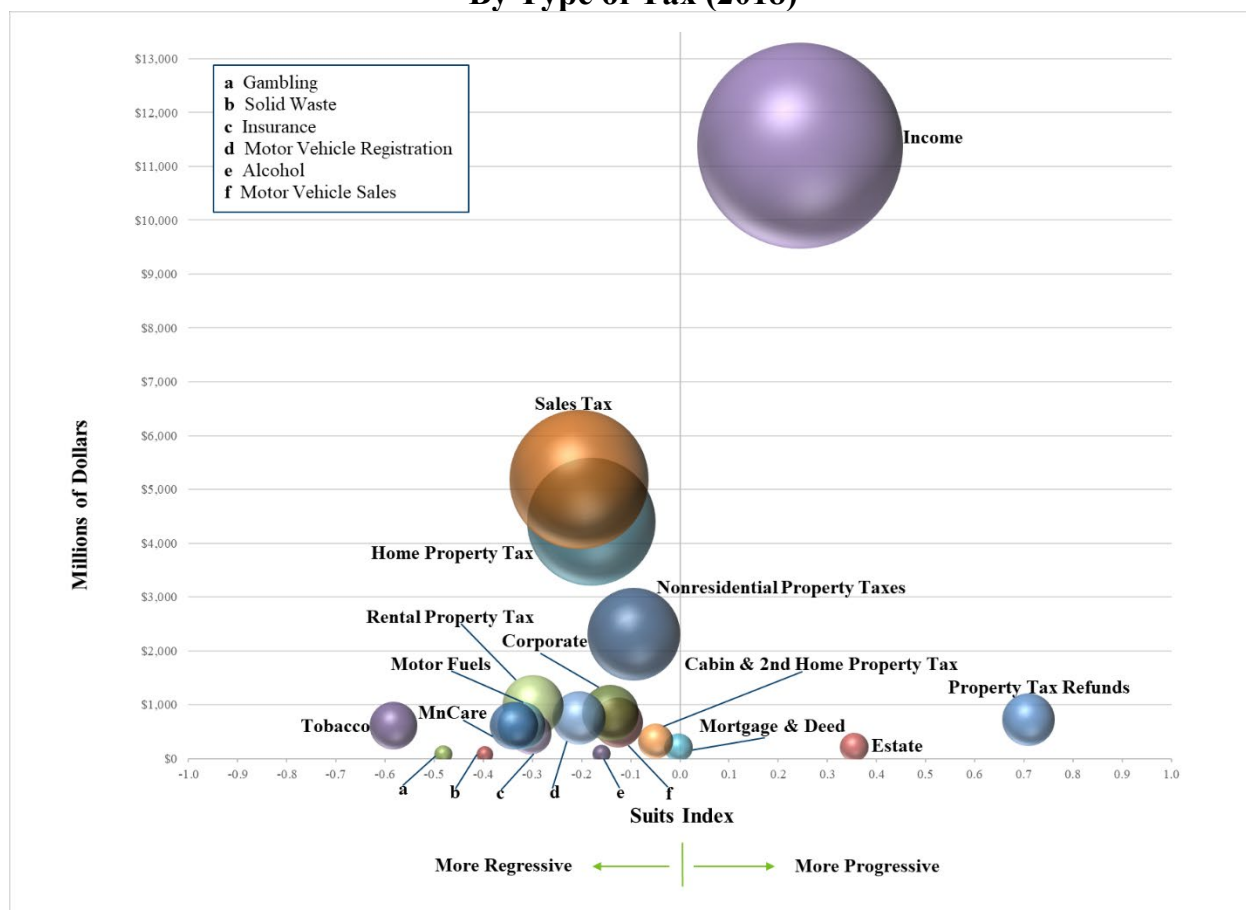
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<sup>19</sup> Technically the refunds are negative taxes, but their placement on *Figure 2-5* accurately reflects their impact on overall progressivity and the overall Suits index.



On *Figure 2-5*, the first option (changing the tax mix) would change the size of the circles; the second would move the circle representing that tax either to the right or to the left. For example, increasing the sales tax rate would make the sales tax larger while leaving its regressivity unchanged. The sales tax circle would become larger and move upward, and the overall Suits index for the full tax portfolio would become more negative. Alternatively, raising the top rate on the income tax would shift the income tax circle to the right (and increase its size), and the full portfolio's Suits index would become less regressive.

**Figure 2-5**  
**Dollars of Tax Burden and Suits Index**  
**By Type of Tax (2018)**



Tax law changes are not the only reason the tax portfolio changes. Economic growth by itself will change the portfolio mix, because some taxes (most notably the income tax) are more responsive to income growth than other taxes. Changes in the distribution of income can also modify the size and location of some of the circles in *Table 2-5*. The Suits index will change from year to year even if there are no changes in tax law.

Choosing the correct tax portfolio for Minnesota requires a weighing of several competing goals. Taxes differ in many ways other than how their burden is distributed by income class. Taxes also differ in their impact on revenue stability over the short-term business cycle, in how their revenues respond to longer-run economic growth, in administrative complexity, and in their impact on Minnesota's competitiveness. In considering any of those goals, it is helpful to look at the tax system as a diversified portfolio.<sup>20</sup>

<sup>20</sup> For an analysis of applying the portfolio approach to the goals of revenue stability and growth, see the report of the Budget Trends Study Commission (January 12, 2009), available on the Minnesota Management and Budget website.

## Chapter 3: Projected Results, 2023

This chapter examines the state and local tax burdens imposed on Minnesota taxpayers in 2023. The taxes included are the same as those analyzed for 2018. Changes between 2018 and 2023 are discussed, along with possible reasons for those changes.

### **Tax Incidence Projections to 2023 (Assuming Current Law)**

To analyze tax incidence in 2023, the 2018 results must be projected into the future to reflect 2023 incomes and tax burdens. A variety of methods were used to do this.

**Income** – The HITS income tax model<sup>21</sup> uses growth rates derived from the state economic forecast to grow each of the various categories of income: wages, interest, pensions, capital gains, social security, etc. The expected growth rates vary by type of income. These differential growth rates were applied to each type of income a sample household received in 2018, yielding an estimate of each household’s total income in 2023. The various types of income are grown at different rates, so some households will experience faster income growth than others. Because of this, sample households may switch deciles between 2018 and 2023.

**Population** – The number of Minnesota households is expected to grow by 3.4 percent between 2018 and 2023, a growth rate of just under one percent per year. Therefore, sample households are assumed to represent 3.4 percent more households in 2023.

**Taxes** – All taxes were adjusted for tax law changes that have already gone into effect or, under current law, are scheduled to go into effect. Income tax projections are from the HITS income tax model, with off-model adjustments for several law changes enacted in 2019. For the remaining taxes in the study, total collections were based on the November 2020 forecast from the Department of Management and Budget. Business taxes were assumed to be shifted in the same manner as the corresponding 2018 business taxes. In the absence of law changes, taxes imposed directly on households are allocated to the various households in the sample in the same way the 2018 taxes were allocated. If tax law has changed since 2018, the study adjusts the allocation.

### **Total Tax Burden in 2023**

In 2023, Minnesota residents are projected to pay a total of \$33.9 billion in Minnesota state and local taxes. Total income is projected to be \$287.2 billion. Because household income increased faster (at 17.8 percent) than the total tax burden (at 15.9 percent), the effective tax rate is projected to fall from 12.0 percent to 11.8 percent of income.

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<sup>21</sup> The House Income Tax Simulation (HITS) model is the micro-simulation model used both for forecasting and for estimating the revenue impact of proposed changes in tax law. The version used in this study is based on a stratified random sample of tax year 2018 income tax returns and the November 2020 economic forecast.

Details of Minnesota tax collections before and after tax shifting are shown in *Table 3-1*. Of the \$40.5 billion in total tax collections in 2023, \$33.9 billion (83.7 percent) of the total burden falls on Minnesotans, either directly or indirectly. The other 16.3 percent (\$6.6 billion) is exported to nonresident consumers and owners of capital.

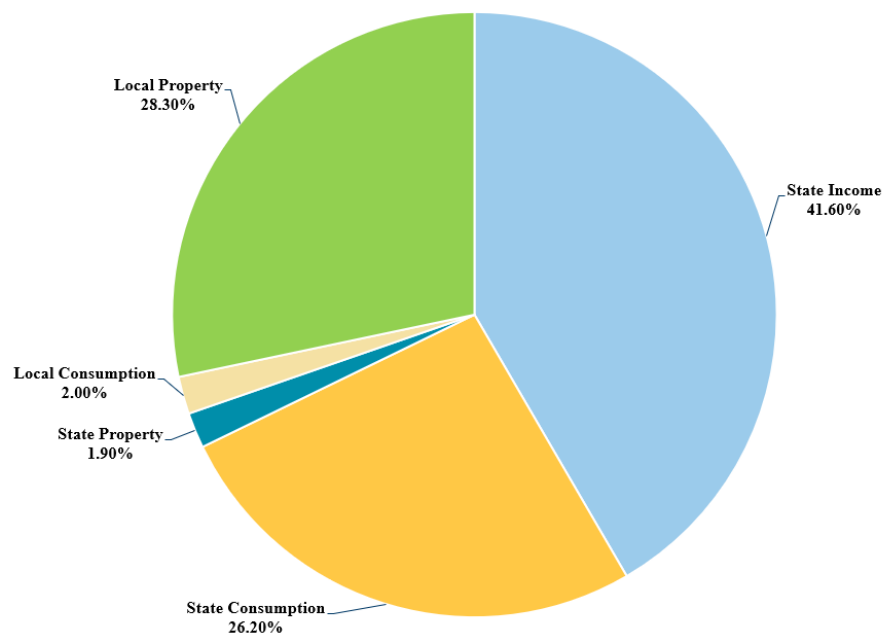
As shown in the “as imposed” columns of the table, \$25.9 billion (64 percent) of the total tax is imposed directly on Minnesota households. Another \$1.6 billion (3.8 percent) is paid by out-of-state visitors. The remaining \$13.0 billion (32.1 percent) is initially imposed on businesses.

The “after shifting” columns in *Table 3-1*, show that some taxes are borne by Minnesotans in much greater proportions than are others. Of the large state taxes, the income tax is borne almost entirely by Minnesota residents, who pay 94 percent of total collections. Minnesota residents bear a smaller share of the general sales tax burden (77 percent). At the other end of the scale, Minnesotans are estimated to bear only 21 percent of the burden of property taxes on industrial property. Minnesotans are estimated to bear 56 percent of the burden of the total tax imposed on business.

*Table 3-1* assigns each tax to one of three broad categories. Each tax is either a tax on income, a tax on consumption, or a tax on property. *Figure 3-1* shows each category’s share of the total state and local tax burden for Minnesotans. It also distinguishes state taxes from local taxes. Almost 70 percent of the total burden is from state taxes; about 30 percent is from local taxes. By tax category, 42 percent of the burden is from taxes on income, 28 percent from taxes on consumption, and 30 percent from taxes on property.

Local taxes are primarily taxes on property, with a relatively small portion on consumption (local sales taxes). State taxes are primarily on income or consumption, with a relatively small portion on property.

**Figure 3-1**  
**2023 Distribution of Minnesota**  
**State and Local Tax Burdens by Tax Type**



*What changed from 2018 to 2023?* The income taxes share of the tax burden decreases slightly between 2018 and 2023, shrinking from 43 percent to 42 percent of the total. The property tax share rises from 28 percent to 30 percent, while the consumption tax share falls slightly from 29 percent to 28 percent. The state taxes share falls from 72 percent to 70 percent.

## **Taxes by Population Decile**

To summarize the distribution of tax burdens by income level, the population of Minnesota households was divided into ten equal-sized groups or *deciles* of households ranked by household income levels. By definition, the 1<sup>st</sup> decile includes the 10 percent of households with the lowest income levels and the 10<sup>th</sup> decile includes the 10 percent of households with the highest incomes. There are expected to be 288,089 households in each population decile. The total burden by tax type for each decile is summarized in *Table 3-2*.

Taxpayers in the top decile (incomes of \$181,553 and over in 2023) are expected to bear 41.6 percent of the total tax burden while having 42.1 percent of total income. By tax type, taxpayers in the top decile pay 58 percent of the individual income tax, 29 percent of the consumer sales tax, 28 percent of the gross homeowner local property tax, and 34 percent of business taxes.<sup>22</sup>

In contrast, taxpayers in the bottom decile (incomes of \$14,964 and below) are projected to bear 1.9 percent of the total tax burden while receiving only 0.9 percent of total income. The bottom-decile taxpayers will have a negative individual income tax burden due to the refundable tax credits. They will pay 3.5 percent of the consumer sales tax, 1.7 percent of gross homeowner property tax, and 4.0 percent of business taxes.

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<sup>22</sup> The term “business tax,” as defined in this study, includes any tax paid by business that is *not* expected to be fully reflected in the price paid by consumers. Business taxes include, among others, the corporate franchise tax, business property taxes (including property taxes on rental housing), the sales tax on business purchases, and insurance taxes on business insurance.

**Table 3-1**  
**2023 Tax Collection Amounts (\$ Millions)**

Tax Type	Total	As Imposed			After shifting		Full-Sample Suits Index
		MN HH's	NR	Business	Minnesota	Exported	
<b>State Taxes</b>							
<b>Taxes on Income and Estates</b>							
Individual income tax	\$13,840	\$13,026	\$814		\$13,026	\$814	+0.241
Corporation franchise tax <sup>1</sup>	1,570			1,570	879	690	-0.129
Estate tax	188	180	8		180	8	+0.571
<b>Total Income and Estate Taxes</b>	<b>\$15,597</b>	<b>\$13,206</b>	<b>\$822</b>	<b>\$1,570</b>	<b>\$14,085</b>	<b>\$1,512</b>	<b>+0.222</b>
<b>Taxes on Consumption</b>							
Total sales tax	\$7,917	\$3,760	\$407	\$3,750	\$6,158	\$1,759	-0.184
General sales/use tax	6,950	3,098	407	3,445	5,343	1,608	-0.194
Sales tax on motor vehicles	967	662		305	815	152	-0.116
Motor fuels excise taxes	924	441	50	434	598	326	-0.315
Alcoholic beverage excise taxes	107	96	11		96	11	-0.148
Cigarette and tobacco excise taxes	602	590	12		590	12	-0.583
Insurance premiums taxes	591	479		112	539	52	-0.295
Gambling taxes	144	141	3		141	3	-0.474
MinnesotaCare taxes	728	667	61		667	61	-0.331
Solid waste management taxes	102	42		60	83	19	-0.384
<b>Total Consumption Taxes</b>	<b>\$11,115</b>	<b>\$6,216</b>	<b>\$544</b>	<b>\$4,356</b>	<b>\$8,872</b>	<b>\$2,243</b>	<b>-0.243</b>
<b>Taxes on Property</b>							
State Property Tax	\$779	\$34	\$8	\$736	\$386	\$393	-0.059
Residential recreational property	43	34	8		34	8	-0.124
Commercial <sup>2</sup>	455			455	248	207	-0.042
Industrial	173			173	37	136	0.128
Utility	108			108	67	41	-0.193
Motor vehicle registration tax	947	796		151	901	46	-0.194
Mortgage and deed taxes	309	184		125	257	52	0.009
<b>Total Property Taxes</b>	<b>\$2,035</b>	<b>\$1,014</b>	<b>\$8</b>	<b>\$1,012</b>	<b>\$1,544</b>	<b>\$490</b>	<b>-0.127</b>
<b>Property Tax Refunds</b>							
Homeowners	-\$648	-\$648			-\$648		+0.673
Renters	-248	-248			-248		+0.890
<b>Total Property Tax Refunds</b>	<b>-895</b>	<b>-895</b>			<b>-895</b>		<b>+0.733</b>
<b>Total State Taxes</b>	<b>\$27,852</b>	<b>\$19,540</b>	<b>\$1,374</b>	<b>\$6,937</b>	<b>\$23,606</b>	<b>\$4,245</b>	<b>+0.061</b>
<b>Local Taxes</b>							
<b>Taxes on Property</b>							
General Property Tax	\$11,626	\$6,043	\$88	\$5,495	\$9,584	\$2,042	-0.161
Homeowners (before PTR)	11,458	5,994	88	5,376	9,516	1,942	-0.161
Residential recreational & 2 <sup>nd</sup> homes <sup>3</sup>	5,637	5,637			5,637		-0.171
Commercial <sup>2</sup>	446	358	88		358	88	-0.020
Industrial	1,900			1,900	1,034	866	-0.042
Farm (other than residence) <sup>4</sup>	699			699	148	551	+0.128
Rental Housing (before PTR) <sup>5</sup>	661			661	659	2	-0.110
Utility <sup>6</sup>	1,660			1,660	1,398	262	-0.293
Mining Production Taxes (taconite)	456			456	283	173	-0.193
Wheelage Taxes	107			107	11	97	+0.303
	60	49		12	57	4	-0.316
<b>Taxes on Consumption</b>							
Local Sales Taxes <sup>7</sup>	783	317	93	373	560	223	-0.169
Local Gross Earnings Taxes	194			194	120	73	-0.193
<b>Total Local Taxes</b>	<b>\$12,602</b>	<b>\$6,359</b>	<b>\$181</b>	<b>\$6,062</b>	<b>\$10,264</b>	<b>\$2,338</b>	<b>-0.162</b>
<b>Total State and Local Taxes</b>	<b>\$40,454</b>	<b>\$25,900</b>	<b>\$1,555</b>	<b>\$12,999</b>	<b>\$33,870</b>	<b>\$6,584</b>	<b>-0.007</b>

<sup>1</sup>Includes taconite, iron, and other ores occupation tax

<sup>2</sup>Includes resorts, railroads, and minerals

<sup>3</sup>Second homes are 20% of residential non-homestead property

<sup>4</sup>Includes timber

<sup>5</sup>Apartments, 80% of residential non-homestead property, and rented mobile homes

<sup>6</sup>Includes wind and solar energy production taxes

<sup>7</sup>Includes lodging and other selective sales taxes

Table 3-2

## 2023 Population Deciles - Amounts (\$ Thousands)

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$14,964 & Under	288,089	\$2,655,600	-\$28,560	\$33,424	\$130,379	\$93,628	\$224,007	-\$81,596	\$15,954	\$87,252	\$66,873	\$13,194
Second	\$14,965 - \$24,373	288,089	5,837,747	-44,830	33,355	168,651	97,063	265,715	-103,504	12,070	97,206	91,958	8,898
Third	\$24,374 - \$34,203	288,089	8,729,969	12,548	40,894	198,054	116,953	315,006	-118,701	15,331	105,840	120,125	11,339
Fourth	\$34,204 - \$44,612	288,089	11,758,399	185,554	46,689	224,198	132,048	356,246	-124,899	17,445	112,174	144,906	12,225
Fifth	\$44,613 - \$56,913	288,089	15,228,045	395,161	53,154	253,101	149,185	402,286	-132,361	20,432	117,054	178,883	14,600
Sixth	\$56,914 - \$72,424	288,089	19,501,252	614,320	65,095	300,142	181,216	481,358	-135,777	26,215	123,011	221,077	19,298
Seventh	\$72,425 - \$94,295	288,089	25,178,649	901,911	80,356	373,591	223,175	596,766	-117,787	32,470	133,556	269,973	23,905
Eighth	\$94,296 - \$124,667	288,089	32,855,973	1,351,759	96,362	462,478	266,087	728,565	-74,875	38,784	147,392	327,787	27,066
Ninth	\$124,668 - \$181,552	288,089	44,564,948	2,058,405	126,035	571,022	342,699	913,721	-5,800	54,656	160,085	392,960	38,769
Tenth	\$181,553 & Over	288,089	120,845,467	7,579,801	304,125	1,078,455	795,810	1,874,265	0	152,241	200,668	673,893	110,624
Total		2,880,894	\$287,156,049	\$13,026,069	\$879,489	\$3,760,071	\$2,397,864	\$6,157,935	-\$895,300	\$385,598	\$1,284,238	\$2,488,435	\$279,918
Top 5%	Over \$370,589	144,048	\$89,047,554	\$5,966,639	\$219,477	\$715,800	\$568,915	\$1,284,715	\$0	\$114,395	\$114,781	\$433,698	\$84,418
Top 1%	Over \$3,476,057	28,819	45,333,732	3,309,270	105,884	296,324	269,954	566,278	0	61,104	35,109	168,131	44,210

Population Decile	Residential Local Property Taxes					Nonresidential	Other
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>	Local Property Taxes	Local Taxes <sup>2</sup>
First	\$97,096	\$40,552	\$43,421	\$83,974	\$186,592	\$113,576	\$25,895
Second	\$115,527	73,416	19,570	92,986	212,766	66,235	31,435
Third	\$191,106	91,334	26,274	117,608	316,460	87,805	37,494
Fourth	\$244,320	97,007	28,542	125,549	380,399	62,289	42,870
Fifth	\$352,891	96,713	32,450	129,162	498,522	103,205	49,122
Sixth	\$504,938	89,316	45,267	134,584	667,322	164,023	59,052
Seventh	\$666,693	55,335	55,916	111,250	811,081	196,491	72,835
Eighth	\$849,775	39,475	61,698	101,173	990,305	184,670	88,300
Ninth	\$1,019,266	33,977	91,793	125,770	1,212,120	311,098	110,033
Tenth	\$1,595,076	21,365	354,123	375,488	2,116,200	835,279	230,505
Total	\$5,636,688	\$638,490	\$759,054	\$1,397,544	\$7,391,767	\$2,124,671	\$747,541
Top 5%	\$959,298	\$9,892	\$289,154	\$299,045	\$1,354,929	\$634,980	\$159,167
Top 1%	\$275,489	2,238	174,567	176,805	487,315	274,745	71,228

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
\$326,063	\$169,566	\$160,983	\$330,549	\$656,612
310,437	202,860	158,007	360,867	671,303
441,758	310,271	192,112	502,382	944,141
485,557	533,491	216,849	750,341	1,235,898
650,849	802,835	246,375	1,049,210	1,700,059
890,398	1,112,504	302,092	1,414,596	2,304,994
1,080,407	1,548,595	372,554	1,921,150	3,001,556
1,263,275	2,199,723	443,117	2,642,839	3,906,114
1,633,250	3,160,546	578,286	3,738,832	5,372,082
3,181,984	9,499,742	1,395,874	10,895,617	14,077,601
\$10,263,979	\$19,540,133	\$4,066,249	\$23,606,383	\$33,870,360
\$2,149,076	\$7,206,179	\$1,020,552	\$8,226,731	\$10,375,807
833,288	3,798,496	495,720	4,294,217	5,127,505

<sup>1</sup> Includes seasonal recreational residential (cabins) and second homes.<sup>2</sup> Includes taconite production tax and wheelage taxes.

## Overall Effective Tax Rates

In a similar fashion as was done for taxes paid in 2018, effective tax rates by tax type for 2023 are reported in *Table 3-3*. The effective tax rate for all Minnesota state and local taxes combined is shown in the last column in the lower section of the table. For all households combined, the effective tax rate is 11.8 percent. Effective tax rates are lowest in the 4<sup>th</sup> decile at 10.5 percent of income. The effective rates rise to 12.1 percent in the 9<sup>th</sup> decile and then drop to 11.6 percent in the 10<sup>th</sup> decile. For the top 5 percent and the top 1 percent of households the effective tax rates are 11.7 percent and 11.3 percent, lower than the average rate.

*What changed between 2018 and 2023?* The average tax rate falls by 0.2 percentage points (from 12.0 to 11.8 percent). The changes are largest at the bottom and decline with income. The largest change is in the first decile, which drops from 28.9 percent to 24.7 percent. Deciles two through five each show successively smaller changes in the effective rate. The top five deciles change very little, declining by 0.1 percentage points each. The top 1% has a slightly larger decrease of 0.2 percentage points.

Table 3-3

## 2023 Population Deciles - Effective Tax Rates

Population Decile	Income Range	Number of Households	State Income Taxes			State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
			Household Income	Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$14,964 & Under	288,089	\$2,655,600	- 1.1%	1.3%	4.9%	3.5%	8.4%	- 3.1%	0.6%	3.3%	2.5%	0.5%
Second	\$14,965 - \$24,373	288,089	5,837,747	- 0.8%	0.6%	2.9%	1.7%	4.6%	- 1.8%	0.2%	1.7%	1.6%	0.2%
Third	\$24,374 - \$34,203	288,089	8,729,969	0.1%	0.5%	2.3%	1.3%	3.6%	- 1.4%	0.2%	1.2%	1.4%	0.1%
Fourth	\$34,204 - \$44,612	288,089	11,758,399	1.6%	0.4%	1.9%	1.1%	3.0%	- 1.1%	0.1%	1.0%	1.2%	0.1%
Fifth	\$44,613 - \$56,913	288,089	15,228,045	2.6%	0.3%	1.7%	1.0%	2.6%	- 0.9%	0.1%	0.8%	1.2%	0.1%
Sixth	\$56,914 - \$72,424	288,089	19,501,252	3.2%	0.3%	1.5%	0.9%	2.5%	- 0.7%	0.1%	0.6%	1.1%	0.1%
Seventh	\$72,425 - \$94,295	288,089	25,178,649	3.6%	0.3%	1.5%	0.9%	2.4%	- 0.5%	0.1%	0.5%	1.1%	0.1%
Eighth	\$94,296 - \$124,667	288,089	32,855,973	4.1%	0.3%	1.4%	0.8%	2.2%	- 0.2%	0.1%	0.4%	1.0%	0.1%
Ninth	\$124,668 - \$181,552	288,089	44,564,948	4.6%	0.3%	1.3%	0.8%	2.1%	0.0%	0.1%	0.4%	0.9%	0.1%
Tenth	\$181,553 & Over	288,089	120,845,467	6.3%	0.3%	0.9%	0.7%	1.6%	0.0%	0.1%	0.2%	0.6%	0.1%
Total		2,880,894	\$287,156,049	4.5%	0.3%	1.3%	0.8%	2.1%	- 0.3%	0.1%	0.4%	0.9%	0.1%
Top 5%	Over \$370,589	144,048	\$89,047,554	6.7%	0.2%	0.8%	0.6%	1.4%	0.0%	0.1%	0.1%	0.5%	0.1%
Top 1%	Over \$3,476,057	28,819	45,333,732	7.3%	0.2%	0.7%	0.6%	1.2%	0.0%	0.1%	0.1%	0.4%	0.1%

Population Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes <sup>2</sup>	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>		
First	3.7%	1.5%	1.6%	3.2%	7.0%	4.3%	1.0%
Second	2.0%	1.3%	0.3%	1.6%	3.6%	1.1%	0.5%
Third	2.2%	1.0%	0.3%	1.3%	3.6%	1.0%	0.4%
Fourth	2.1%	0.8%	0.2%	1.1%	3.2%	0.5%	0.4%
Fifth	2.3%	0.6%	0.2%	0.8%	3.3%	0.7%	0.3%
Sixth	2.6%	0.5%	0.2%	0.7%	3.4%	0.8%	0.3%
Seventh	2.6%	0.2%	0.2%	0.4%	3.2%	0.8%	0.3%
Eighth	2.6%	0.1%	0.2%	0.3%	3.0%	0.6%	0.3%
Ninth	2.3%	0.1%	0.2%	0.3%	2.7%	0.7%	0.2%
Tenth	1.3%	0.0%	0.3%	0.3%	1.8%	0.7%	0.2%
Total	2.0%	0.2%	0.3%	0.5%	2.6%	0.7%	0.3%
Top 5%	1.1%	0.0%	0.3%	0.3%	1.5%	0.7%	0.2%
Top 1%	0.6%	0.0%	0.4%	0.4%	1.1%	0.6%	0.2%

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
12.3%	6.4%	6.1%	12.4%	24.7%
5.3%	3.5%	2.7%	6.2%	11.5%
5.1%	3.6%	2.2%	5.8%	10.8%
4.1%	4.5%	1.8%	6.4%	10.5%
4.3%	5.3%	1.6%	6.9%	11.2%
4.6%	5.7%	1.5%	7.3%	11.8%
4.3%	6.2%	1.5%	7.6%	11.9%
3.8%	6.7%	1.3%	8.0%	11.9%
3.7%	7.1%	1.3%	8.4%	12.1%
2.6%	7.9%	1.2%	9.0%	11.6%
3.6%	6.8%	1.4%	8.2%	11.8%
2.4%	8.1%	1.1%	9.2%	11.7%
1.8%	8.4%	1.1%	9.5%	11.3%

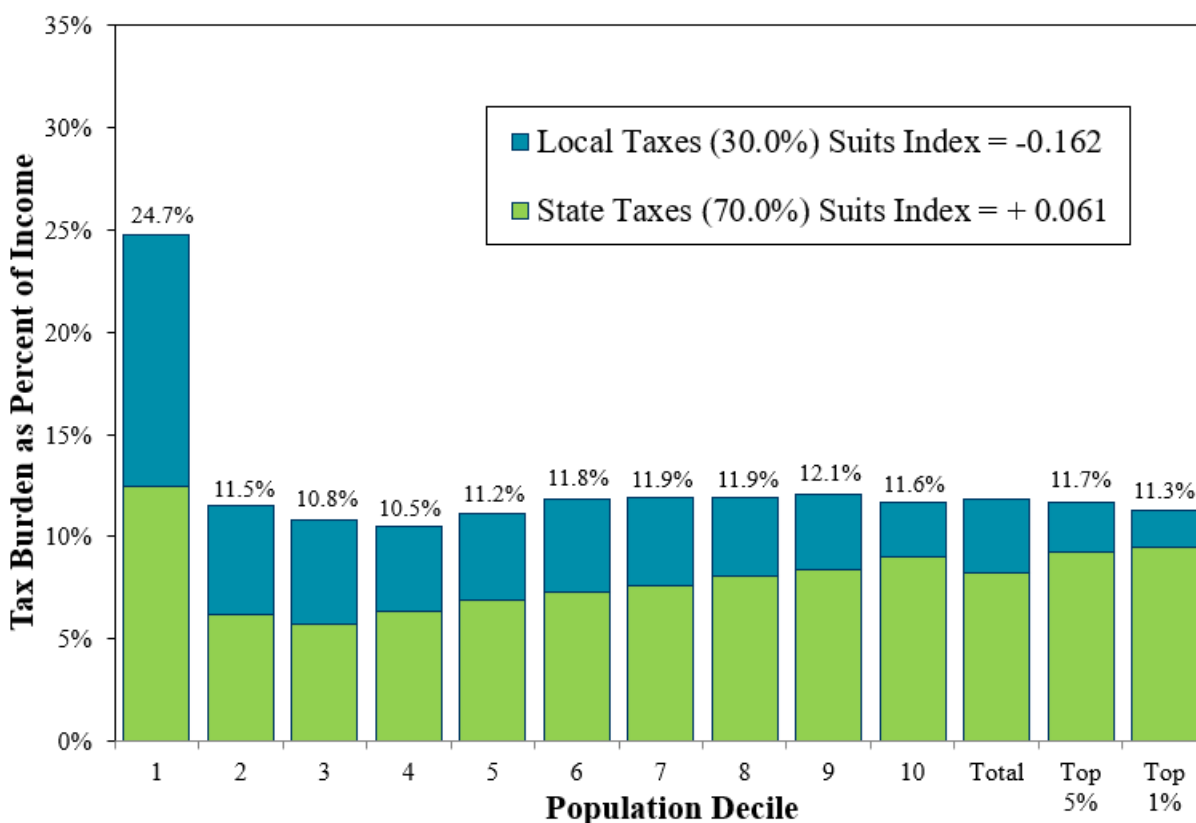
<sup>1</sup> Includes seasonal recreational residential (cabins) and second homes.<sup>2</sup> Includes taconite production tax and wheelage taxes.



## State Taxes Compared to Local Taxes

As shown in *Figure 3-2*, the distribution of the burden of state taxes differs greatly from that of local taxes. The effective state tax rate rises with income from the 3<sup>rd</sup> to 10<sup>th</sup> decile and rises further for the top 5 percent and top 1 percent. In contrast, the effective local tax rate generally falls as income rises.

**Figure 3-2**  
**Effective Tax Rates by Population Decile**  
**State Taxes Compared to Local Taxes**



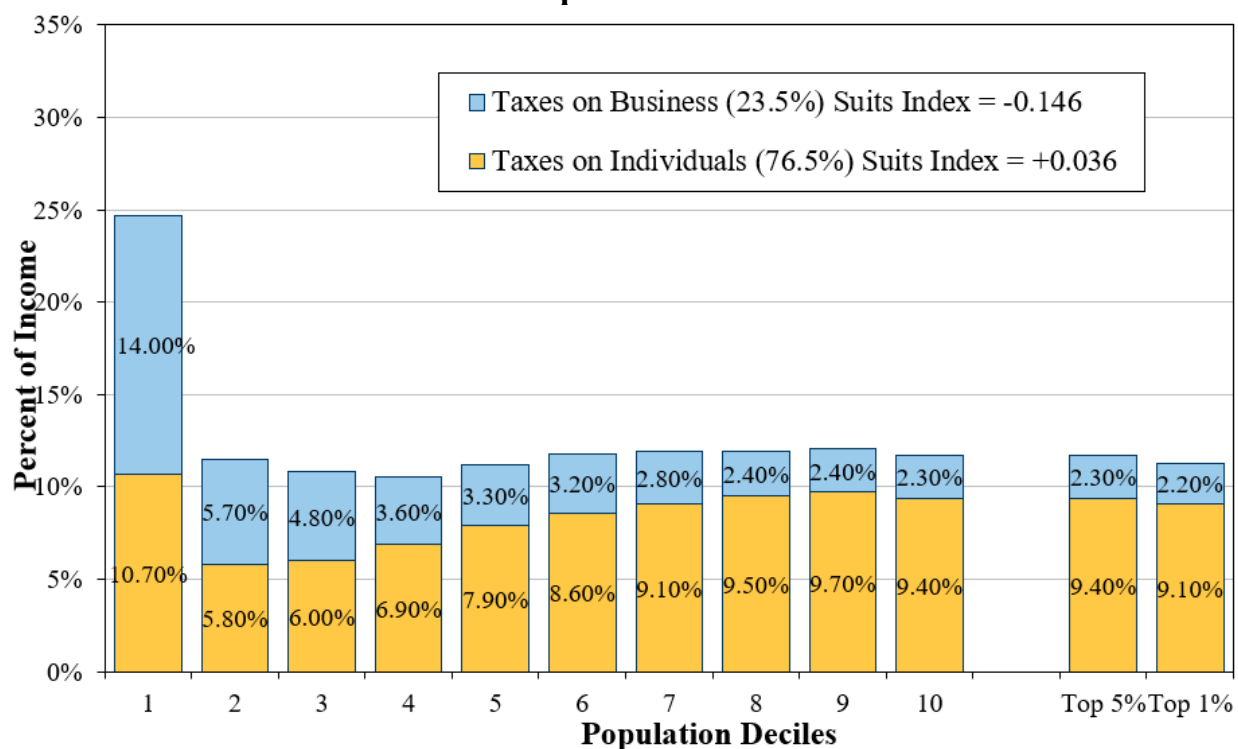
*What changed between 2018 and 2023?* In 2023, the Suits index for state taxes is +0.061, meaning that (as seen in *Figure 3-2* above) state taxes are progressive. In 2018, state taxes were less progressive, with a Suits index of +0.049. The Suits index for local taxes in 2023 is -0.162 (regressive), compared to -0.171 in 2018. When combined, the Suits index for all Minnesota state and local taxes in 2023 is -0.007. This is slightly less regressive than in 2018 (Suits index of -0.013).

## Business Taxes Compared to Taxes on Individuals

Figure 3-3 compares taxes on business with taxes paid by individuals. Taxes on business are regressive, with effective tax rates falling with income and a Suits index of -0.146. In contrast, taxes on individuals are progressive, with a Suits index of +0.036. For individual taxes, effective tax rates rise with income between the 2<sup>nd</sup> and 9<sup>th</sup> deciles before falling in the 10<sup>th</sup>. The effective tax rate for the top 5 percent is equal to that of the 10<sup>th</sup> decile and the top 1 percent is slightly below.

*What changed between 2018 and 2023?* In 2018, business taxes were more regressive (Suits of -0.156) and the business share was larger (23.8 percent). Taxes on individuals are slightly more progressive in 2023, changing from +0.031 to +0.036.

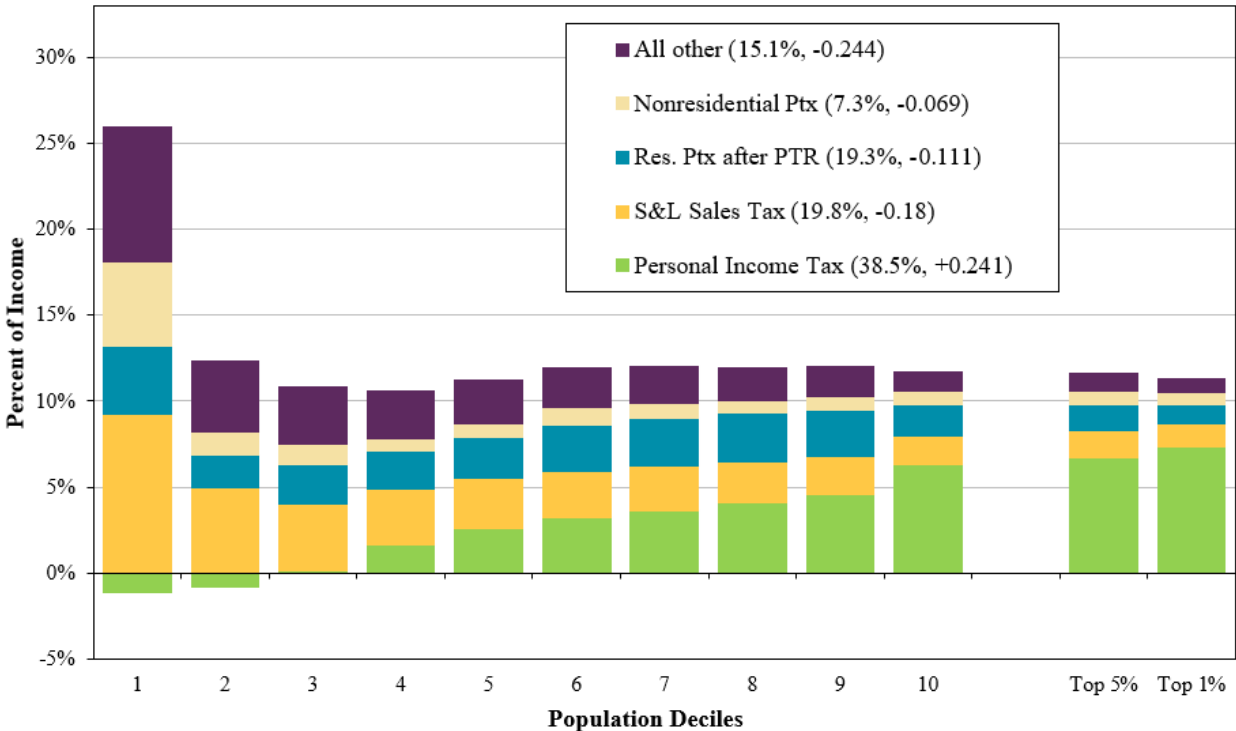
**Figure 3-3**  
**Effective Tax Rates by Population Decile**  
**Business Taxes Compared to Taxes on Individuals**



Summary of 2023 Tax Burden by Major Tax Type

Figure 3-4 summarizes how the 2023 tax burden of the major tax categories varies by population decile. The categories for this table combine both the individual and business components of these tax types. For example, the state sales tax total includes both the consumer and business portions (and includes the tax on motor vehicles). Residential property tax includes both homeowner and rental property taxes, along with cabins.

Figure 3-4  
2023 Tax Incidence by Tax Type



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

The 2023 effective tax rates by tax type are shown in Table 3-4. (These are the effective tax rates graphed in Figure 3-4 above.) The patterns for each of the five tax types are discussed below.

Table 3-5 shows the percentage point changes in effective tax rates between 2018 and 2023, by tax type. The reasons for those changes are also discussed below.

**Table 3-4**  
**Effective Tax Rates by Tax Type (2023)**

Population Decile	Personal Income Tax	Residential Property Taxes*	Other Property Taxes	State & Local Sales Taxes	All Other S&L Taxes
First	-1.1%	4.0%	4.9%	9.2%	7.8%
Second	-0.8%	1.9%	1.3%	5.0%	4.1%
Third	0.1%	2.3%	1.2%	3.9%	3.3%
Fourth	1.6%	2.2%	0.7%	3.3%	2.8%
Fifth	2.6%	2.4%	0.8%	2.9%	2.5%
Sixth	3.2%	2.7%	1.0%	2.7%	2.3%
Seventh	3.6%	2.8%	0.9%	2.6%	2.1%
Eighth	4.1%	2.8%	0.7%	2.4%	1.9%
Ninth	4.6%	2.7%	0.8%	2.2%	1.7%
Tenth	6.3%	1.8%	0.8%	1.7%	1.1%
<b>Total</b>	<b>4.5%</b>	<b>2.3%</b>	<b>0.9%</b>	<b>2.3%</b>	<b>1.8%</b>
<b>Top 5%</b>	<b>6.7%</b>	<b>1.5%</b>	<b>0.8%</b>	<b>1.6%</b>	<b>1.0%</b>
<b>Top 1%</b>	<b>7.3%</b>	<b>1.1%</b>	<b>0.7%</b>	<b>1.4%</b>	<b>0.8%</b>
<b>Total Tax Burden</b>	<b>38.5%</b>	<b>19.3%</b>	<b>7.3%</b>	<b>19.8%</b>	<b>15.1%</b>
<b>Suits Index</b>	<b>+0.241</b>	<b>-0.111</b>	<b>-0.069</b>	<b>-0.183</b>	<b>-0.244</b>

\*Residential property taxes are net of property tax refunds.

**Table 3-5**  
**Change in Effective Tax Rates Between 2018 and 2023**

Population Decile	Personal Income Tax	Residential Property Taxes*	Other Property Taxes	State & Local Sales Taxes	All Other S&L Taxes
First	-0.5%	-0.4%	-1.5%	-0.7%	-1.1%
Second	-0.1%	0.2%	-0.1%	-0.3%	-0.6%
Third	-0.1%	0.4%	-0.2%	-0.3%	-0.4%
Fourth	0.1%	0.3%	-0.3%	-0.2%	-0.3%
Fifth	0.0%	0.2%	-0.1%	-0.2%	-0.3%
Sixth	0.0%	0.2%	0.1%	-0.1%	-0.2%
Seventh	0.0%	0.3%	0.0%	-0.1%	-0.2%
Eighth	-0.1%	0.3%	-0.1%	-0.1%	-0.2%
Ninth	-0.1%	0.2%	0.0%	-0.1%	-0.1%
Tenth	-0.1%	0.2%	-0.1%	0.0%	-0.1%
<b>Total</b>	<b>-0.2%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>-0.1%</b>	<b>-0.1%</b>
<b>Top 5%</b>	<b>-0.2%</b>	<b>0.1%</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Top 1%</b>	<b>-0.4%</b>	<b>0.2%</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>0.0%</b>

Calculated as the difference between the unrounded percentages in Tables 3-4 and 2-4.

\* Residential property taxes are net of property tax refunds.

## ***Individual Income Tax***

The individual income tax is expected to account for 38.5 percent of the total state and local tax burden in 2023, down from 39.0 percent in 2018. Because of its graduated tax rate structure and allowance of personal exemptions and deductions, the individual income tax is, by design, progressive. As seen in *Table 3-4*, effective tax rates rose significantly with increases in household income. At the low end, the effective tax rate for the income tax was negative for the first two deciles and close to zero in the 3rd decile, showing the impact of three refundable low-income credits (which can more than offset any income tax liabilities).<sup>23</sup> Effective tax rates rise steadily from 1.6 percent of income for the 4th decile to 6.3 percent for the 10th decile. The top 5 percent and 1 percent of households have even higher effective tax rates, at 6.7 and 7.3 percent respectively. The Suits index of +0.241 reflects this considerable progressivity.

*Figure 3-4* clearly demonstrates the importance of the progressive income tax in offsetting most of the regressivity of other taxes.

*What changed between 2018 and 2023?* Income tax burdens are projected to increase by 14 percent between 2018 and 2023. The overall effective income tax rate also decreases slightly from 4.7 percent in 2018 to 4.5 percent in 2023. Effective income tax rates remain relatively stable between 2018 and 2023. The biggest changes are in the 1<sup>st</sup> decile (where the rate becomes more negative) and in the 10<sup>th</sup> decile. For the top 5 percent the rate decreases from 6.9 percent to 6.7 percent, and for the top 1 percent the rate decreases from 7.7 percent to 7.3 percent. The income tax is projected to become slightly less progressive in 2023, the Suits index falling from +0.244 to +0.241. These minor changes in effective rates and the Suits index indicate that the law changes enacted in 2019 did not significantly change the overall distribution of the income tax burden.

## ***Residential Property Taxes (After PTR)***

Residential property taxes include the tax on owned homes and rental property. The burden shown here includes the impact of state property tax refunds for both homeowners and renters. The property tax refunds (\$895 million in 2023) offset 12.1 percent of the residential property tax burden (down from 12.8 percent in 2018). The refunds offset a much higher portion in the lowest five deciles. Residential property taxes (after PTR) account for 19.3 percent of the total state and local tax burden, up from 17 percent in 2018.

In 2023, effective tax rates rise from 1.9 percent of income in the 2<sup>nd</sup> decile to 2.8 percent of income in the 7<sup>th</sup> and 8<sup>th</sup> deciles before falling to 2.7 percent in the 9<sup>th</sup> and 1.8 percent in the 10<sup>th</sup> decile. The Suits index of -0.111 (regressive) shows that the impact of the sharp drop in the 10<sup>th</sup> decile far outweighs the increasing effective tax rates over the lower deciles.

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<sup>23</sup> The impact of these refundable credits on the distribution of the overall 2018 tax burden is shown in *Chapter 4, Section C*.

Although residential property tax burdens (after PTR) are regressive, they are noticeably less regressive than either sales taxes or “all other taxes.” This is mostly due to the impact of property tax refunds. In their absence, the Suits index for residential property taxes would be -0.194 – much closer to that of the total state sales tax (-0.184).

*What changed between 2018 and 2023?* Residential property taxes before PTR are projected to rise faster than income (by 30 percent compared to 18 percent). Property tax refunds will grow more slowly than property taxes (24 percent), so net property taxes will increase as a share of income. As a result, the overall effective tax rate rises by 0.3 percent of income. The effective tax rate rises by 0.3 percent of income in the 3<sup>rd</sup> through 8<sup>th</sup> deciles and by 0.2 percent of income in the 10<sup>th</sup> decile. The Suits index shows a slight decrease in regressivity for residential property tax after PTR, changing from -0.119 to -0.111.

The pattern is stronger for renters than for homeowners. Rental property taxes rise faster (by 42 percent compared to 28 percent), and renter refunds rise more slowly (by 11 percent compared to 29 percent).

### ***Nonresidential Property Taxes***

These include commercial and industrial taxes along with taxes on utilities and farm property. Like other business taxes, the incidence of these taxes depends on the extent to which the tax burden is borne by property owners rather than shifted to others through higher prices or lower wages. Incidence models estimate these taxes to be regressive, but less so than sales taxes. Average effective tax rates generally fall between 2018 and 2023 because income is projected to grow more quickly than the nonresidential property tax burdens.

### ***State and Local Sales Taxes***

In agreement with other incidence studies, this analysis finds the sales tax to be regressive. Higher income households spend a smaller portion of their income on items subject to the sales tax. This is partly due to their higher savings rates and partly to the mix of consumer goods and services they buy. Hence, tax burdens as a proportion of income tend to decline as one moves up the income scale.

For 2023, the effective state and local sales tax rate falls from 5.0 percent in the 2<sup>nd</sup> decile to 1.7 percent in the 10<sup>th</sup> decile. Sales taxes overall are more regressive than property taxes (after PTR), with a Suits index of -0.183.

*What changed between 2018 and 2023?* The state general sales tax burden is expected to grow by 14 percent between 2018 and 2023, less than the 18 percent increase in income. The sales tax on motor vehicles is expected to grow by 20 percent. Local sales taxes growth is projected at 20 percent. The overall effective tax rate changes only slightly across deciles, with no change in the top two. The sales tax share of the total burden falls slightly from 20.0 percent to 19.8 percent.

### ***Other Taxes***

The “all other taxes” category in *Table 3-4* includes one progressive tax (the estate tax) and many regressive taxes, including excise taxes on motor fuels, tobacco, and alcohol, the motor vehicle registration tax, solid waste management taxes, mortgage and deed taxes, insurance premiums taxes, and gambling taxes. These assorted taxes account for 15.1 percent of Minnesota’s state and local tax burden in 2023, and their combined impact is more regressive than sales taxes (a Suits index of -0.244). Effective tax rates fall from 4.1 percent in the 2<sup>nd</sup> decile to 1.1 percent in the 10<sup>th</sup> decile.

*What changed between 2018 and 2023?* The other taxes share of the tax burden fell from 16.1 percent to 15.1 percent.

Growth rates for the taxes in this category are low. Their total grew by 8.5 percent, not far off from forecast inflation (10.7 percent). Excise taxes shrink or grow slowly (-1 percent for motor fuels, -3 percent for tobacco, and 15 percent for alcohol), as expected, because none of their per-unit tax rates are indexed for inflation. The revenue drop for the estate tax (down 14 percent) reflects the phased-in increase in the exemption level. Corporate tax growth is projected to be only 4 percent.

### **Summary of the Impact of Law Changes Taking Effect Between 2018 and 2023**

Significant law changes enacted in 2019 made the overall tax system less regressive.

- The individual income tax was revised significantly in response to federal law changes. Tax calculations now start with federal adjusted gross income rather than federal taxable income. The 2019 tax bill created a state standard deduction was created to match the increased federal standard deduction, repealed personal exemptions but maintained dependent exemptions, and limited some itemized deductions. The 2<sup>nd</sup> income tax rate was reduced from 7.05 percent to 6.8 percent and the 4<sup>th</sup> bracket threshold was lowered. The working family credit and Social Security subtraction were increased. The net effect of these changes was to make the tax more progressive, although the magnitude of the change is relatively small.
- Adopting the federal law changes expanded the corporate franchise tax base, resulting in increased revenue. Since the tax is regressive, the base expansion is also regressive.
- The state general property tax levy was decreased, along with other smaller property tax changes, making the property tax more progressive.

- There were small specific reductions in sales tax, which made the tax system more progressive overall.
- The MinnesotaCare provider tax was extended at a rate of 1.8 percent. The tax was scheduled to expire after 2019. Extending the tax increased the tax burden on Minnesota households compared to the total tax burden if the tax had expired. Since the tax is regressive, the extension makes the tax system more regressive overall. However, since the tax was in effect in 2018 and in 2023, the effective change between the two years is the rate reduction from 2 percent to 1.8 percent.

Taken together, these law changes had relatively little impact on the distribution of the tax burden. The overall suits index for state and local taxes increased from -0.013 in 2018 to -0.007 in 2023, indicating that the overall tax system is slightly less regressive and closer to proportional. The effective tax rates by decile dropped for most taxpayers, with the largest decreases in the lower deciles.

But law changes are just one factor driving those shifts. Economic growth can also modify the distribution of the tax burden. Income grows at different rates in different deciles, and shares of the tax burden will change as shares of income change. The relative importance of tax law changes and economic changes will vary through time.

### **Minnesota's Diversified Tax Portfolio in 2023**

*Table 3-6* shows how revenue is expected to grow between 2018 and 2023 for each of the components of Minnesota's tax portfolio. The varying growth rates change the mix of taxes. Income tax revenue growth, at 14 percent, exceeds that of the general sales tax (13 percent). Nonresidential property taxes are projected to grow at 5 percent growth, far more slowly than residential property taxes. Homeowner property tax refunds are projected to grow more quickly than homestead property taxes (29 percent compared to 28 percent). Growth in rental property taxes (at 42 percent) exceeds growth in renter property tax refunds (11 percent).



**Table 3-6**  
**Projected Growth in Tax Collections**  
**Between 2018 and 2023 by Tax Type\***

5-Year Growth	Taxes on Consumption	Taxes on Property	Taxes on Income
Negative	Cigarette & Tobacco Motor Fuels Excise Taxes		Estate
0% to 5%		Nonresidential Property	Corporate
5% to 10%			
11% to 15%	MinnesotaCare Solid Waste Management General Sales/Use Tax Insurance Premiums Alcohol	Renter PTR Taconite	Income Gross Earnings
16% to 20%	Local Sales Taxes	Motor Vehicle Registration	
21% to 25%	Motor Vehicle Sales	2nd Homes and Cabins Mortgage and Deed	
26% to 30%		Homesteads Homeowner PTR	
31% to 35%		Wheelage Taxes	
Over 40%	Gambling	Rental Property	

\*Growth in collections for the total state and local tax portfolio: 15.4%. Income growth: 17.8%.

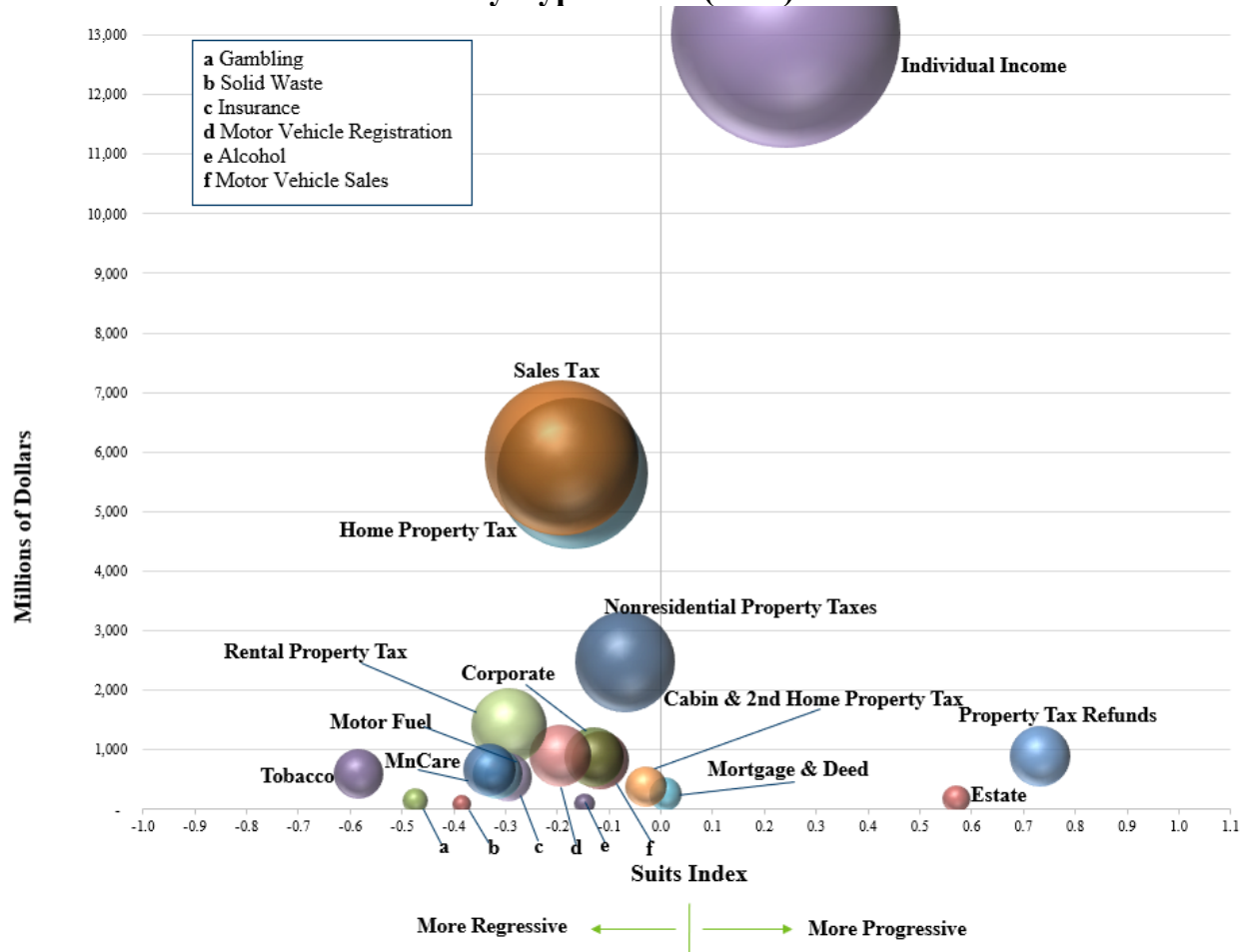
Taxes with high expected growth rates include gambling taxes (up 73 percent), rental property (43 percent), and wheelage taxes (33 percent). Taxes with very low growth include excise taxes (tobacco, motor fuels, and alcohol), the corporate tax, and the estate tax (due to enacted cuts).

Different growth rates change the mix of taxes in Minnesota's tax portfolio. *Figure 3-5* illustrates the magnitude of the tax burden and Suits index for components of Minnesota's state and local tax system in 2023. Due to expected revenue growth, most of the circles are larger and have moved higher in *Figure 3-5* than they were in *Figure 2-5* (for 2018). The vertical dollar scale is unchanged, so growth in the income tax burden shifts its circle partly off the top of the chart.

Between 2018 and 2023, some circles have moved to the left (more regressive/less progressive) and some have moved to the right (less regressive/more progressive). Those shifts are due to a combination of the effects of law changes and changes in the distribution of income.

Dollars of revenue from the two progressive taxes plus property tax refunds are projected to grow by 16 percent. Growth for the regressive taxes is slightly lower, at 15 percent. Because the progressive taxes are growing more quickly than the regressive ones, the total state and local tax portfolio becomes less regressive and the overall Suits index falls from -0.013 to -0.007.

**Figure 3-5**  
**Dollars of Tax Burden and Suits Index**  
**By Type of Tax (2023)**



## Chapter 4: Additional Results

This chapter provides additional analysis of the 2018 results.

- Section A reports the 2018 results by income deciles rather than population deciles. The households in each income decile receive 10 percent of total household income. This provides added detail for high-income households (but less detail for lower-income households).
- Section B explains why the study disregards the “federal tax offset” in calculating the burden of state and local taxes. For those who itemize deductions, an increase in their state income tax, homestead property tax, or motor vehicle registration tax may reduce their federal income tax liability. Taking this into account would reduce the estimated tax rates reported in this study. For informational purposes, effective tax rates and Suits indexes adjusted for the federal tax offset are included in this section.
- Section C demonstrates the significant impact that refundable income tax credits and property tax refunds have on the distribution of the overall tax burden. Effective tax rates and Suits indexes are calculated both with and without these provisions.
- Section D explains why this study’s estimates of the incidence of *existing* business taxes should not be used to estimate the incidence of a *change* in Minnesota taxes. The difference between “average incidence” (for existing taxes) and “incremental incidence” (for a change in taxes) is illustrated for the corporate income tax, rental property tax, and industrial property tax.
- Section E presents results from a 50-state study of overall tax incidence. Though the results are limited to the population of non-seniors, they help provide context for the results of Minnesota’s tax incidence studies.

## Section A

### An Alternative Presentation: Income Deciles<sup>24</sup>

The results presented elsewhere in this study have been summarized for deciles of households. Each population decile represented 10 percent of the population of households in the study. This section provides an alternative way to summarize the distribution of the 2018 and 2023 tax burdens. *Tables 4-1* through *4-4* are organized by income deciles rather than population deciles. To derive income deciles, households are ranked from lowest to highest income and divided into groups representing equal amounts of total income.

The distribution of tax by income deciles in these tables can be compared to the distribution by population deciles in *Tables 2-2, 2-3, 3-2, and 3-3*. In both distributions, households are ranked by income level. In 2018, for example, each population decile of 278,751 households includes 10 percent of all households; each income decile with \$24.4 billion of income includes 10 percent of total income. Because of their relatively low incomes, it takes 1,129,731 households in the first income decile to account for 10 percent of total income; in contrast, there are only 7,568 high-income households in the 10th decile, who also received 10 percent of total income.

Again using the year 2018 for illustration, the first income decile includes 40.5 percent of all households. Their share of total taxes (10.9 percent) exceeded their share of household income (10 percent). First income decile households (with 10 percent of total income) paid 1 percent of the individual income tax, but paid 20 percent of the consumer sales tax, 32 percent of consumer excise taxes, and 18 percent of all business taxes borne by Minnesota residents.

The 10th income decile includes only 0.3 percent of all households. Their share of total taxes (9.6 percent) is slightly less than their share of household income (10 percent). They paid 17.4 percent of the individual income tax, but paid 4.2 percent of the consumer sales tax, 1.2 percent of consumer excise taxes, and 7.1 percent of business taxes borne by Minnesota residents.

Tables by income decile provide more detail about the tax burdens of higher-income households. In contrast, tables by population decile provide more detail about tax burdens for households at the middle of the income distribution or below.

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<sup>24</sup> Unlike some earlier studies, *Tables 4-1* through *4-4* do not report the results separately for those receiving the top 1 percent of income. Because less than 25 households would be included in that group, reporting such information separately would raise disclosure issues.

Table 4-1

## 2018 Income Deciles - Amounts (\$ Thousands)

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$40,349 & under	1,129,731	\$24,385,363	\$129,236	\$152,385	\$642,408	\$399,315	\$1,041,724	-\$330,577	\$67,170	\$409,097	\$364,895	\$40,382
Second	\$40,350 - \$62,312	482,248	\$24,385,363	\$700,523	\$96,769	\$411,642	\$248,738	\$660,380	-\$183,171	\$42,569	\$209,273	\$293,669	\$24,313
Third	\$62,313 - \$85,529	333,470	\$24,385,363	\$871,968	\$87,886	\$374,792	\$223,923	\$598,715	-\$110,404	\$39,335	\$159,869	\$273,858	\$22,611
Fourth	\$85,530 - \$109,570	251,394	\$24,385,363	\$1,003,833	\$81,818	\$355,914	\$207,186	\$563,100	-\$73,346	\$36,642	\$134,354	\$255,440	\$20,907
Fifth	\$109,571 - \$138,219	198,986	\$24,385,363	\$1,097,719	\$77,507	\$331,098	\$194,220	\$525,318	-\$21,396	\$36,275	\$114,149	\$234,977	\$19,621
Sixth	\$138,220 - \$180,852	155,692	\$24,385,363	\$1,188,034	\$76,958	\$307,253	\$189,440	\$496,694	-\$2,233	\$38,519	\$95,756	\$214,209	\$21,067
Seventh	\$180,853 - \$253,121	115,377	\$24,385,363	\$1,266,629	\$71,289	\$276,176	\$174,647	\$450,822	-\$1,541	\$35,580	\$73,523	\$182,878	\$20,482
Eighth	\$253,122 - \$444,138	75,625	\$24,385,363	\$1,465,774	\$71,038	\$241,574	\$171,087	\$412,660	-\$694	\$36,943	\$53,871	\$155,963	\$21,715
Ninth	\$444,139 - \$1,183,783	37,415	\$24,385,363	\$1,683,006	\$67,548	\$194,794	\$160,165	\$354,959	-\$77	\$38,726	\$33,580	\$111,254	\$22,077
Tenth	\$1,183,784 & over	7,568	\$24,385,363	\$1,976,653	\$59,537	\$139,017	\$136,846	\$275,863	-\$21	\$40,848	\$15,017	\$79,740	\$22,930
Total		\$2,787,506	\$243,853,626	\$11,383,375	\$842,735	\$3,274,668	\$2,105,566	\$5,380,234	-\$723,460	\$412,608	\$1,298,489	\$2,166,884	\$236,106
Top 5%	Over \$3,949,790	1,206	\$12,194,400	\$1,042,356	\$27,176	\$64,289	\$61,507	\$125,796	-\$4	\$19,679	\$5,342	\$31,665	\$10,946

Income Decile	Residential Local Property Taxes					Nonresidential	Other
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>	Local Property Taxes	Local Taxes <sup>2</sup>
First	\$518,096	\$214,380	\$84,850	\$299,230	\$840,179	\$338,963	\$118,560
Second	\$562,409	\$115,350	\$46,279	\$161,629	\$755,429	\$198,564	\$77,225
Third	\$587,133	\$50,839	\$43,752	\$94,591	\$711,296	\$185,840	\$69,973
Fourth	\$580,520	\$28,246	\$38,722	\$66,968	\$674,919	\$176,092	\$65,404
Fifth	\$532,625	\$16,588	\$38,221	\$54,808	\$619,849	\$136,907	\$60,632
Sixth	\$499,794	\$12,787	\$45,027	\$57,815	\$595,164	\$176,208	\$56,765
Seventh	\$438,755	\$5,768	\$41,139	\$46,907	\$520,002	\$214,449	\$52,111
Eighth	\$358,583	\$3,653	\$51,898	\$55,551	\$445,706	\$196,177	\$48,193
Ninth	\$244,239	\$2,336	\$64,246	\$66,581	\$338,873	\$159,320	\$41,909
Tenth	\$76,299	\$401	\$81,252	\$81,653	\$167,939	\$147,488	\$33,678
Total	\$4,398,453	\$450,348	\$535,384	\$985,732	\$5,669,357	\$1,930,008	\$624,450
Top 5%	\$17,315	\$56	\$40,239	\$40,295	\$60,244	\$69,084	\$15,698

Local Taxes Total	Total State Taxes Total on Individuals	Total on Businesses	State Taxes Total	Total State and Local Taxes
\$1,297,702	\$1,186,169	\$688,143	\$1,874,313	\$3,172,015
\$1,031,218	\$1,415,118	\$429,206	\$1,844,324	\$2,875,542
\$967,108	\$1,555,264	\$388,574	\$1,943,837	\$2,910,946
\$916,415	\$1,662,828	\$359,921	\$2,022,749	\$2,939,164
\$817,389	\$1,745,124	\$339,045	\$2,084,169	\$2,901,558
\$828,137	\$1,793,823	\$335,182	\$2,129,004	\$2,957,142
\$786,563	\$1,788,768	\$310,894	\$2,099,662	\$2,886,225
\$690,076	\$1,907,417	\$309,854	\$2,217,272	\$2,907,348
\$540,102	\$2,014,709	\$296,364	\$2,311,073	\$2,851,175
\$349,105	\$2,205,454	\$265,113	\$2,470,567	\$2,819,672
\$8,223,815	\$17,274,675	\$3,722,296	\$20,996,971	\$29,220,786
\$145,026	\$1,141,754	\$121,203	\$1,262,957	\$1,407,983

<sup>1</sup> Includes seasonal recreational residential (cabins) and second homes.<sup>2</sup> Includes tacomite production tax and wheelage taxes.

Table 4-2

## 2018 Income Deciles - Effective Tax Rates

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$40,349 & under	1,129,731	\$24,385,363	0.5%	0.6%	2.6%	1.6%	4.3%	- 1.4%	0.3%	1.7%	1.5%	0.2%
Second	\$40,350 - \$62,312	482,248	24,385,363	2.9%	0.4%	1.7%	1.0%	2.7%	- 0.8%	0.2%	0.9%	1.2%	0.1%
Third	\$62,313 - \$85,529	333,470	24,385,363	3.6%	0.4%	1.5%	0.9%	2.5%	- 0.5%	0.2%	0.7%	1.1%	0.1%
Fourth	\$85,530 - \$109,570	251,394	24,385,363	4.1%	0.3%	1.5%	0.8%	2.3%	- 0.3%	0.2%	0.6%	1.0%	0.1%
Fifth	\$109,571 - \$138,219	198,986	24,385,363	4.5%	0.3%	1.4%	0.8%	2.2%	- 0.1%	0.1%	0.5%	1.0%	0.1%
Sixth	\$138,220 - \$180,852	155,692	24,385,363	4.9%	0.3%	1.3%	0.8%	2.0%	0.0%	0.2%	0.4%	0.9%	0.1%
Seventh	\$180,853 - \$253,121	115,377	24,385,363	5.2%	0.3%	1.1%	0.7%	1.8%	0.0%	0.1%	0.3%	0.7%	0.1%
Eighth	\$253,122 - \$444,138	75,625	24,385,363	6.0%	0.3%	1.0%	0.7%	1.7%	0.0%	0.2%	0.2%	0.6%	0.1%
Ninth	\$444,139 - \$1,183,783	37,415	24,385,363	6.9%	0.3%	0.8%	0.7%	1.5%	0.0%	0.2%	0.1%	0.5%	0.1%
Tenth	\$1,183,784 & over	7,568	24,385,363	8.1%	0.2%	0.6%	0.6%	1.1%	0.0%	0.2%	0.1%	0.3%	0.1%
Total		2,787,506	\$243,853,626	4.7%	0.3%	1.3%	0.9%	2.2%	- 0.3%	0.2%	0.5%	0.9%	0.1%
Top 5%	Over \$3,949,790	1,206	\$12,194,400	8.5%	0.2%	0.5%	0.5%	1.0%	0.0%	0.2%	0.0%	0.3%	0.1%

Income Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>		
First	2.1%	0.9%	0.3%	1.2%	3.4%	1.4%	0.5%
Second	2.3%	0.5%	0.2%	0.7%	3.1%	0.8%	0.3%
Third	2.4%	0.2%	0.2%	0.4%	2.9%	0.8%	0.3%
Fourth	2.4%	0.1%	0.2%	0.3%	2.8%	0.7%	0.3%
Fifth	2.2%	0.1%	0.2%	0.2%	2.5%	0.6%	0.2%
Sixth	2.0%	0.1%	0.2%	0.2%	2.4%	0.7%	0.2%
Seventh	1.8%	0.0%	0.2%	0.2%	2.1%	0.9%	0.2%
Eighth	1.5%	0.0%	0.2%	0.2%	1.8%	0.8%	0.2%
Ninth	1.0%	0.0%	0.3%	0.3%	1.4%	0.7%	0.2%
Tenth	0.3%	0.0%	0.3%	0.3%	0.7%	0.6%	0.1%
Total	1.8%	0.2%	0.2%	0.4%	2.3%	0.8%	0.3%
Top 5%	0.1%	0.0%	0.3%	0.3%	0.5%	0.6%	0.1%

<sup>1</sup> Includes seasonal recreational residential (cabins).

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
5.3%	4.9%	2.8%	7.7%	13.0%
4.2%	5.8%	1.8%	7.6%	11.8%
4.0%	6.4%	1.6%	8.0%	11.9%
3.8%	6.8%	1.5%	8.3%	12.1%
3.4%	7.2%	1.4%	8.5%	11.9%
3.4%	7.4%	1.4%	8.7%	12.1%
3.2%	7.3%	1.3%	8.6%	11.8%
2.8%	7.8%	1.3%	9.1%	11.9%
2.2%	8.3%	1.2%	9.5%	11.7%
1.4%	9.0%	1.1%	10.1%	11.6%
3.4%	7.1%	1.5%	8.6%	12.0%
1.2%	9.4%	1.0%	10.4%	11.5%

Table 4-3

## 2023 Income Deciles - Amounts (\$ Thousands)

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$46,141 & under	1,146,606	28,715,605	119,352	153,248	716,475	436,587	1,153,062	-425,445	60,324	400,172	420,028	45,297
Second	\$46,142 - \$71,065	496,818	28,715,605	812,415	98,389	462,995	275,253	738,248	-235,196	38,593	205,023	332,894	28,001
Third	\$71,066 - \$96,948	345,259	28,715,605	1,002,509	92,961	428,869	258,218	687,087	-143,506	37,675	157,200	312,021	27,296
Fourth	\$96,949 - \$123,344	261,738	28,715,605	1,156,532	84,595	408,330	234,036	642,366	-76,042	33,745	132,463	289,806	24,031
Fifth	\$123,345 - \$154,705	208,560	28,715,605	1,270,853	82,400	381,351	225,576	606,928	-15,042	34,909	112,369	266,103	24,946
Sixth	\$154,706 - \$198,962	164,830	28,715,605	1,377,995	80,054	355,235	216,292	571,526	-69	35,441	94,451	243,518	24,549
Seventh	\$198,963 - \$276,331	123,739	28,715,605	1,475,810	76,380	322,354	204,291	526,645	0	34,300	74,570	209,913	24,009
Eighth	\$276,332 - \$471,188	82,452	28,715,605	1,693,740	73,841	283,224	195,064	478,288	0	33,882	55,575	178,047	26,030
Ninth	\$471,189 - \$118,8381	41,719	28,715,605	1,940,113	71,983	230,612	187,055	417,667	0	36,537	35,581	133,561	26,645
Tenth	\$1,188,382 & over	9,173	28,715,605	2,176,750	65,638	170,626	165,492	336,118	0	40,193	16,834	102,543	29,114
Total		2,880,894	287,156,049	13,026,069	879,489	3,760,071	2,397,864	6,157,935	-895,300	385,599	1,284,238	2,488,434	279,918
Top 5%	Over \$3,726,095	1,543	14,368,541	1,136,509	30,656	79,985	76,107	156,092	0	19,862	6,143	43,870	14,256

Income Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes <sup>2</sup>
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>		
First	\$639,676	\$301,124	\$116,791	\$417,916	\$1,085,401	\$327,330	\$136,732
Second	\$701,073	\$165,592	\$63,355	\$228,946	\$965,613	\$218,226	\$90,337
Third	\$757,000	\$71,357	\$66,005	\$137,362	\$932,869	\$205,982	\$83,926
Fourth	\$743,568	\$39,975	\$52,447	\$92,422	\$869,446	\$185,357	\$78,040
Fifth	\$691,074	\$23,058	\$58,406	\$81,464	\$813,442	\$192,958	\$73,239
Sixth	\$634,954	\$19,085	\$60,494	\$79,580	\$760,196	\$188,556	\$68,673
Seventh	\$568,697	\$8,765	\$60,519	\$69,284	\$681,949	\$187,327	\$63,731
Eighth	\$470,920	\$5,537	\$68,666	\$74,203	\$585,587	\$262,392	\$58,602
Ninth	\$321,624	\$3,360	\$91,169	\$94,528	\$452,888	\$176,959	\$51,590
Tenth	\$108,102	\$637	\$121,202	\$121,839	\$244,376	\$179,584	\$42,671
Total	\$5,636,688	\$638,490	\$759,054	\$1,397,544	\$7,391,767	\$2,124,671	\$747,541
Top 5%	\$25,558	\$83	\$61,776	\$61,859	\$91,203	\$84,598	\$20,223

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
\$1,549,464	\$1,203,310	\$722,728	\$1,926,038	\$3,475,501
\$1,274,176	\$1,562,017	\$456,350	\$2,018,368	\$3,292,544
\$1,222,777	\$1,742,445	\$430,798	\$2,173,243	\$3,396,020
\$1,132,843	\$1,897,918	\$389,579	\$2,287,497	\$3,420,340
\$1,079,639	\$2,004,162	\$379,303	\$2,383,465	\$3,463,103
\$1,017,425	\$2,061,692	\$365,772	\$2,427,465	\$3,444,890
\$933,007	\$2,073,704	\$347,922	\$2,421,626	\$3,354,633
\$906,581	\$2,201,493	\$337,910	\$2,539,403	\$3,445,984
\$681,437	\$2,331,819	\$330,269	\$2,662,088	\$3,343,525
\$466,630	\$2,461,573	\$305,618	\$2,767,190	\$3,233,820
\$10,263,979	\$19,540,133	\$4,066,249	\$23,606,383	\$33,870,360
\$196,023	\$1,264,492	\$142,897	\$1,407,389	\$1,603,413

<sup>1</sup> Includes seasonal recreational residential (cabins) and 2<sup>nd</sup> homes.<sup>2</sup> Includes taconite production tax

Table 4-4

## 2023 Income Deciles - Effective Tax Rates

Income Decile	Income Range	Number of Households	Household Income	State Income Taxes		State Sales Tax			Property Tax Refund	State Property Tax	State Excise Taxes	Other State Taxes	
				Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total				Taxes on Individuals	Taxes on Businesses
First	\$44,097 and under	1,146,606	\$28,715,605	0.4%	0.5%	2.5%	1.5%	4.0%	- 1.5%	0.2%	1.4%	1.5%	0.2%
Second	\$45,098 - \$69,545	496,818	28,715,605	2.8%	0.3%	1.6%	1.0%	2.6%	- 0.8%	0.1%	0.7%	1.2%	0.1%
Third	\$69,546 - \$94,725	345,259	28,715,605	3.5%	0.3%	1.5%	0.9%	2.4%	- 0.5%	0.1%	0.5%	1.1%	0.1%
Fourth	\$94,726 - \$122,097	261,738	28,715,605	4.0%	0.3%	1.4%	0.8%	2.2%	- 0.3%	0.1%	0.5%	1.0%	0.1%
Fifth	\$122,098 - \$154,233	208,560	28,715,605	4.4%	0.3%	1.3%	0.8%	2.1%	- 0.1%	0.1%	0.4%	0.9%	0.1%
Sixth	\$154,234 - \$198,072	164,830	28,715,605	4.8%	0.3%	1.2%	0.8%	2.0%	0.0%	0.1%	0.3%	0.8%	0.1%
Seventh	\$198,073 - \$276,694	123,739	28,715,605	5.1%	0.3%	1.1%	0.7%	1.8%	0.0%	0.1%	0.3%	0.7%	0.1%
Eighth	\$276,695 - \$460,094	82,452	28,715,605	5.9%	0.3%	1.0%	0.7%	1.7%	0.0%	0.1%	0.2%	0.6%	0.1%
Ninth	\$460,095 - \$1,199,244	41,719	28,715,605	6.8%	0.3%	0.8%	0.7%	1.5%	0.0%	0.1%	0.1%	0.5%	0.1%
Tenth	\$1,188,382 & over	9,173	28,715,605	7.6%	0.2%	0.6%	0.6%	1.2%	0.0%	0.1%	0.1%	0.4%	0.1%
Total		2,880,894	\$287,156,049	4.5%	0.3%	1.3%	0.8%	2.1%	- 0.3%	0.1%	0.4%	0.9%	0.1%
Top 5%	Over \$3,726,095	1,543	\$14,368,541	7.9%	0.2%	0.6%	0.5%	1.1%	0.0%	0.1%	0.0%	0.3%	0.1%

Income Decile	Residential Local Property Taxes					Nonresidential Local Property Taxes	Other Local Taxes
	Homeowners Gross	Renters Gross	Owners of Rental Prop.	Total on Rental Prop.	Residential Total <sup>1</sup>		
First	2.2%	1.0%	0.4%	1.5%	3.8%	1.1%	0.5%
Second	2.4%	0.6%	0.2%	0.8%	3.4%	0.8%	0.3%
Third	2.6%	0.2%	0.2%	0.5%	3.2%	0.7%	0.3%
Fourth	2.6%	0.1%	0.2%	0.3%	3.0%	0.6%	0.3%
Fifth	2.4%	0.1%	0.2%	0.3%	2.8%	0.7%	0.3%
Sixth	2.2%	0.1%	0.2%	0.3%	2.6%	0.7%	0.2%
Seventh	2.0%	0.0%	0.2%	0.2%	2.4%	0.7%	0.2%
Eighth	1.6%	0.0%	0.2%	0.3%	2.0%	0.9%	0.2%
Ninth	1.1%	0.0%	0.3%	0.3%	1.6%	0.6%	0.2%
Tenth	0.4%	0.0%	0.4%	0.4%	0.9%	0.6%	0.1%
Total	2.0%	0.2%	0.3%	0.5%	2.6%	0.7%	0.3%
Top 5%	0.2%	0.0%	0.4%	0.4%	0.6%	0.6%	0.1%

Local Taxes Total	Total State Taxes			Total State and Local Taxes
	Total on Individuals	Total on Businesses	State Taxes Total	
5.4%	4.2%	2.5%	6.7%	12.1%
4.4%	5.4%	1.6%	7.0%	11.5%
4.3%	6.1%	1.5%	7.6%	11.8%
3.9%	6.6%	1.4%	8.0%	11.9%
3.8%	7.0%	1.3%	8.3%	12.1%
3.5%	7.2%	1.3%	8.5%	12.0%
3.2%	7.2%	1.2%	8.4%	11.7%
3.2%	7.7%	1.2%	8.8%	12.0%
2.4%	8.1%	1.2%	9.3%	11.6%
1.6%	8.6%	1.1%	9.6%	11.3%
3.6%	6.8%	1.4%	8.2%	11.8%
1.4%	8.8%	1.0%	9.8%	11.2%

<sup>1</sup> Includes seasonal recreational residential (cabins) and 2<sup>nd</sup> homes.

<sup>2</sup> Includes taconite production tax



Tables 4-2 and 4-4 show effective tax rates by income decile in 2018 and 2023. A comparison with the effective tax rates for population deciles reveals some differences. First, the effective tax rate for the first income decile in 2018 (13.0 percent) was much lower than that for the first population decile (28.9 percent). The first *income* decile included more than four times as many households as the first *population* decile.

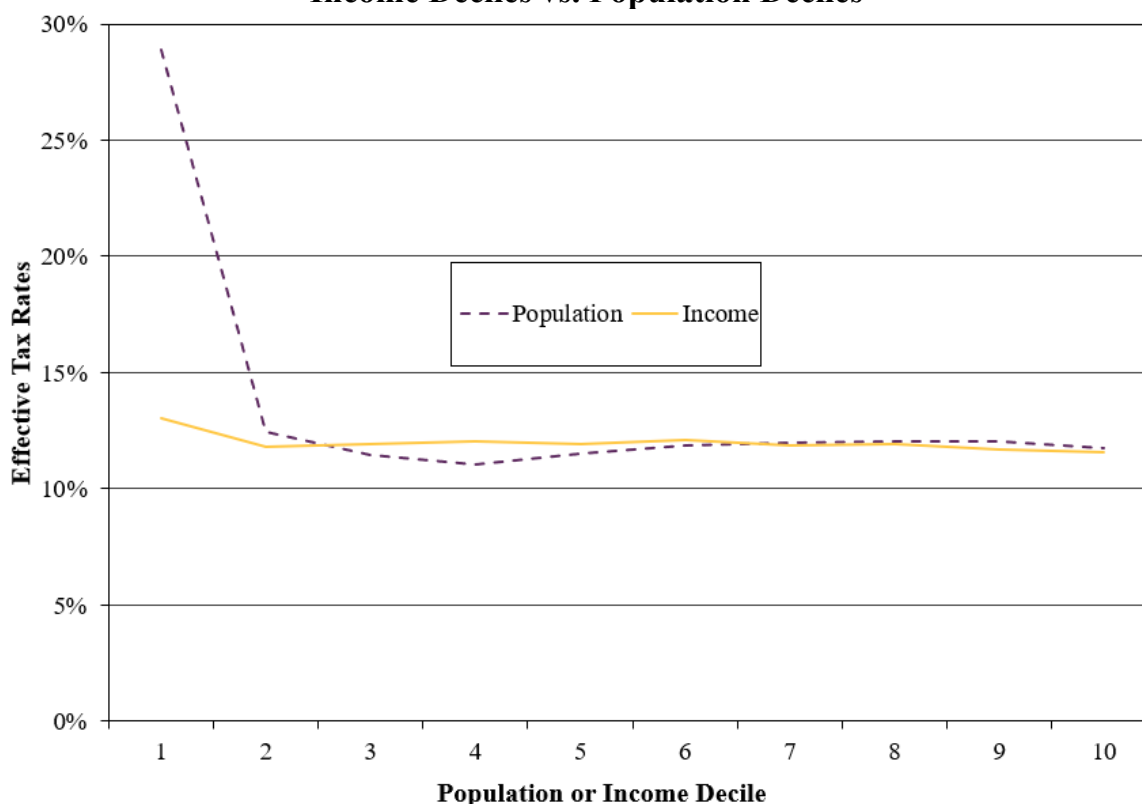
The pattern of effective tax rates also differs for the top deciles. The 10th income decile (with 7,568 households) had an effective tax rate of 11.6 percent in 2018, slightly lower than the effective rate of 11.8 percent for the 10th population decile (with about 278,751 households).

Figure 4-1 compares the pattern of effective tax rates by income decile to those by population decile.

- The first income decile includes roughly the same households as the first four population deciles. As a result, the line for income deciles hides the substantial variation among those first four population deciles.
- The top population decile includes more taxpayers than the top four income deciles. As a result, the line for population deciles hides the substantial variation among the top four income deciles.

Income deciles provide more detailed information about the burden on higher income households, but less information about the 58 percent of households who are combined in the first two income deciles.

**Figure 4-1**  
**State and Local Effective Tax Rates for 2018**  
**Income Deciles vs. Population Deciles**



## Section B

### An Alternative Methodology: Adjusting for the Federal Tax Offset

In estimating the incidence of existing Minnesota taxes, this study has made no adjustment for the “federal tax offset” due to the deductibility of Minnesota taxes in calculating the federal income tax. Individuals can generally deduct what they pay in state income tax and homeowner property taxes (and a portion of their motor vehicle registration tax) as itemized deductions. Those who itemize deductions pay less federal income tax as a result. For a taxpayer in the 24 percent federal tax bracket, each additional dollar of itemized deductions lowers federal income tax by 24 cents. As a result, 24 percent of deductible state and local taxes would be borne by the federal government in lower tax revenue. If no adjustment is made for this federal tax offset, the Minnesota tax burden is arguably overstated. Because itemizing deductions is more common for higher income households (and because they face higher federal tax rates), the federal tax offset will reduce taxes by much more in the upper deciles. A tax system that looks proportional in the absence of such an adjustment might look quite regressive after such an adjustment is made. A regressive system would look even more regressive.

There is a strong argument, however, against making such an adjustment in this study. This study estimates the burden of Minnesota taxes in a multistate context. The incidence of Minnesota taxes depends on the level of taxes in other states. If all states levy deductible taxes, then the federal government presumably makes up for the lost revenue by raising federal tax rates. It is unlikely that the deductibility of state and local taxes actually lowers the total federal tax burden on Minnesota residents. Minnesota’s share of itemized deductions is roughly equal to its share of federal income tax payments. Whether the combination of deductible taxes and higher tax rates reduces a particular decile’s tax burden is unknown; it depends on how the federal tax structure has been adjusted to make up for the lost tax revenue.

The results presented elsewhere in this study include no adjustment for the federal tax offset. The impact of such an adjustment is shown only in this section.

The impact of the federal tax offset for non-business taxes is shown in *Tables 4-5* and *4-6*, and *Figure 4-2*. For all households combined, the federal offset for non-business taxes would reduce Minnesota tax burdens by 1.7 percent, reducing the effective tax rate from 12.0 percent to 11.8 percent of income. This effect is much smaller than in previous studies because of federal law changes enacted in December 2017, which increased the standard deduction and suspended some itemized deductions. As a result, fewer taxpayers itemized deductions on their federal returns, reducing the size of the federal offset. In 2016, 36 percent of income tax filers itemized deductions. In 2018, only 11 percent of filers itemized deductions. That percentage is expected to decline to 6 percent in 2023.

The federal offset makes no significant difference in the effective rate in the first three deciles, which include few who itemize deductions. There are measurable impacts beginning in the 4<sup>th</sup> decile and rising with income. For the 10<sup>th</sup> decile, the effective tax rate falls from 11.8 percent to 11.6 percent. For the top 1 percent, the effective rate falls from 11.5 percent to 11.4 percent. The adjusted tax burden for all state and local taxes is slightly more regressive, with the full-sample Suits index falling from -0.013 to -0.016. (In 2016,

the impact was much more noticeable, reducing the overall Suits index from -0.026 to -0.062.)

Given the small impact of the federal offset and the strong arguments to be made against such an adjustment in a study of this kind, no federal tax offset is included in the results presented elsewhere in this study.

As explained in *Section D* of this chapter, though, the federal tax offset *should* be included in estimates of the incidence of *changes* in Minnesota taxes.

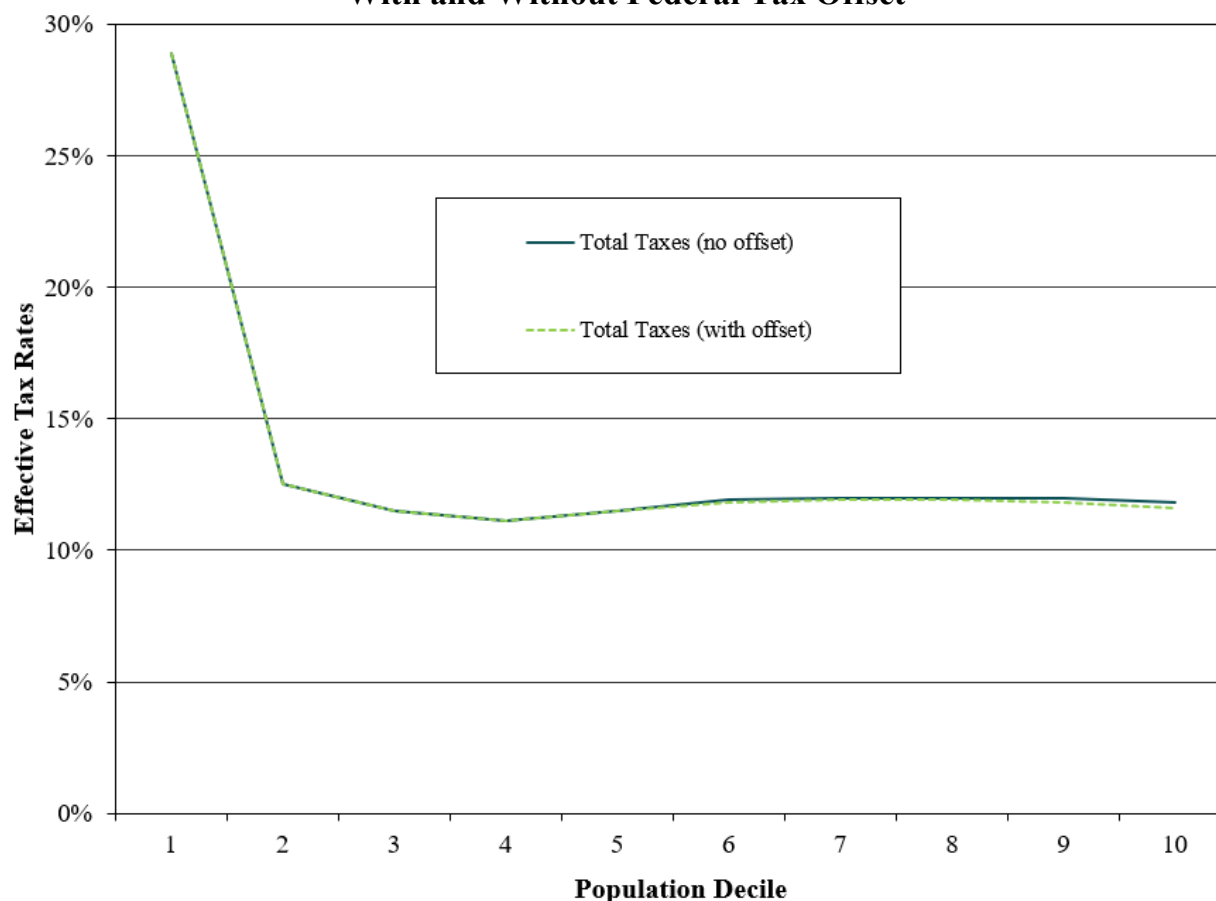
**Table 4-5**  
**Impact of Federal Tax Offset on Effective**  
**State and Local Tax Rates by Population Decile**  
**(Minnesota Residents, 2018)**

Population Decile	Household Income	Effective Tax Rate		
		No Federal Tax Offset	Change Due to Federal Tax Offset	Adjusted for Federal Tax Offset
<b>First</b>	\$12,826 & Under	28.9%	0.00%	28.9%
<b>Second</b>	\$12,827 - \$21,235	12.5%	0.00%	12.5%
<b>Third</b>	\$21,236 - \$30,194	11.5%	0.00%	11.5%
<b>Fourth</b>	\$30,195 - \$39,804	11.1%	0.01%	11.1%
<b>Fifth</b>	\$39,805 - \$51,162	11.5%	0.03%	11.5%
<b>Sixth</b>	\$51,163 - \$65,832	11.9%	0.07%	11.8%
<b>Seventh</b>	\$65,833 - \$86,043	12.0%	0.11%	11.9%
<b>Eighth</b>	\$86,044 - \$113,534	12.0%	0.12%	11.9%
<b>Ninth</b>	\$113,535 - \$164,719	12.0%	0.18%	11.8%
<b>Tenth</b>	\$164,720 & Over	11.8%	0.19%	11.6%
<b>Total</b>		12.0%	0.14%	11.8%
<b>Top 5%</b>	Over \$235,703	11.8%	0.19%	11.6%
<b>Top 1%</b>	Over \$577,540	11.5%	0.13%	11.4%

**Table 4-6**  
**Suits Index With and Without Federal Tax Offset**

	Without Offset	With Offset
<b>All Taxes</b>	-0.013	-0.016

**Figure 4-2**  
**Effective Tax Rates for 2018**  
**With and Without Federal Tax Offset**



**Section C**  
**The Impact of Refundable Income Tax Credits and Property Tax Refunds**

The tax burden results presented elsewhere in this report include the impact of refundable tax credits and the property tax refund. The Working Family Credit, Dependent Care Credit, and K-12 Education Credit are considered “negative taxes.” Because these negative taxes are included, the average income tax rate in the first two population deciles is negative. Similarly, the property tax refunds for homeowners and renters are treated as “negative property taxes,” offsetting the burden of the gross property tax on homes and rental housing.

Most of these payments are intended to make the tax system more progressive than it otherwise would be. To evaluate their effectiveness, it is useful to compare the current system to the tax system that would exist in their absence. *Table 4-7* shows the magnitudes of those payments in 2018. That table also shows the full-sample Suits index for each of the major categories of payments.

**Table 4-7**  
**Suits Index for Refundable Credits**  
**and Property Tax Refund Payments in 2018**

Payments	Amount (\$ Thousands)	Population-Decile Suits Index
<b>Income Tax Credits</b>		
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
<b>Property Tax Refund</b>		
Homeowners	\$500,790	+0.634
Renters	222,670	+0.878
Subtotal	\$723,460	+0.709
<b>Total</b>	<b>\$994,625</b>	<b>+0.758</b>

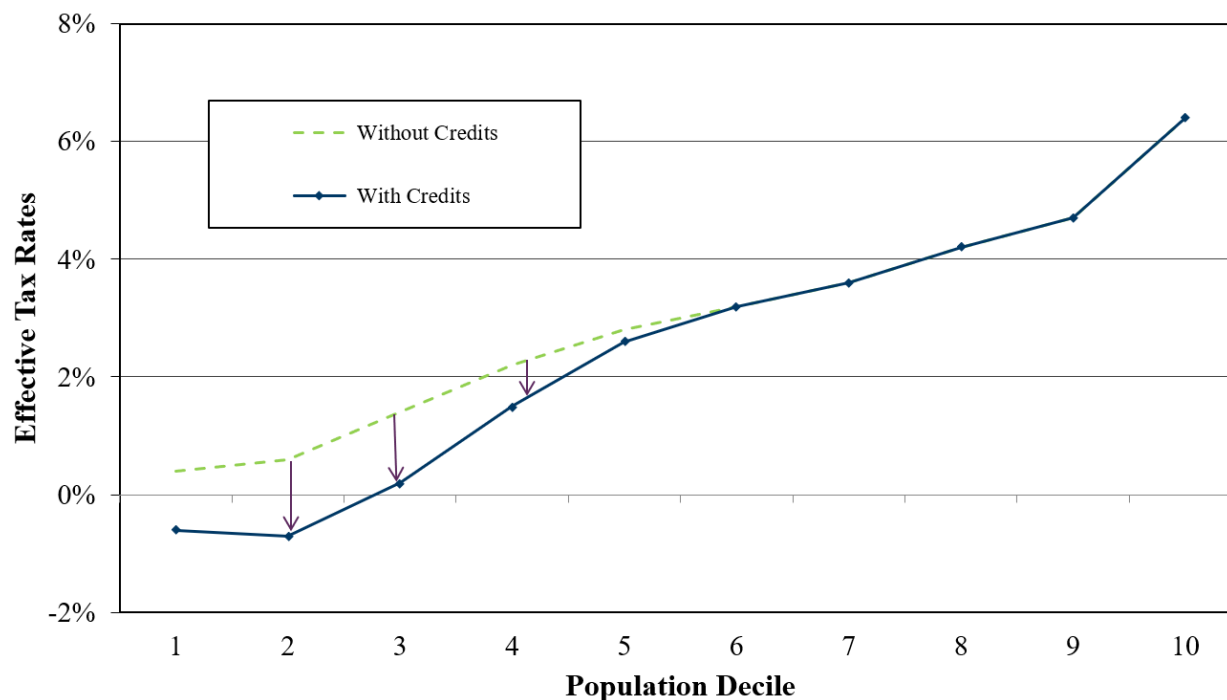
Total dollars of property tax refunds and refundable credits increased by 7.4 percent between 2016 and 2018, less than the growth in total tax collections, which increased by 9.6 percent. Credits increased by 2.1 percent between 2016 and 2018, due entirely to the Dependent Care Credit, which more than doubled after a law change in 2017. The other two credits declined. Property tax refunds rose by 10.0 percent. Homeowner property tax refunds rose by 13.9 percent, and renter refunds rose by 2.1 percent. All of the components are highly progressive, with Suits indexes ranging from 0.638 to 0.894. For comparison, the Suits index for the individual income tax is 0.244.

*Table 4-8* and *Figure 4-3* show the impact of the refundable income tax credits on effective income tax rates by population decile in 2018. Without those credits, effective tax rates would be noticeably higher in each of the first five deciles. For example, the effective income tax rate in the 2nd decile would rise from -0.7 percent to +0.6 percent. The refundable credits make the income tax more progressive. In their absence, the full-sample Suits index for the income tax would be +0.218 rather than the +0.244.

**Table 4-8**  
**Impact of Refundable Income Tax Credits on**  
**Effective Income Tax Rates (2018)**

Population Decile	Household Income	Effective Tax Rates (Income Tax)		
		With Credits	Change If No Credits	Without Credits
<b>First</b>	\$12,826 & Under	-0.6%	+1.1%	0.4%
<b>Second</b>	\$12,827 - \$21,235	-0.7%	+1.3%	0.6%
<b>Third</b>	\$21,236 - \$30,194	0.2%	+1.2%	1.4%
<b>Fourth</b>	\$30,195 - \$39,804	1.5%	+0.7%	2.2%
<b>Fifth</b>	\$39,805 - \$51,162	2.6%	+0.2%	2.8%
<b>Sixth</b>	\$51,163 - \$65,832	3.2%	+0.0%	3.2%
<b>Seventh</b>	\$65,833 - \$86,043	3.6%	+0.0%	3.6%
<b>Eighth</b>	\$86,044 - \$113,534	4.2%	+0.0%	4.2%
<b>Ninth</b>	\$113,535 - \$164,719	4.7%	+0.0%	4.7%
<b>Tenth</b>	\$164,720 & Over	6.4%	+0.0%	6.4%
<b>Total</b>		4.7%	+0.1%	4.8%

**Figure 4-3**  
**Effective Income Tax Rates by Population Decile,**  
**With and Without Refundable Credits**



In the absence of property tax refunds (PTR), property taxes on homesteads and rental housing would be almost as regressive as the sales tax, with a Suits index of -0.194 rather than -0.119. As shown in *Figure 4-4* and the last column of *Table 4-9*, effective tax rates would be 3.4 percent in the 2nd decile and fall to 1.5 percent in the 10th decile. Property tax refunds reduce effective tax rates in the first eight deciles. With the PTR, effective tax rates fall to 1.6 percent in the 2nd decile, then rise to 2.4 percent in the 6th and 7th deciles before falling to 1.5 percent in the 10th. Net residential property taxes (after PTR) are still regressive (with a full-sample Suits index of -0.119), but much less regressive than in the absence of the PTR.

**Table 4-9**  
**Residential Property Taxes Before and After Property Tax Refunds for 2018**  
**(Homesteads and Rental Housing)**

Population Decile	Household Income	Effective Tax Rates (Property Tax)		
		With PTR	Change If No PTR	Without PTR
<b>First</b>	\$12,826 & Under	4.1%	+2.1%	6.3%
<b>Second</b>	\$12,827 - \$21,235	1.6%	+1.7%	3.4%
<b>Third</b>	\$21,236 - \$30,194	1.8%	+1.4%	3.2%
<b>Fourth</b>	\$30,195 - \$39,804	1.8%	+1.0%	2.9%
<b>Fifth</b>	\$39,805 - \$51,162	2.0%	+0.8%	2.8%
<b>Sixth</b>	\$51,163 - \$65,832	2.4%	+0.7%	3.0%
<b>Seventh</b>	\$65,833 - \$86,043	2.4%	+0.4%	2.8%
<b>Eighth</b>	\$86,044 - \$113,534	2.3%	+0.3%	2.6%
<b>Ninth</b>	\$113,535 - \$164,719	2.3%	+0.0%	2.4%
<b>Tenth</b>	\$164,720 & Over	1.5%	+0.0%	1.5%
<b>Total</b>		1.9%	+0.3%	2.2%

**Figure 4-4**  
**Effective Residential Property Tax Rates by Population Decile,**  
**Before and After Property Tax Refunds**

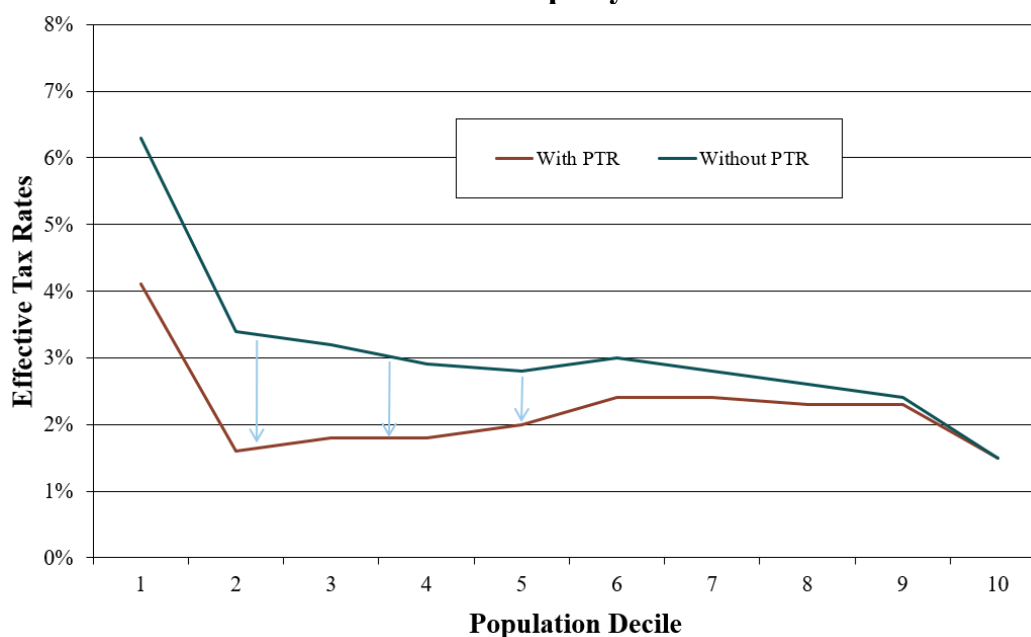
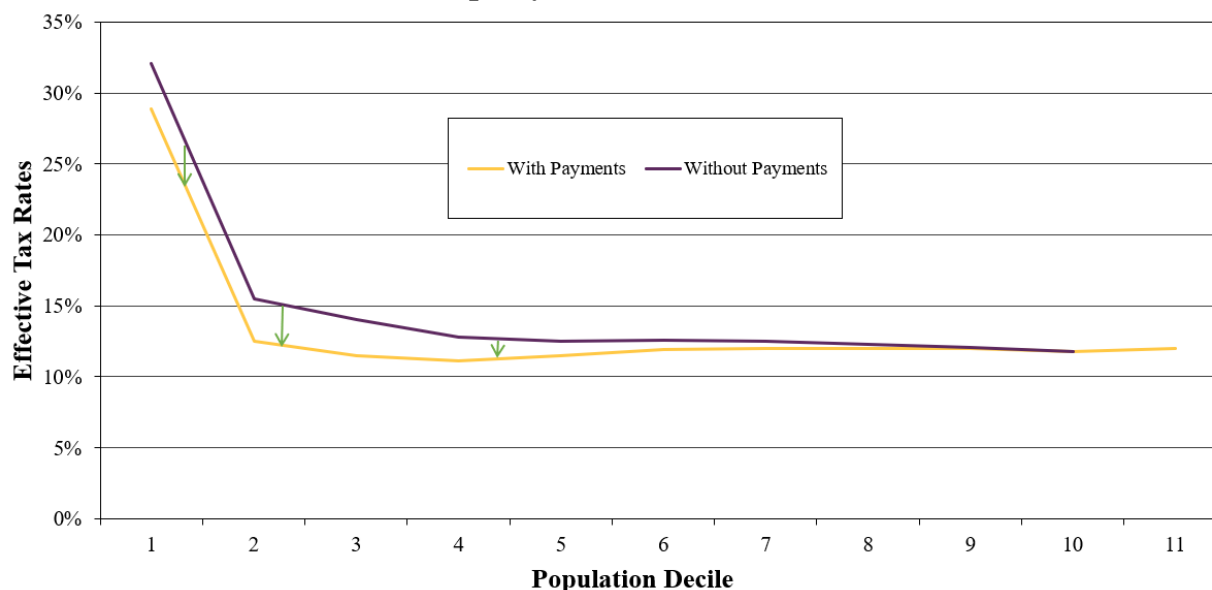


Table 4-10 and Figure 4-5 show the combined impact of both the income tax credits and property tax refunds on the overall effective tax rates by population decile. Without the credits or property tax refunds, effective tax rates would be higher in the first eight deciles. These payments make the overall tax system less regressive. In their absence, the full-sample Suits index for all taxes would be -0.038 rather than -0.013.

**Table 4-10**  
**Combined Impact of Property Tax Refunds and**  
**Refundable Income Tax Credits on Effective State and Local Tax Rates**

Population Decile	Household Income	Effective Tax Rates (All Taxes)		
		With PTR & Credits	Change If No PTR or Credits	Without PTR or Credits
<b>First</b>	\$12,826 & Under	28.9%	3.2%	32.1%
<b>Second</b>	\$12,827 - \$21,235	12.5%	3.0%	15.5%
<b>Third</b>	\$21,236 - \$30,194	11.5%	2.6%	14.0%
<b>Fourth</b>	\$30,195 - \$39,804	11.1%	1.7%	12.8%
<b>Fifth</b>	\$39,805 - \$51,162	11.5%	1.0%	12.5%
<b>Sixth</b>	\$51,163 - \$65,832	11.9%	0.7%	12.6%
<b>Seventh</b>	\$65,833 - \$86,043	12.0%	0.4%	12.5%
<b>Eighth</b>	\$86,044 - \$113,534	12.0%	0.3%	12.3%
<b>Ninth</b>	\$113,535 - \$164,719	12.0%	0.0%	12.1%
<b>Tenth</b>	\$164,720 & Over	11.8%	0.0%	11.8%
<b>Total</b>		12.0%	+0.4%	0.0%

**Figure 4-5**  
**Effective State and Local Tax Rates by Population Decile,**  
**With and Without Property Tax Refunds and Refundable Credits**





<p style="text-align: center;"><b>Section D</b></p> <p><b>Incremental Incidence: Estimating the Incidence of a Change in Business Taxes</b></p>
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The incidence of proposed changes in business taxes has, on occasion, been incorrectly assumed to be identical to the incidence reported in the *Tax Incidence Study*. This is a mistake. The incidence results reported in this study cannot be applied to proposals for business tax changes.

The *Tax Incidence Study* estimates the burden of business taxes under the assumption that all states levy their existing taxes at the same time. Under that assumption, the ultimate burden of business taxes depends on how Minnesota's taxes compare to the taxes in other states. A tax on capital (other than land) is divided into three parts:

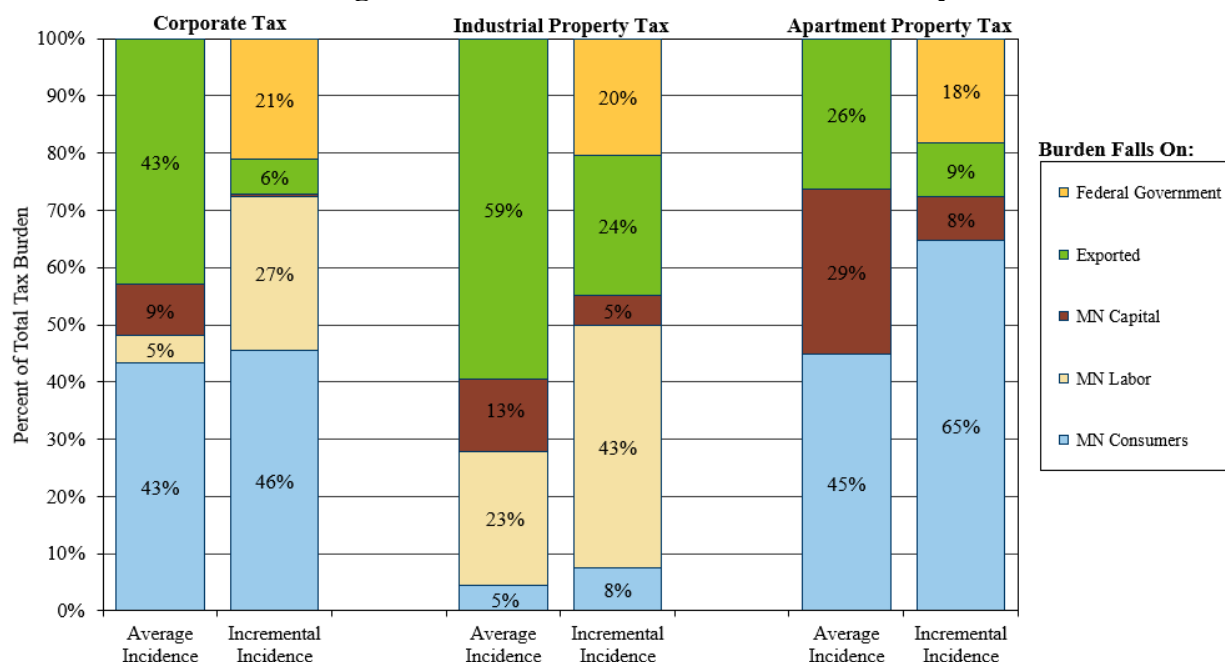
- The “average national tax rate on all capital.”
- The “sector differential,” defined as any portion of the tax that reflects higher national tax rates for a particular business sector.
- The “Minnesota differential,” defined as any excess of Minnesota's tax over the average national level of tax levied on this sector.

The portion of Minnesota's tax representing the national average tax on capital has a different incidence than the “Minnesota differential.” The tax burden reported in this study is the “average” incidence of a tax that is partly a tax levied at average national rates and partly a tax in excess of what is typical in other states.

The burden of *existing* business taxes (the “average” incidence reported in this study) can be much different from the incidence of a *change* in tax (“incremental incidence”). If Minnesota changes its tax alone – with no changes in other states – then *all* of that tax change should be considered a change in the Minnesota differential.

Compared to the “average” incidence reported in this study, the burden of an *increase* in a business tax is less likely to fall on capital and more likely to fall on labor and consumers. Similarly, a *cut* in business taxes is more likely to benefit labor and consumers and less likely to benefit capital owners than is suggested by the results reported in this study. The ability to export the tax burden to residents of other states is often less than is suggested by the results for “average incidence” reported here. However, the incidence of change in tax – unlike existing taxes – should take the federal tax offset into account. Part of a tax increase may be “exported” to the federal government. As a result, the exported share is sometimes larger than suggested by the results for “average incidence” reported in this study. (See *Section B* of this chapter for a discussion of the federal tax offset.)

**Figure 4-6**  
**Average versus Incremental Incidence: Example**



Three examples are provided in *Figure 4-6* to illustrate the potential differences. The figure contrasts the average incidence reported in this study with the incremental incidence of a change in the corporate tax, industrial property taxes, or property taxes levied on apartments.<sup>25</sup> These results should be considered rough approximations, provided for illustration only. In calculating the federal tax offset, the federal tax rate is assumed to be 21 percent for those paying the federal corporate tax, while the federal tax rate for non-corporate businesses is assumed to be 18 percent. These rates are adjusted for the corporate rate reduction (from 35 percent to 21 percent) enacted in December 2017 as well as the 20 percent subtraction provided for most non-corporate businesses.

<sup>25</sup> Apartments are only a portion of the rental housing category shown on *Table B-2*, so the average-incidence results differ somewhat.

## Section E

### Tax Incidence in Other States

Minnesota is the only state that completes a comprehensive tax incidence study on a regular basis. This makes it difficult to know how to put the Minnesota results in context. Given the questions raised about how Minnesota compares to other states, this section summarizes the results of a 50-state study of state and local tax incidence. That study, entitled *Who Pays? A Distributional Analysis of Tax Systems in All 50 States* (6<sup>th</sup> Edition), was published by the Institute on Taxation and Economic Policy (ITEP) in October 2018.<sup>26</sup> It uses a methodology that is relatively close to what is used in this study.

The results in this Section are the same as those presented in the 2019 Minnesota Tax Incidence Study, since more recent information is not available.

The ITEP study is of high quality, but its results should be used with caution for several reasons.

- The population is limited to non-senior households. It also excludes all households with negative incomes.
- Income is defined more broadly, so average incomes are higher and effective tax rates are lower.
- The results are based on 2015 income levels adjusted for the impact of tax changes enacted through September 2018.
- Because all 50 states are included, there is obviously a less detailed analysis of each individual state's tax structure than in Minnesota's studies. Among the taxes excluded from their study are the MinnesotaCare provider taxes, insurance taxes, mortgage and deed taxes, and gambling taxes.
- Although business taxes are included and their burden is assumed to be borne partly by consumers and labor, the proportions shifted are not specified.
- The results include only 7 population groups rather than either population deciles or income deciles:
  - Bottom 20 percent
  - Second 20 percent
  - Third 20 percent
  - Fourth 20 percent
  - Next 15 percent
  - Next 4 percent
  - Top 1 percent

The ITEP Study's 7-point Suits index for Minnesota's state and local taxes is +0.006, making us one of the four states they show having a progressive tax system. This contrasts with the negative Suits index reported in this study.

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<sup>26</sup> Available at: <https://itep.org/whopays/>. The 7-point Suits indexes were calculated by Jeff Van Wychen.

Despite differences in methodology, the ITEP Study helps provide useful context for the results of the Minnesota Tax Incidence Study. It is particularly useful in illustrating the great variation in how states choose to distribute the tax burden.

*Table 4-11* lists the 7-point Suits indexes for each state (for non-senior households), based on the ITEP study. The variation across states is striking. They show four states with a Suits index greater than zero, including Minnesota. In contrast, 16 states had Suits indexes below -0.100, and seven of those were below -0.200. The 7-point Suits based on the average of effective tax rates for the seven population groups in all states was -0.062.

Minnesota would be expected to have one of the less regressive tax systems for several reasons:

- Minnesota is more reliant on the income tax than most states. Minnesota's income tax share of state and local taxes is exceeded in only a few other states. The nine most regressive state tax systems, as measured by ITEP's 7-point Suits index, were the nine states with no broad-based income tax.
- Minnesota's income tax is one of the more progressive. The most regressive states with an income tax (such as Pennsylvania and Illinois) generally have a flat-rate tax.
- Minnesota also has among the most generous refundable income tax credits for low-income households, along with one of the most generous income-conditioned property tax refunds for homeowners and renters. As seen in *Section C* of this chapter, these credits significantly reduce the regressivity of Minnesota's overall tax system.

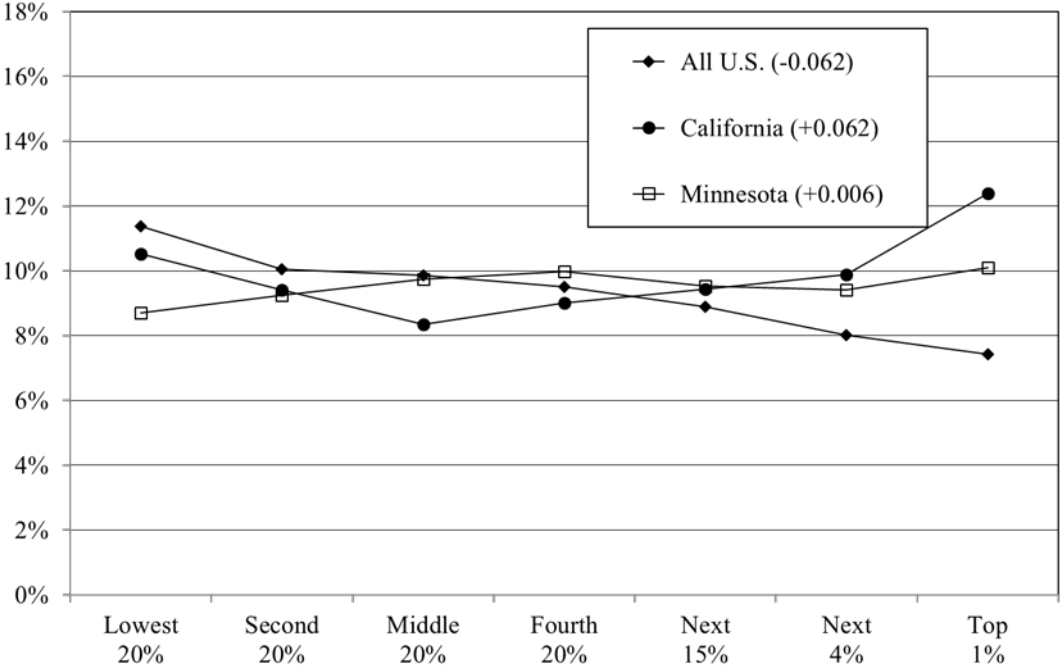
*Table 4-11* also shows each state's average overall effective tax rate as estimated by ITEP for non-senior households. Minnesota's reported effective tax rate (at 9.7 percent of income) was above the U.S. average reported by ITEP (at 8.8 percent). The correlation (R) between the average effective tax rate and the Suits index (+0.63) suggests that the tax structures of states with higher taxes tend to be less regressive. The ten most regressive tax structures are all in states with average effective tax rates at or below 7.6 percent. In contrast, of the 20 states with Suits indexes showing below-average regressivity, only two (Montana and Delaware) had average effective tax rates at or below 7.6 percent.

**Table 4-11**  
**ITEP “7-Point” Suits Index by State**  
**Non-Senior Households in 2015 (2018 Law)**

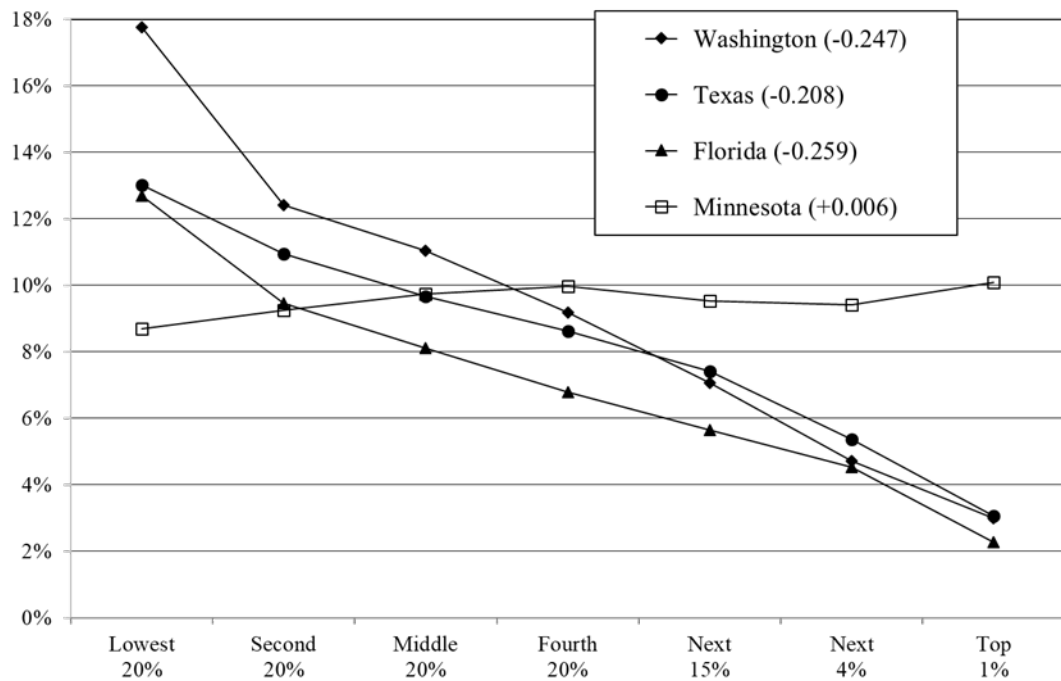
Listed Alphabetically			Ranked from Most Progressive to Most Regressive			
State	7-Point Suits Index	Average Effective Tax Rate	State Suits Rank	State	7-Point Suits Index	Average Effective Tax Rate
Alabama	-0.120	7.3%	1	California	0.062	10.0%
Alaska	-0.162	3.4%	2	Delaware	0.030	6.1%
Arizona	-0.111	8.0%	3	Vermont	0.022	9.9%
Arkansas	-0.085	9.2%	4	<b>Minnesota</b>	<b>0.006</b>	<b>9.7%</b>
California	0.062	10.0%	5	Maine	-0.001	9.4%
Colorado	-0.066	7.7%	6	New Jersey	-0.001	10.0%
Connecticut	-0.069	10.3%	7	Oregon	-0.013	8.8%
Delaware	0.030	6.1%	8	Montana	-0.014	6.7%
Florida	-0.259	5.4%	9	New York	-0.018	12.0%
Georgia	-0.063	8.7%	10	Maryland	-0.022	10.2%
Hawaii	-0.073	10.3%	11	West Virginia	-0.032	8.5%
Idaho	-0.034	7.9%	12	Rhode Island	-0.033	9.1%
Illinois	-0.097	10.6%	13	Idaho	-0.034	7.9%
Indiana	-0.101	9.0%	14	South Carolina	-0.035	7.9%
Iowa	-0.062	9.7%	15	Utah	-0.035	7.8%
Kansas	-0.062	9.5%	16	Nebraska	-0.039	9.6%
Kentucky	-0.072	9.4%	17	Wisconsin	-0.050	9.6%
Louisiana	-0.101	8.4%	18	Virginia	-0.052	8.5%
Maine	-0.001	9.4%	19	Kansas	-0.062	9.5%
Maryland	-0.022	10.2%	20	Iowa	-0.062	9.7%
Massachusetts	-0.072	8.3%		<b>All U.S.</b>	<b>-0.062</b>	<b>8.8%</b>
Michigan	-0.074	8.3%	21	Missouri	-0.063	8.3%
<b>Minnesota</b>	<b>0.006</b>	<b>9.7%</b>	22	Georgia	-0.063	8.7%
Mississippi	-0.094	8.4%	23	North Carolina	-0.065	8.2%
Missouri	-0.063	8.3%	24	Colorado	-0.066	7.7%
Montana	-0.014	6.7%	25	Connecticut	-0.069	10.3%
Nebraska	-0.039	9.6%	26	Kentucky	-0.072	9.4%
Nevada	-0.233	5.2%	27	Massachusetts	-0.072	8.3%
New Hampshire	-0.151	5.8%	28	Hawaii	-0.073	10.3%
New Jersey	-0.001	10.0%	29	Michigan	-0.074	8.3%
New Mexico	-0.090	8.8%	30	Arkansas	-0.085	9.2%
New York	-0.018	12.0%	31	Ohio	-0.085	9.5%
North Carolina	-0.065	8.2%	32	New Mexico	-0.090	8.8%
North Dakota	-0.143	6.4%	33	Mississippi	-0.094	8.4%
Ohio	-0.085	9.5%	34	Illinois	-0.097	10.6%
Oklahoma	-0.110	8.9%	35	Louisiana	-0.101	8.4%
Oregon	-0.013	8.8%	36	Indiana	-0.101	9.0%
Pennsylvania	-0.113	9.3%	37	Oklahoma	-0.110	8.9%
Rhode Island	-0.033	9.1%	38	Arizona	-0.111	8.0%
South Carolina	-0.035	7.9%	39	Pennsylvania	-0.113	9.3%
South Dakota	-0.230	6.1%	40	Alabama	-0.120	7.3%
Tennessee	-0.212	5.9%	41	North Dakota	-0.143	6.4%
Texas	-0.208	7.1%	42	New Hampshire	-0.151	5.8%
Utah	-0.035	7.8%	43	Alaska	-0.162	3.4%
Vermont	0.022	9.9%	44	Texas	-0.208	7.1%
Virginia	-0.052	8.5%	45	Wyoming	-0.210	5.2%
Washington	-0.247	7.6%	46	Tennessee	-0.212	5.9%
West Virginia	-0.032	8.5%	47	South Dakota	-0.230	6.1%
Wisconsin	-0.050	9.6%	48	Nevada	-0.233	5.2%
Wyoming	-0.210	5.2%	49	Washington	-0.247	7.6%
<b>All U.S.</b>	<b>-0.062</b>	<b>8.8%</b>	50	Florida	-0.259	5.4%

Figures 4-7, 4-8, and 4-9 illustrate how effective tax rates vary with income in selected states. Figure 4-7 compares Minnesota to the national average and to the state with the most progressive tax system (California). Figure 4-8 shows three states with much more regressive tax structures. Figure 4-9 compares Minnesota with its neighboring states.

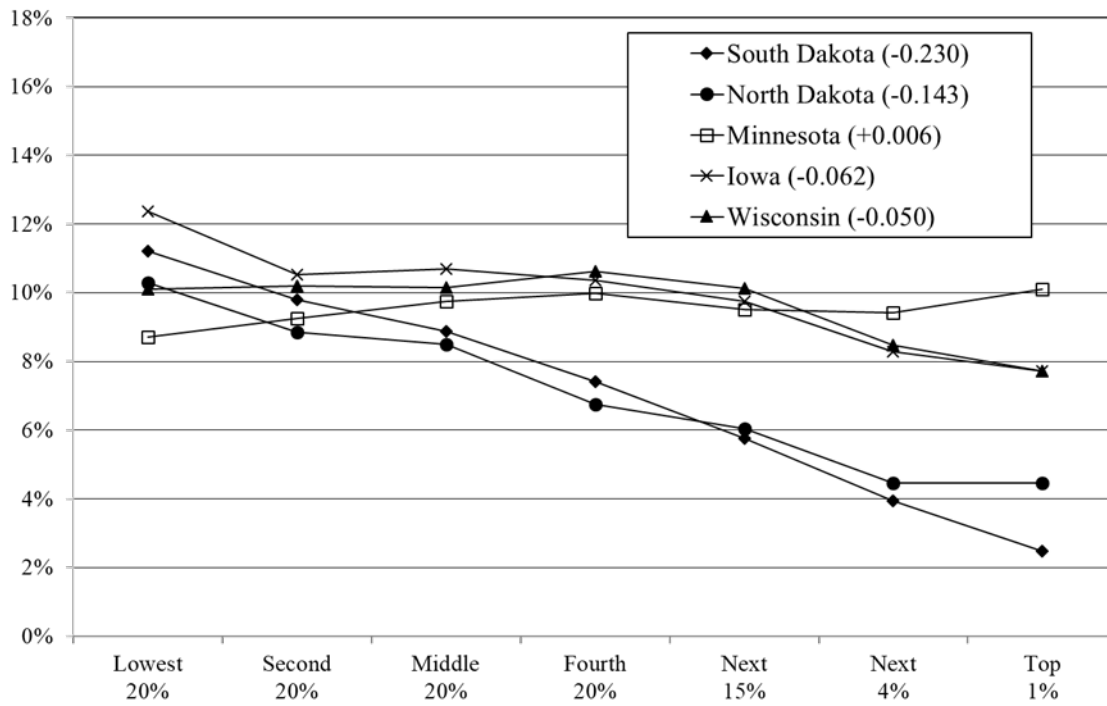
**Figure 4-7**  
**ITEP Effective Tax Rates for Minnesota, California,**  
**and All States Combined (Non-Seniors)**



**Figure 4-8**  
**ITEP Effective Tax Rates for Minnesota and Three States**  
**With More Regressive Tax Systems (Non-Seniors)**



**Figure 4-9**  
**ITEP Effective Tax Rates for Minnesota**  
**and Neighboring States (Non-Seniors)**



## Chapter 5: Demographic Variation

Previous chapters show how effective tax rates vary by income when all households are considered together, regardless of household size, marital status, or age. This implicitly assumes that a single person with \$50,000 of income is the same as a family of six with the same income. This chapter provides more detail by type of household, allowing comparisons of tax across similar households. For example, *Table 5-1* shows average tax burdens for married couples with children at different levels of income. The tables in this chapter allow the reader to identify the average tax burden for representative households – a married couple with children and income of \$100,000 or a non-senior single-person household with income of \$40,000.

### Household Types by Population Decile

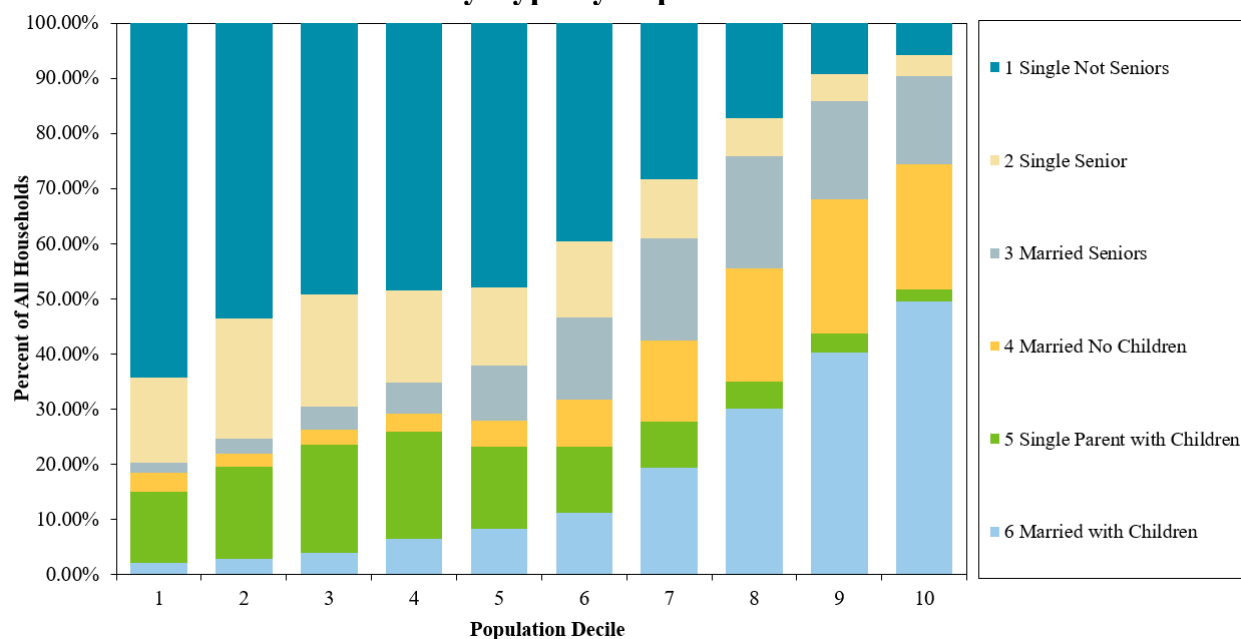
The demographic makeup of individual deciles varies greatly, as shown in *Figure 5-1*. In the bottom three deciles, more than 75 percent of the households are single-person households; only 20 percent include children. In contrast, in the top two deciles only 12 percent of all households are single-person households, and 48 percent include children.

*Figure 5-1* also shows that senior households (married and single) are distributed unevenly across deciles. Seniors account for over one-fifth of all households in deciles 2 through 9 and under one-fifth of all households in the top and bottom deciles – but 80 percent of those top-decile seniors are married. Single seniors far outnumber senior couples in the first four deciles; in the top deciles, the number of senior couples far exceeds the number of single seniors. This trend is more extreme in the top and bottom deciles, converging to about 50 percent in the 5th and 6th deciles.

In the first three deciles, over 80 percent of households with children are single-parent households. The proportion of all households with children that include married parents increases steadily with income. In the top two deciles, over 90 percent of households with children are married couples.

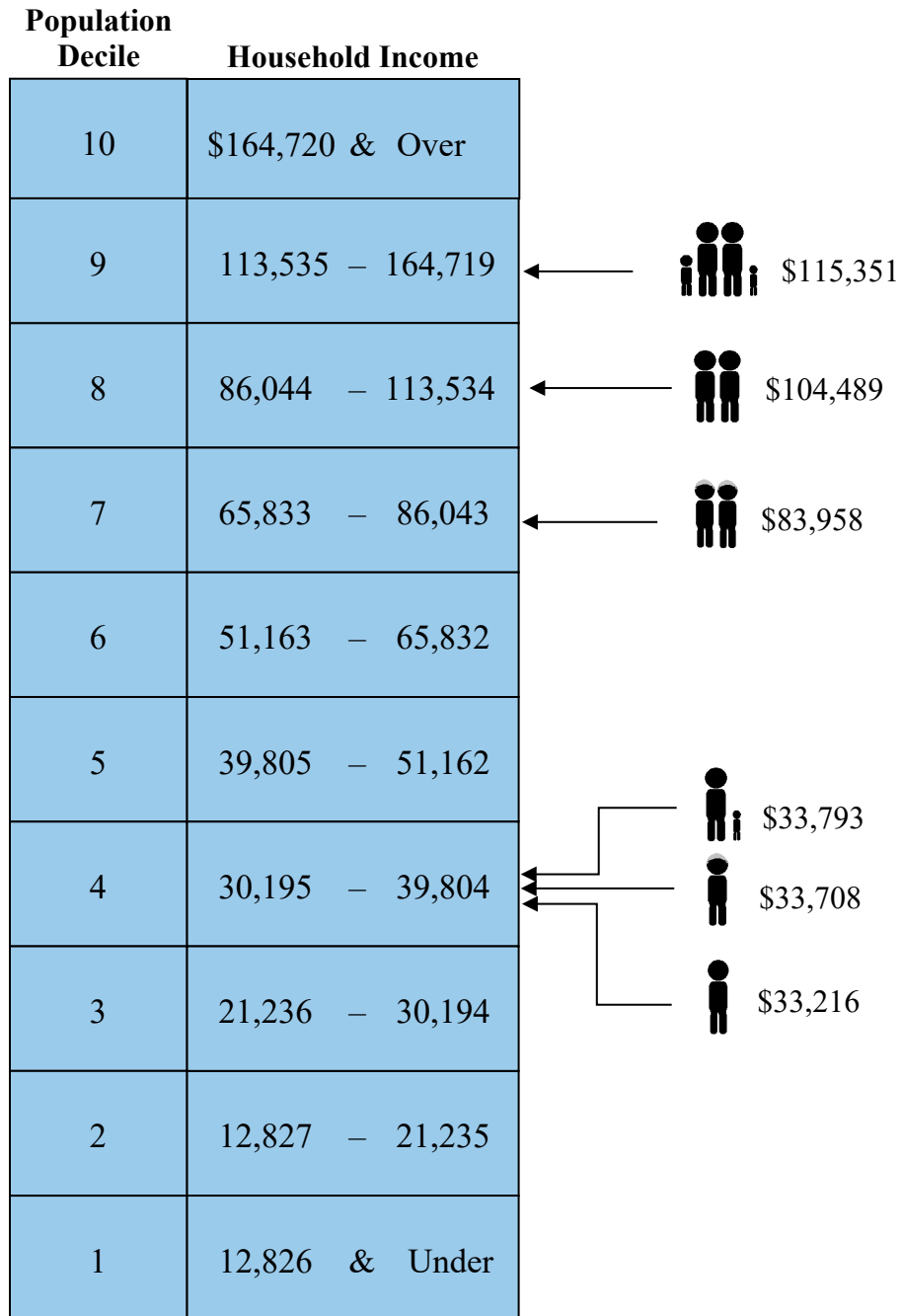


**Figure 5-1**  
**Family Type by Population Decile**



*Figure 5-2* illustrates the great differences in median incomes for each of the six family types. In 2018, the median income for a single-parent family was \$33,793, so the typical single-parent family was in the 4th population decile. The median income for a married couple with children was \$115,351 (bottom of the 9th decile). The median income for senior couples (\$83,958) puts them in the 7th decile. In contrast, the median single senior (at \$33,708) is in the 4th decile.

**Figure 5-2**  
**Median Income by Household Type (2018)**



## Average Tax Burdens by Household Type

*Tables 5-1 through 5-6* each show how average tax burdens and demographic characteristics vary with income for a particular type of household. *Table 5-1* is limited to Minnesota's 486,208 married couples with children. The couples are divided into ten groups, each with 48,621 couples, ordered from lowest income to highest income.

For example, consider the 3rd decile of married couples with children (the shaded column on *Table 5-1*). These households have incomes between \$65,528 (the maximum income for the 2nd decile) and \$84,059 (the maximum income for the 3rd decile). This is the 3rd decile, so 20 percent of married couples with children have lower incomes; 70 percent of such families have higher incomes. For those in the 3rd decile, average income is \$75,271, and 99 percent have earned income (averaging \$70,008). Over three-quarters are homeowners, with homes valued an average of \$184,475. Fifteen percent are renters (paying an average of \$974 per month), and 7 percent are neither owners nor renters (perhaps living with parents).

These married couples with children pay state and local taxes equal to 12.3 percent of their income (an average of \$9,252 of tax). This includes \$1,573 in residential property tax (net of PTR), \$2,197 of income tax, \$1,339 in state sales tax, \$540 in excise taxes (motor fuels, cigarettes, and alcohol), \$1,155 in other types of taxes levied on individuals, and \$2,450 in business taxes.

Similar information is provided for other household types.

When the population is limited to a single household type, the variation of effective tax rates with income is easier to interpret. For married couples with children (*Table 5-1*), the effective tax rate falls from 12.2 percent in the 2nd decile to 11.7 percent in the 9th decile, then rises to 12.4 percent in the 10th decile. The Suits index for the population limited to married couples with children is 0.006, well above the all-household Suits index (-0.013).

*Table 5-7* (on page 86) shows the full-sample Suits index for each of the six household types considered separately. The tax is most regressive for married seniors households (at -0.052) and single seniors (at -0.041). It is progressive for single parents and married households with children (Suits indexes of +0.061 and +0.006 respectively).

Table 5-1

# Household Characteristics and Average Tax Burden Amounts by Population Decile Married Couples with Children

Each Decile Contains 48,621 Married Couples with Children

HOUSEHOLD CHARACTERISTICS	Population Decile										Total
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	
Number of Households	48,621	48,621	48,621	48,621	48,621	48,621	48,621	48,621	48,621	48,621	486,208
Average Number of Children	2.2	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1
Average Household Income	\$27,094	\$54,185	\$75,271	\$92,199	\$107,594	\$124,913	\$146,520	\$176,493	\$230,045	\$607,698	\$164,201
Maximum Household Income	\$42,216	\$65,528	\$84,059	\$99,804	\$115,351	\$135,472	\$159,092	\$196,988	\$279,653		
Percent with Earned Income	84.6%	98.0%	99.2%	99.6%	99.8%	99.4%	100.0%	100.0%	100.0%	98.4%	97.9%
Average Earned income	\$30,733	\$51,111	\$70,008	\$85,453	\$98,204	\$111,069	\$131,111	\$152,544	\$188,922	\$384,970	\$131,801
Housing Status											
Homeowners	41%	60%	78%	84%	87%	90%	92%	93%	96%	96%	82%
Renters	42%	30%	15%	12%	8%	7%	5%	4%	2%	3%	13%
Other	17%	10%	7%	5%	5%	3%	3%	3%	1%	1%	6%
Average Market Value	\$183,374	\$179,294	\$184,475	\$192,553	\$205,240	\$226,452	\$271,780	\$296,982	\$340,371	\$477,381	\$267,247
Average Monthly Rent	\$553	\$902	\$974	\$1,035	\$1,245	\$1,249	\$1,325	\$1,537	\$1,361	\$1,523	\$908
<b>AVERAGE TAX BURDENS</b>											
Local Property Tax											
All Households											
Total Tax	\$1,086	\$1,557	\$1,969	\$2,308	\$2,493	\$2,683	\$3,202	\$3,645	\$4,324	\$6,253	\$2,952
<u>-Property Tax Refund</u>	<u>-569</u>	<u>-488</u>	<u>-395</u>	<u>-353</u>	<u>-273</u>	<u>-124</u>	<u>-13</u>	<u>-11</u>	<u>-5</u>	<u>-5</u>	<u>-224</u>
Tax after PTR	\$518	\$1,069	\$1,573	\$1,954	\$2,221	\$2,559	\$3,189	\$3,635	\$4,319	\$6,247	\$2,728
Renters Only											
Total Tax on Rental Unit	\$1,492	\$2,092	\$2,232	\$2,371	\$2,852	\$2,861	\$3,036	\$3,521	\$3,119	\$3,488	\$2,160
Renters Share of Tax	574	805	859	912	1,097	1,100	1,168	1,355	1,200	1,342	831
<u>-Property Tax Refund</u>	<u>-696</u>	<u>-452</u>	<u>-122</u>	<u>-4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-349</u>
Tax after PTR	-122	353	736	909	1,097	1,100	1,168	1,355	1,200	1,342	482
Homeowners Only											
Total Tax on Home	\$2,061	\$2,189	\$2,350	\$2,635	\$2,760	\$2,883	\$3,415	\$3,878	\$4,462	\$6,453	\$3,482
<u>-Property Tax Refund</u>	<u>-678</u>	<u>-591</u>	<u>-482</u>	<u>-423</u>	<u>-313</u>	<u>-137</u>	<u>-14</u>	<u>-12</u>	<u>-5</u>	<u>-5</u>	<u>-219</u>
Homeowners Tax after PTR	\$1,384	\$1,598	\$1,868	\$2,212	\$2,447	\$2,746	\$3,401	\$3,866	\$4,457	\$6,447	\$3,263
State Income Tax	-\$978	\$774	\$2,197	\$3,343	\$4,248	\$5,262	\$6,656	\$8,516	\$12,206	\$45,827	\$8,805
State Sales Tax	792	1,118	1,339	1,501	1,641	1,790	1,983	2,237	2,669	5,418	2,049
State Excise Taxes	499	514	540	555	569	584	586	584	586	642	566
Other Taxes	665	959	1,155	1,310	1,457	1,595	1,859	2,115	2,421	4,190	1,773
Business Taxes <sup>1</sup>	2,070	2,165	2,450	2,582	2,482	2,853	3,452	3,860	4,667	13,086	3,967
<b>Total State and Local Tax Burden</b>	<b>\$3,565</b>	<b>\$6,599</b>	<b>\$9,252</b>	<b>\$11,247</b>	<b>\$12,618</b>	<b>\$14,642</b>	<b>\$17,724</b>	<b>\$20,947</b>	<b>\$26,869</b>	<b>\$75,410</b>	<b>\$19,887</b>
Effective Tax Rate for all Taxes	13.2%	12.2%	12.3%	12.2%	11.7%	11.7%	12.1%	11.9%	11.7%	12.4%	12.1%

<sup>1</sup>For these tables only, Business Taxes does not include the share of Rental Property Taxes borne by the renter.

Table 5-2

# Household Characteristics and Average Tax Burden Amounts by Population Decile Non-Senior Married Couples without Children

*Each Decile Contains 29,936 Married Couples with Children*

HOUSEHOLD CHARACTERISTICS	Population Decile										Total
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	
Number of Households	29,936	29,936	29,936	29,936	29,936	29,936	29,936	29,936	29,936	29,936	299,362
Average Number of Children	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average Household Income	\$19,504	\$49,998	\$68,522	\$83,118	\$97,453	\$111,957	\$129,621	\$154,027	\$201,886	\$575,219	\$149,130
Maximum Household Income	\$37,413	\$61,124	\$76,091	\$90,441	\$104,489	\$120,535	\$141,385	\$170,082	\$245,742		
Percent with Earned Income	51.4%	94.0%	98.5%	97.4%	96.5%	98.2%	96.4%	98.9%	99.1%	97.6%	92.8%
Average Earned income	\$26,817	\$43,797	\$57,805	\$72,200	\$81,958	\$95,432	\$106,033	\$127,135	\$158,494	\$309,068	\$112,259
Housing Status											
Homeowners	38%	67%	73%	83%	86%	87%	88%	88%	89%	95%	80%
Renters	28%	19%	15%	11%	11%	7%	9%	7%	6%	3%	12%
Other	33%	14%	12%	5%	3%	6%	3%	5%	5%	2%	9%
Average Market Value	\$255,088	\$186,282	\$187,183	\$188,167	\$195,938	\$215,312	\$244,481	\$265,909	\$293,740	\$412,648	\$248,437
Average Monthly Rent	\$430	\$798	\$888	\$1,040	\$1,105	\$1,281	\$1,249	\$1,423	\$1,537	\$1,538	\$933
<b>AVERAGE TAX BURDENS</b>											
Local Property Tax											
All Households											
Total Tax	\$949	\$1,505	\$1,719	\$2,069	\$2,211	\$2,358	\$2,750	\$2,920	\$3,453	\$5,168	\$2,510
<b>-Property Tax Refund</b>	<b>-311</b>	<b>-386</b>	<b>-288</b>	<b>-247</b>	<b>-217</b>	<b>-122</b>	<b>-32</b>	<b>-7</b>	<b>-5</b>	<b>-12</b>	<b>-163</b>
Tax after PTR	\$638	\$1,119	\$1,431	\$1,822	\$1,995	\$2,236	\$2,718	\$2,912	\$3,448	\$5,156	\$2,348
Renters Only											
Total Tax on Rental Unit	\$1,085	\$1,868	\$2,034	\$2,384	\$2,532	\$2,934	\$2,862	\$3,259	\$3,522	\$3,523	\$2,168
Renters Share of Tax	417	719	783	916	973	1,129	1,101	1,254	1,355	1,356	834
<b>-Property Tax Refund</b>	<b>-268</b>	<b>-263</b>	<b>-13</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-110</b>
Tax after PTR	\$149	\$456	\$769	\$916	\$973	\$1,128	\$1,101	\$1,254	\$1,355	\$1,356	\$725
Homeowners Only											
Total Tax on Home	\$2,163	\$2,028	\$2,180	\$2,357	\$2,445	\$2,615	\$3,008	\$3,226	\$3,776	\$5,384	\$3,030
<b>-Property Tax Refund</b>	<b>-615</b>	<b>-500</b>	<b>-390</b>	<b>-296</b>	<b>-251</b>	<b>-140</b>	<b>-37</b>	<b>-8</b>	<b>-5</b>	<b>-12</b>	<b>-188</b>
Homeowners Tax after PTR	\$1,548	\$1,528	\$1,790	\$2,061	\$2,194	\$2,474	\$2,971	\$3,218	\$3,770	\$5,371	\$2,842
State Income Tax	\$171	\$1,215	\$2,297	\$3,253	\$4,169	\$5,172	\$6,125	\$7,806	\$10,767	\$40,640	\$8,162
State Sales Tax	701	1,050	1,230	1,357	1,473	1,583	1,717	1,905	2,253	4,476	1,775
State Excise Taxes	544	523	523	526	529	534	529	509	492	639	535
Other Taxes	696	1,082	1,210	1,321	1,422	1,514	1,730	1,838	2,178	4,036	1,703
Business Taxes <sup>1</sup>	2,708	2,594	2,353	2,155	2,326	2,436	3,005	3,446	5,124	13,484	3,963
<b>Total State and Local Tax Burden</b>	<b>\$5,457</b>	<b>\$7,583</b>	<b>\$9,045</b>	<b>\$10,434</b>	<b>\$11,915</b>	<b>\$13,475</b>	<b>\$15,824</b>	<b>\$18,416</b>	<b>\$24,262</b>	<b>\$68,431</b>	<b>\$18,484</b>
Effective Tax Rate for all Taxes	28.0%	15.2%	13.2%	12.6%	12.2%	12.0%	12.2%	12.0%	12.0%	11.9%	12.4%

<sup>1</sup>For these tables only, Business Taxes does not include the share of Rental Property Taxes borne by the renter.

Table 5-3

# Household Characteristics and Average Tax Burden Amounts by Population Decile Non-Senior Single-Person Households

Each Decile Contains 101,250 Non-Senior Single-Person Households

HOUSEHOLD CHARACTERISTICS	Population Decile										Total
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	
Number of Households	101,250	101,250	101,250	101,250	101,250	101,250	101,250	101,250	101,250	101,250	1,012,505
Average Household Income	\$4,889	\$11,434	\$16,773	\$22,830	\$29,589	\$36,652	\$44,577	\$54,082	\$69,662	\$150,367	\$44,086
Maximum Household Income	\$8,982	\$14,115	\$19,690	\$26,167	\$33,216	\$40,321	\$49,155	\$60,173	\$81,775		
Percent with Earned Income	57.7%	54.1%	70.1%	79.9%	92.9%	95.9%	97.0%	96.6%	98.2%	95.5%	83.8%
Average Earned income	\$5,992	\$10,440	\$15,001	\$21,104	\$27,990	\$34,361	\$41,149	\$49,385	\$62,526	\$107,951	\$41,481
Housing Status											
Homeowners	11%	10%	12%	12%	18%	22%	30%	41%	50%	70%	28%
Renters	38%	47%	42%	45%	41%	42%	37%	42%	31%	22%	39%
Other	51%	43%	46%	43%	41%	36%	33%	17%	19%	8%	34%
Average Market Value	\$232,925	\$128,614	\$136,034	\$140,394	\$141,244	\$135,343	\$151,986	\$161,041	\$159,048	\$212,222	\$169,257
Average Monthly Rent	\$128	\$258	\$369	\$504	\$607	\$690	\$732	\$865	\$914	\$1,171	\$586
<b>AVERAGE TAX BURDENS</b>											
Local Property Tax											
All Households											
Total Tax	\$280	\$288	\$358	\$434	\$537	\$649	\$863	\$1,173	\$1,331	\$2,266	\$818
<u>-Property Tax Refund</u>	<u>-\$105</u>	<u>-\$175</u>	<u>-\$201</u>	<u>-\$192</u>	<u>-\$197</u>	<u>-\$198</u>	<u>-\$195</u>	<u>-\$234</u>	<u>-\$170</u>	<u>-\$99</u>	<u>-\$177</u>
Tax after PTR	\$175	\$113	\$158	\$242	\$340	\$450	\$667	\$939	\$1,161	\$2,168	\$641
Renters Only											
Total Tax on Rental Unit	\$445	\$745	\$1,001	\$1,224	\$1,437	\$1,615	\$1,693	\$1,995	\$2,094	\$2,683	\$1,412
Renters Share of Tax	\$171	\$286	\$385	\$471	\$553	\$621	\$651	\$768	\$806	\$1,028	\$543
<u>-Property Tax Refund</u>	<u>-\$171</u>	<u>-\$278</u>	<u>-\$353</u>	<u>-\$283</u>	<u>-\$273</u>	<u>-\$250</u>	<u>-\$189</u>	<u>-\$186</u>	<u>-\$31</u>	<u>\$0</u>	<u>-\$219</u>
Tax after PTR	\$0	\$9	\$32	\$188	\$280	\$371	\$462	\$581	\$775	\$1,028	\$324
Homeowners Only											
Total Tax on Home	\$1,942	\$1,573	\$1,683	\$1,787	\$1,727	\$1,760	\$2,048	\$2,038	\$2,144	\$2,895	\$2,189
<u>-Property Tax Refund</u>	<u>-\$371</u>	<u>-\$453</u>	<u>-\$456</u>	<u>-\$526</u>	<u>-\$478</u>	<u>-\$430</u>	<u>-\$417</u>	<u>-\$380</u>	<u>-\$318</u>	<u>-\$139</u>	<u>-\$333</u>
Homeowners Tax after PTR	\$1,571	\$1,120	\$1,226	\$1,261	\$1,249	\$1,330	\$1,631	\$1,658	\$1,826	\$2,756	\$1,856
State Income Tax	-\$20	\$6	\$196	\$453	\$866	\$1,284	\$1,789	\$2,397	\$3,395	\$9,160	\$1,953
State Sales Tax	\$338	\$442	\$497	\$545	\$589	\$628	\$667	\$708	\$825	\$1,571	\$681
State Excise Taxes	\$285	\$323	\$342	\$358	\$372	\$385	\$397	\$409	\$419	\$446	\$374
Other Taxes	\$192	\$219	\$275	\$328	\$380	\$444	\$534	\$625	\$721	\$1,175	\$489
Business Taxes <sup>1</sup>	\$692	\$641	\$733	\$884	\$1,093	\$1,009	\$1,064	\$1,258	\$1,456	\$3,480	\$1,231
<b>Total State and Local Tax Burden</b>	<b>\$1,662</b>	<b>\$1,745</b>	<b>\$2,200</b>	<b>\$2,810</b>	<b>\$3,640</b>	<b>\$4,201</b>	<b>\$5,118</b>	<b>\$6,337</b>	<b>\$7,977</b>	<b>\$18,000</b>	<b>\$5,369</b>
Effective Tax Rate for all Taxes	34.0%	15.3%	13.1%	12.3%	12.3%	11.5%	11.5%	11.7%	11.5%	12.0%	12.2%

<sup>1</sup>For these tables only, Business Taxes does not include the share of Rental Property Taxes borne by the renter.

Table 5-4

# Household Characteristics and Average Tax Burden Amounts by Population Decile

## Senior Single-Person Households

Each Decile Contains 35,885 Senior Single-Person Households

HOUSEHOLD CHARACTERISTICS	Population Decile										Total
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	
Number of Households	35,885	35,885	35,885	35,885	35,885	35,885	35,885	35,885	35,885	35,885	358,850
Average Household Income	\$8,948	\$14,252	\$19,105	\$24,127	\$29,979	\$37,382	\$46,360	\$58,112	\$76,822	\$212,831	\$52,792
Maximum Household Income	\$11,744	\$16,656	\$21,577	\$26,743	\$33,573	\$41,445	\$51,541	\$64,537	\$94,181		
Percent with Earned Income	4.4%	6.8%	7.3%	15.3%	22.3%	25.5%	29.1%	32.6%	33.7%	31.6%	20.9%
Average Earned income	\$14,654	\$3,716	\$9,504	\$9,265	\$12,239	\$16,049	\$21,033	\$24,804	\$34,070	\$74,828	\$28,349
Housing Status											
Homeowners	28%	34%	45%	58%	59%	66%	74%	80%	79%	85%	61%
Renters	44%	43%	36%	25%	29%	21%	19%	16%	14%	10%	26%
Other	28%	23%	20%	17%	13%	13%	7%	4%	7%	5%	14%
Average Market Value	\$144,051	\$123,787	\$144,392	\$157,457	\$164,622	\$192,404	\$170,602	\$248,107	\$261,524	\$278,578	\$202,535
Average Monthly Rent	\$215	\$313	\$415	\$545	\$658	\$795	\$885	\$1,022	\$950	\$1,214	\$567
<b>AVERAGE TAX BURDENS</b>											
Local Property Tax											
All Households											
Total Tax	\$495	\$666	\$873	\$1,215	\$1,404	\$1,535	\$1,907	\$2,423	\$2,479	\$2,962	\$1,596
<u>-Property Tax Refund</u>	<u>-205</u>	<u>-389</u>	<u>-499</u>	<u>-539</u>	<u>-651</u>	<u>-573</u>	<u>-619</u>	<u>-642</u>	<u>-397</u>	<u>-113</u>	<u>-463</u>
Tax after PTR	\$290	\$278	\$375	\$676	\$753	\$962	\$1,289	\$1,781	\$2,083	\$2,849	\$1,133
Renters Only											
Total Tax on Rental Unit	\$579	\$1,004	\$1,275	\$1,502	\$1,966	\$2,169	\$2,549	\$2,543	\$2,174	\$2,780	\$1,562
Renters Share of Tax	\$223	\$386	\$491	\$578	\$757	\$834	\$981	\$978	\$837	\$1,063	\$601
<u>-Property Tax Refund</u>	<u>-270</u>	<u>-557</u>	<u>-695</u>	<u>-625</u>	<u>-848</u>	<u>-695</u>	<u>-750</u>	<u>-458</u>	<u>-24</u>	<u>0</u>	<u>-535</u>
Tax after PTR	-\$47	-\$171	-\$204	-\$47	-\$91	\$139	\$230	\$520	\$813	\$1,063	\$66
Homeowners Only											
Total Tax on Home	\$1,403	\$1,460	\$1,557	\$1,825	\$1,998	\$2,048	\$2,271	\$2,802	\$2,996	\$3,360	\$2,357
<u>-Property Tax Refund</u>	<u>-307</u>	<u>-441</u>	<u>-564</u>	<u>-660</u>	<u>-696</u>	<u>-646</u>	<u>-646</u>	<u>-708</u>	<u>-500</u>	<u>-132</u>	<u>-536</u>
Homeowners Tax after PTR	\$1,097	\$1,020	\$993	\$1,164	\$1,302	\$1,402	\$1,625	\$2,094	\$2,497	\$3,229	\$1,821
State Income Tax	\$40	\$7	\$1	\$19	\$102	\$321	\$800	\$1,788	\$3,178	\$12,573	\$1,883
State Sales Tax	362	447	512	571	633	704	784	880	1,016	1,535	745
State Excise Taxes	144	179	204	227	249	251	244	240	238	254	223
Other Taxes	282	338	384	471	494	546	649	808	913	1,283	617
Business Taxes <sup>1</sup>	1,046	598	913	826	974	1,048	1,212	1,913	1,877	5,838	1,625
<b>Total State and Local Tax Burden</b>	<b>\$2,164</b>	<b>\$1,845</b>	<b>\$2,388</b>	<b>\$2,791</b>	<b>\$3,203</b>	<b>\$3,832</b>	<b>\$4,978</b>	<b>\$7,410</b>	<b>\$9,305</b>	<b>\$24,333</b>	<b>\$6,225</b>
Effective Tax Rate for all Taxes	24.2%	12.9%	12.5%	11.6%	10.7%	10.3%	10.7%	12.8%	12.1%	11.4%	11.8%

<sup>1</sup>For these tables only, Business Taxes does not include the share of Rental Property Taxes borne by the renter.

Table 5-5

# Household Characteristics and Average Tax Burden Amounts by Population Decile

## Senior Married Households

Each Decile Contains 31,133 Senior Married Couples

HOUSEHOLD CHARACTERISTICS	Population Decile										Total
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	
Number of Households	31,133	31,133	31,133	31,133	31,133	31,133	31,133	31,133	31,133	31,133	311,326
Percent that are Married	-94%	-94%	-76%	-52%	-17%	5%	23%	48%	54%	57%	-15%
Average Household Income	\$22,363	\$42,608	\$55,062	\$66,057	\$77,716	\$90,617	\$105,724	\$125,274	\$165,860	\$544,969	\$129,625
Maximum Household Income	34,615	49,200	60,467	72,085	83,958	97,585	113,979	138,402	205,511		
Percent with Earned Income	0	0	0	0	1	1	1	1	1	1	1
Average Earned income	15,842	14,752	19,538	23,189	26,910	38,111	39,817	47,765	71,446	163,077	55,056
Housing Status											
Homeowners	66%	85%	89%	95%	96%	97%	97%	96%	97%	95%	91%
Renters	19%	10%	7%	4%	3%	3%	2%	3%	3%	4%	6%
Other	15%	5%	4%	1%	1%	0%	2%	1%	1%	2%	3%
Average Market Value	\$206,220	\$193,590	\$209,795	\$210,251	\$227,459	\$236,067	\$272,129	\$294,540	\$333,317	\$473,610	\$268,758
Average Monthly Rent	\$475	\$815	\$898	\$963	\$987	\$1,041	\$1,247	\$1,264	\$1,465	\$1,538	\$852
<b>AVERAGE TAX BURDENS</b>											
Local Property Tax											
All Households											
Total Tax	\$1,315	\$1,832	\$2,120	\$2,421	\$2,581	\$2,850	\$3,133	\$3,373	\$3,857	\$5,451	\$2,893
-Property Tax Refund	-467	-592	-591	-569	-485	-463	-327	-55	-25	-17	-359
Tax after PTR	\$848	\$1,240	\$1,528	\$1,853	\$2,096	\$2,387	\$2,806	\$3,318	\$3,833	\$5,434	\$2,534
Renters Only											
Total Tax on Rental Unit	\$1,360	\$2,068	\$2,222	\$2,432	\$2,261	\$2,384	\$2,856	\$2,896	\$3,356	\$3,523	\$2,114
Renters Share of Tax	523	796	855	936	870	911	1,096	1,012	1,291	1,356	813
-Property Tax Refund	-503	-659	-388	-180	-109	0	0	0	0	0	-353
Tax after PTR	\$20	\$137	\$467	\$756	\$761	\$911	\$1,096	\$1,012	\$1,291	\$1,356	\$460
Homeowners Only											
Total Tax on Home	\$1,821	\$2,051	\$2,308	\$2,495	\$2,664	\$2,922	\$3,223	\$3,478	\$3,964	\$5,703	\$3,119
-Property Tax Refund	-563	-621	-634	-592	-502	-479	-339	-55	-25	-18	-372
Homeowners Tax after PTR	\$1,258	\$1,430	\$1,674	\$1,903	\$2,162	\$2,443	\$2,884	\$3,423	\$3,938	\$5,686	\$2,747
State Income Tax	\$4	\$53	\$339	\$750	\$1,637	\$2,783	\$3,983	\$5,508	\$7,804	\$31,667	\$5,453
State Sales Tax	877	1,123	1,239	1,329	1,439	1,560	1,693	1,854	2,154	3,731	1,700
State Excise Taxes	256	295	312	325	339	353	368	386	418	559	361
Other Taxes	881	1,071	1,170	1,205	1,323	1,336	1,513	1,661	1,836	3,345	1,534
Business Taxes <sup>1</sup>	2,522	1,744	1,276	2,234	2,424	2,397	2,881	2,551	4,024	14,039	3,609
<b>Total State and Local Tax Burden</b>	<b>\$5,388</b>	<b>\$5,526</b>	<b>\$5,864</b>	<b>\$7,696</b>	<b>\$9,258</b>	<b>\$10,815</b>	<b>\$13,244</b>	<b>\$15,278</b>	<b>\$20,068</b>	<b>\$58,775</b>	<b>\$15,191</b>
Effective Tax Rate for all Taxes	24.1%	13.0%	10.7%	11.7%	11.9%	11.9%	12.5%	12.2%	12.1%	10.8%	11.7%

<sup>1</sup>For these tables only, Business Taxes does not include the share of Rental Property Taxes borne by the renter.



Table 5-6

# Household Characteristics and Average Tax Burden Amounts by Population Decile Single-Parent Households

*Each Decile Contains 31,925 Single-Parent Households*

HOUSEHOLD CHARACTERISTICS	Population Decile										Total
	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	
Number of Households	31,926	31,926	31,926	31,926	31,926	31,926	31,926	31,926	31,926	31,926	319,255
Average Number of Children	1.6	1.6	1.7	1.7	1.8	1.7	1.7	1.6	1.5	1.4	1.6
Average Household Income	\$7,476	\$15,081	\$20,844	\$26,323	\$31,160	\$36,738	\$43,655	\$53,754	\$69,745	\$158,217	\$46,299
Maximum Household Income	\$11,950	\$18,081	\$23,907	\$28,621	\$33,793	\$39,838	\$47,889	\$60,543	\$82,171		
Percent with Earned Income	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1	\$1
Average Earned income	\$8,284	\$14,047	\$19,360	\$24,828	\$29,479	\$34,428	\$40,281	\$50,066	\$63,692	\$113,055	\$41,608
Housing Status											
Homeowners	11%	11%	19%	21%	26%	30%	37%	53%	60%	85%	35%
Renters	68%	69%	58%	57%	48%	48%	40%	30%	28%	11%	46%
Other	22%	20%	23%	23%	26%	22%	24%	17%	12%	5%	19%
Average Market Value	\$165,640	\$143,134	\$133,200	\$118,745	\$138,202	\$138,758	\$137,385	\$162,935	\$198,421	\$263,190	\$181,930
Average Monthly Rent	\$162	\$298	\$445	\$559	\$594	\$689	\$752	\$869	\$941	\$1,220	\$540
<b>AVERAGE TAX BURDENS</b>											
Local Property Tax											
All Households											
Total Tax	\$355	\$431	\$612	\$722	\$773	\$880	\$982	\$1,423	\$1,910	\$3,221	\$1,131
-Property Tax Refund	-169	-286	-418	-412	-391	-413	-367	-389	-387	-199	-343
Tax after PTR	\$186	\$145	\$194	\$310	\$382	\$466	\$614	\$1,034	\$1,522	\$3,022	\$788
Renters Only											
Total Tax on Rental Unit	\$498	\$827	\$1,201	\$1,415	\$1,447	\$1,664	\$1,767	\$2,018	\$2,164	\$2,794	\$1,341
Renters Share of Tax	192	318	462	545	557	640	680	776	832	1,075	516
-Property Tax Refund	-176	-333	-509	-544	-514	-473	-452	-361	-153	-6	-386
Tax after PTR	\$15	-\$15	-\$47	\$0	\$43	\$167	\$228	\$416	\$680	\$1,069	\$130
Homeowners Only											
Total Tax on Home	\$2,082	\$1,867	\$1,814	\$1,975	\$1,919	\$1,882	\$1,913	\$2,226	\$2,775	\$3,664	\$2,530
-Property Tax Refund	-459	-506	-656	-512	-558	-624	-511	-526	-572	-234	-476
Homeowners Tax after PTR	\$1,623	\$1,361	\$1,158	\$1,464	\$1,360	\$1,257	\$1,402	\$1,700	\$2,204	\$3,431	\$2,054
State Income Tax	-\$436	-\$984	-\$1,155	-\$1,062	-\$585	\$72	\$820	\$1,595	\$2,641	\$8,765	\$967
State Sales Tax	471	587	651	700	739	778	822	877	979	1,569	817
State Excise Taxes	318	356	375	389	400	410	422	436	464	586	416
Other Taxes	281	356	409	489	531	593	704	841	1,023	1,633	686
Business Taxes <sup>1</sup>	891	836	918	1,010	1,090	1,138	1,248	1,383	1,687	3,387	1,359
<b>Total State and Local Tax Burden</b>	<b>\$1,711</b>	<b>\$1,296</b>	<b>\$1,392</b>	<b>\$1,836</b>	<b>\$2,555</b>	<b>\$3,457</b>	<b>\$4,629</b>	<b>\$6,166</b>	<b>\$8,316</b>	<b>\$18,962</b>	<b>\$5,032</b>
Effective Tax Rate for all Taxes	22.9%	8.6%	6.7%	7.0%	8.2%	9.4%	10.6%	11.5%	11.9%	12.0%	10.9%

<sup>1</sup>For these tables only, Business Taxes does not include the share of Rental Property Taxes borne by the renter.

**Table 5-7**  
**Full-Sample Suits Index**  
**Calculated Separately for Each Household Type**

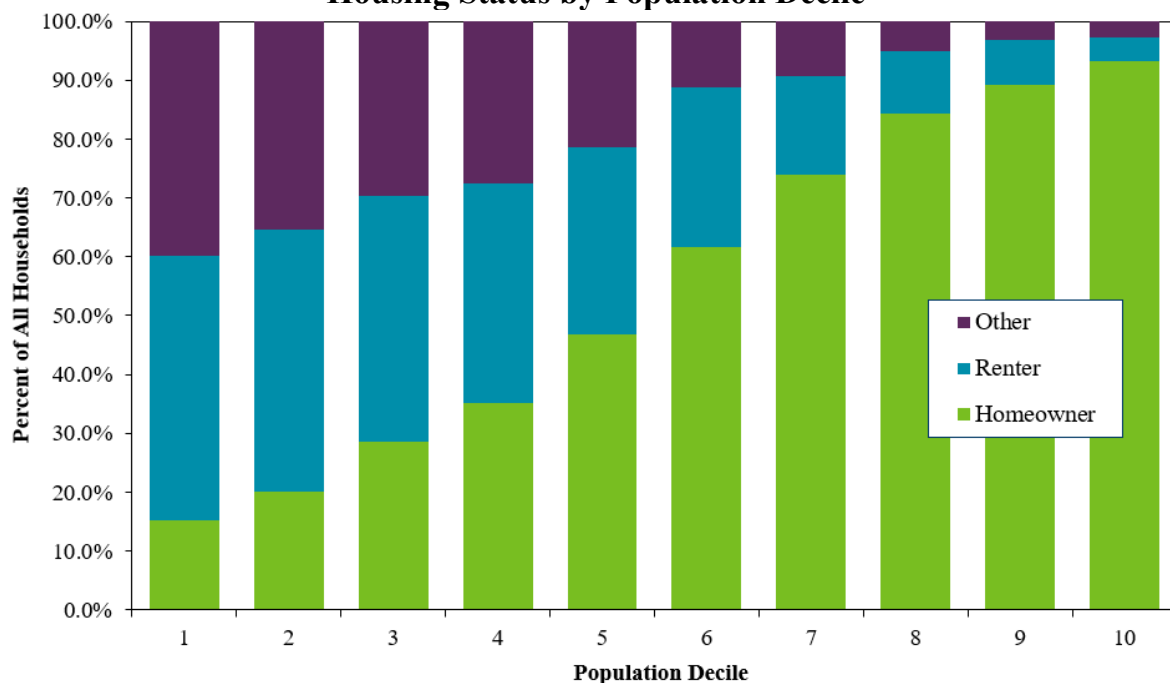
Household Type	Full Sample Suits Index	Average Effective Tax Rate
Married With Children	+0.006	12.1%
Married No Children (Non-Senior)	-0.032	12.4%
Single-Person Household (Non-Senior)	-0.029	12.2%
Single Seniors	-0.041	11.5%
Married Seniors	-0.052	11.7%
Single Parents	+0.061	10.9%
<b>All Family Types</b>	<b>-0.013</b>	<b>12.0%</b>

### Housing Status by Population Decile

*Figure 5-3* shows how housing status varied with income. As expected, home ownership rates (including farmers) rose steadily with income, from 15 percent in the first decile to 93 percent in the 10th decile. For all households, 55 percent were homeowners. Renter households outnumbered homeowners in each of the first four deciles; the top three deciles contained twelve homeowner households for every renter household.

*Figure 5-3* also shows that a significant proportion of the households in the first five deciles were classified as neither homeowners nor renters. This “other” category is the result of this study’s definition of a household. While the Census defines a household to include all individuals living in a particular housing unit, this study (like other tax incidence studies) defines a household as a taxpayer, a taxpayer’s spouse, and all others that are claimed (or could be claimed) as dependents for income tax purposes.

**Figure 5-3**  
**Housing Status by Population Decile**



In this study, a secondary household living with a primary household is assumed to pay no property tax. For example, an older child living with parents (but not claimed as dependent) would generally be classified as neither renter nor homeowner. Other examples would include elderly parents living with their children or an unrelated single person living with a homeowner. In such cases, the entire property tax burden was assigned to the homeowner; the second household is assumed to pay no property tax.<sup>27</sup> Although the second incidence household might be considered to have paid part of the homeowner property tax, it is not possible to link the two households using available information (nor would it be clear how to split the tax between them).

Most of the non-renter/non-owner households were single persons in the lower income deciles, reflecting the characteristics of such persons in the Census data. Those living in group quarters (including nursing homes) were also included in this category. None of those living in group quarters would have been considered a separate household by the Census.

### **Incidence Households Compared to Census Households**

By extrapolating from the incidence database, the tax incidence study estimates a total of 2,787,506 Minnesota households in 2018, with a median income of \$51,162. In contrast, the U.S. Census reports a total of 2,194,452 Minnesota households in 2018, with a median household income of \$70,315. Census households average 2.50 persons, while the incidence study households average 1.94 persons. This section explains the differences between the numbers presented in this study and those reported by the Census.

The Census defines a household to include all persons who live together in a housing unit. The precise Census definition is:

A household includes all the persons who occupy a housing unit . . . in which the occupants live and eat separately from any other persons in the building and which has direct access from the outside of the building or through a common hall. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

In contrast, the incidence study defines a household as an actual or potential income tax filer and all dependents, even if not living under the same roof.

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<sup>27</sup> If a home is owned jointly, the property tax is split equally among all owners.

There are three basic reasons why Census and incidence households differ. First, some Census households are not counted as incidence study households. For example, a full-time college student living in an apartment and claimed as a deduction on a parent's tax return is a Census household but would be combined with the parents in the incidence study. Second, Census households often contain two or more incidence households. For example, three single persons sharing an apartment would be counted as one Census household but might be three incidence households. Third, individuals living in "group quarters" are not part of any Census household, but some are defined as a household in the incidence study. Examples include a financially independent college student living in a college dorm, or a nursing home resident not claimed as a dependent on someone else's tax return. As a result, the incidence study reports 27 percent more households than the Census, and the median household income in the incidence study is only 73 percent of that reported by the Census.

In summary, the incidence study's population is consistent with the Census.<sup>28</sup> The U.S. Census estimate of Minnesota's 2018 population exceeds the Incidence Study population by 2.4 percent (though the incidence study's population exceeds the population in Census *households* because it includes some in group quarters). This difference in the total population is primarily due to this study's exclusion of part-year residents. The lower median income reported in this study occurs largely because the same total income is spread over a larger number of households. The incidence definition of a household is more appropriate than the Census definition when describing the distribution of the tax burden.

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<sup>28</sup> More details about the cross-walk between Census data and the data used in tax incidence studies can be found in the 1999 *Tax Incidence Study*, pp. 19-21. Total household income reported in the *Tax Incidence Study* exceeds that in Census estimates by about 19 percent. This reflects both the study's broader definition of income and income underreporting in the Census.

## **Appendix A**

### **The Incidence Study Database**

The 2018 incidence study database includes detailed information on income and taxes for a stratified random sample of 137,399 Minnesota households. This sample is then “blown up” to represent 2.79 million Minnesota households. Individual income tax returns and property tax refund returns filed with the Department of Revenue were the primary sources of information and were supplemented with data on nontaxable income obtained from various sources. The additional nontaxable income information provides a more accurate measure of total income, particularly for low-income households who did not meet tax filing requirements.

The use of social security numbers to merge income data from different sources for specific individuals is a unique and important aspect of this study. Income data was matched, for example, with property tax and market value information for individual homeowners. Because of these “hard matches,” the need to impute estimated values of income and tax variables to households in the database was minimized.

The incidence study database was constructed from a number of different sources. First, data was taken from state and federal income tax returns filed in Minnesota. Then, data was added from property tax refund returns. More information concerning homestead property taxes was obtained from data provided by Minnesota counties to the Department of Revenue. Additional income and data came from several state agencies. Information obtained from the American Community Survey of the United States Bureau of the Census was used to estimate annual rent expenditures for renter households. Finally, estimates of household spending patterns were derived using several years of Consumer Expenditure Survey data from the United States Department of Labor.

## **Measurement of Household Income**

An appropriate measure of income is critical to any study of tax incidence. By definition, a tax incidence study compares taxes paid to some measure of a household's economic well-being or ability-to-pay. In this study, tax burdens are expressed as ratios of taxes paid to a broad measure of household money income. This comprehensive measure of money income includes not only income taxable on income tax returns but also nontaxable income, such as public assistance payments, tax-exempt interest, and nontaxable social security and pension income.

### ***Definition of Income***

The definition of income should be as consistent as possible with the public's perception of economic well-being. Households with equal incomes should be viewed as being equally well off, and those with higher incomes should be considered consistently better off than those in lower income groups. This argues for a comprehensive definition of income. An incidence study using too narrow a definition of income would overstate the ratio of taxes to income; it might also give a distorted picture of the regressivity or progressivity of the tax system.

Comprehensive income in this study includes only monetary sources of income. Capital gains and pension benefits are included when realized, not as they accrue, and no adjustment is made for inflation or for the impact of family size on ability-to-pay.

### ***Components of Household Income in 2018***

*Table A-1* summarizes the measure of household income used in this study. Minnesota households are divided into three groups.

- Income tax filers (88.7 percent of all households and 97.7 percent of all income)
- Property Tax Refund filers who file no income tax return (2.7 percent of all households and 0.7 percent of all income)
- Nonfilers (8.6 percent of all households and 1.7 percent of all income)

Federal Gross Income (FGI) reported on federal income tax returns accounts for 86.9 percent of total income. Nontaxable interest and retirement income reported on income tax returns adds another 7.8 percent.

**Table A-1**  
**Components of Total Household Income in 2018 (\$ Millions)**

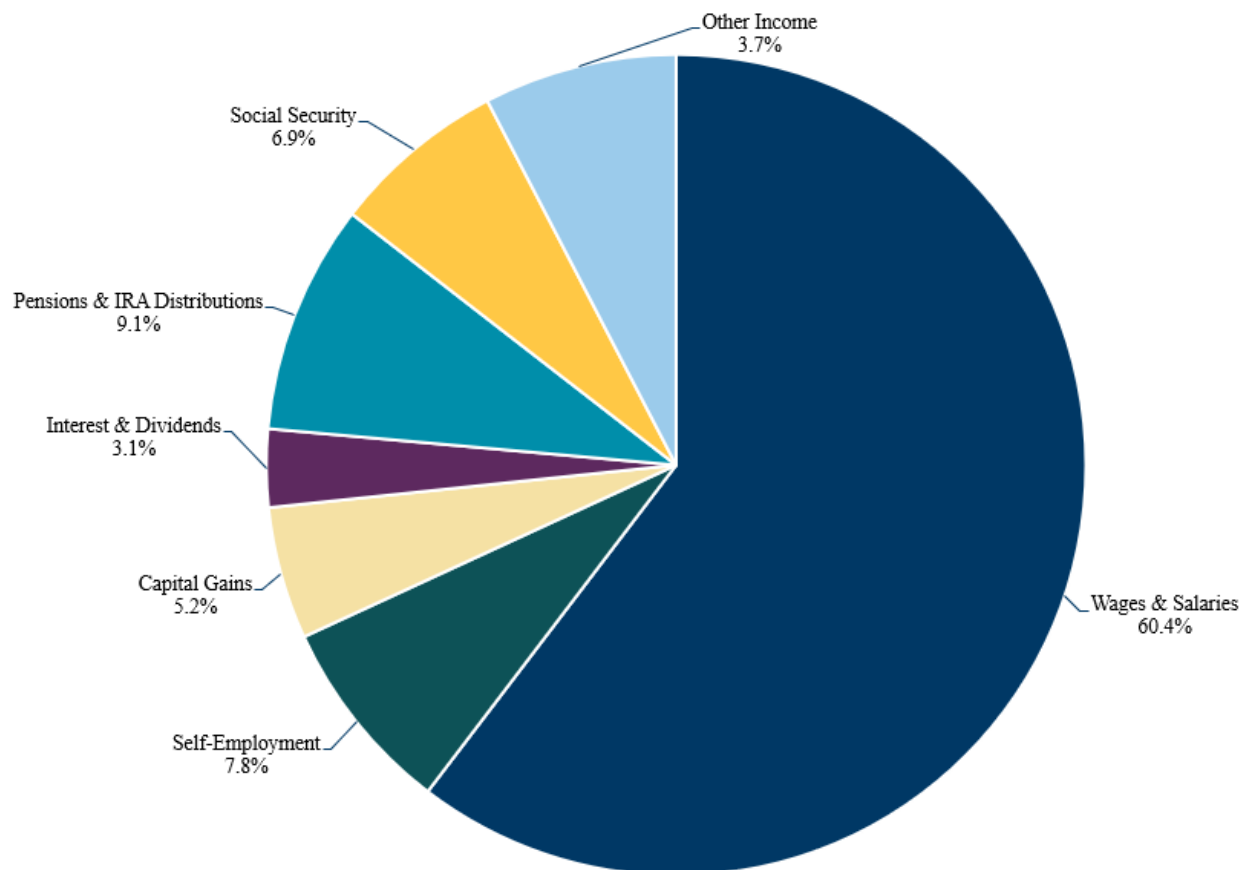
Group	Source of Income	Amount
File income tax 2,472,027 households  (88.7% of households 97.7% of total income)	Wages	145,249
	Taxable interest & dividends	6,463
	Business income (Schedules C, E, and F)	20,001
	Capital gains & other gains	12,641
	Taxable IRA distributions & annuity income	19,100
	Taxable unemployment benefits	570
	Taxable social security benefits	6,900
	Other taxable income	-119
<b>Federal Gross Income (FGI)</b>		<b>\$ 210,806</b>
	Adjustments to FGI	
	Taxable refunds of state income taxes	-647
	Half of Self-employment tax	-502
	Self-employed health insurance deduction	-673
	Penalty on early withdrawal of savings	-2
	Alimony paid	-222
	Nontaxable interest	907
	Nontaxable IRA distributions & annuity	11,265
	Nontaxable social security income	6,667
	Other nontaxable income	8,705
	Public assistance cash payments	291
	Workers' compensation	195
<b>Total Household Income</b>		<b>\$236,789</b>
File Property Tax Refund (but not income tax) 76,441 households  (2.7% of households 0.7% of total income)	Wages	210
	Interest & dividends	15
	Unemployment benefits	2
	Pension income	161
	Social security income	974
	Public assistance cash payments	174
	Workers' compensation	7
	Other income	130
<b>Total Household Income</b>		<b>\$1,674</b>
Nonfilers 239,038 households  (8.6% of households 1.7% of total income)	Wages	920
	Interest & dividends	57
	Unemployment benefits	25
	Pension income	385
	Social security income	2,196
	Public assistance cash payments	161
	Workers' compensation	43
	Other income	228
<b>Total Household Income</b>		<b>\$4,014</b>
<b>Total Population</b> 2,787,506 households	<b>Total Household Income<sup>1</sup></b>	<b>\$242,478</b>

<sup>1</sup>Household income differs from what is shown in *Table 2-2* because *Table 2-2* sets negative total incomes to zero.

<sup>2</sup>The report published on March 4, 2021 included an incorrect version of Table A-1, transposed household income components for property tax refund filers and nonfilers. It corrected here.

*Figure A-1* shows the shares of income by type of income. Wages account for 60.4 percent of all income, and income from sole proprietors, farmers, pass-through entities, and rents accounts for another 7.8 percent. Capital income in the form of interest, dividends, and capital gains combines for 8.3 percent. Retirement income totals 16.0 percent.

**Figure A-1**  
**Shares of Total Income (2018)**



### ***Income Not Included in Incidence Study Income***

Minnesota money income excludes many forms of income that would be included in the broadest income measure. It excludes all non-monetary forms of income (food stamps, housing subsidies, Medicare and Medicaid benefits, employer-provided fringe benefits, and imputed rent for homeowners). It includes capital gains and pension income only when realized, not when accrued. No adjustment is made for depreciation deductions in excess of economic depreciation, nor is a deduction made for the portion of interest income that represents inflation.

Minnesota money income also excludes some forms of cash income. Three particular omissions should be noted. First, due to data limitations, only a portion of wage and salary and other income could be added to other sources of income, such as public assistance and social security benefits, for taxpayers who file neither an income tax nor a property tax refund return. This results in an understatement of money income and an overstatement of tax burdens for the lowest income groups. Second, veterans' benefits are excluded (except for those reported on property tax refund returns). Third, child support payments are not included as income for the recipient, nor are they subtracted from the income of the payer.



## ***Comparison to Personal Income***

A commonly used measure of income is “personal income” as reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Personal income differs from the definition of income used in this study in a number of ways. The most important components of personal income that are not included here are employer contributions for employee pension and insurance funds and the investment income of life insurance carriers and pension plans. It should also be noted that personal income does not include some significant items that are included in FAGI and hence in this study. Personal income excludes the following: capital gains, taxable pensions, and the employee share of Social Security and Medicare taxes.

## ***Accounting Period***

Income received in a single year can be a misleading measure of economic well-being. Individual households may have unusually high or low income in a particular year due to business losses, unemployment, or the sale of capital assets. Because of such transitory income, a snapshot of the income distribution in a single year shows more income inequality than would a time exposure over several years. In addition, income varies over a household’s life cycle. For these reasons, annual income may not be an accurate measure of a household’s more permanent economic well-being.

In spite of these shortcomings, there are two strong reasons why this study uses annual rather than permanent income. First, an adequate record of the income of individual households over a longer period is rarely available. Consequently, state incidence studies have always used an annual accounting period. Second, an annual perspective may be preferred because taxes are paid out of a household’s current income, not out of what might be earned in the future. If the purpose of an incidence study is to make policy decisions regarding current ability to pay taxes, then it is reasonable to argue that the appropriate measure should be based on annual rather than permanent income.

## ***Definition of a Household***

This study combines dependents who file their own income tax return with taxpayers claiming them as dependents to form a single household. The most common situation is a student working part-time and claimed as a dependent on the parent’s tax return. If not combined into a single household, these part-time workers would be treated as separate, low-income individuals in the study, with misleading results.

Some income information for nonfilers was initially reported separately for each member of a family (e.g., spouses having separate social security payment records). When possible, available state agency files containing name and address information were used to combine such individuals into household units. This adjustment provides a more accurate picture of such households.

## Appendix B

### The Incidence Analysis

#### Introduction

The results of any incidence study are determined by the study's incidence assumptions. This section explains both the incidence assumptions used in this study and the method of allocating tax burdens to specific households. This study's incidence assumptions are summarized as follows:

##### 1. Incidence of Taxes on Households

- The personal income tax is paid by individual taxpayers, and the incidence is the same as the initial impact of the tax.
- Taxes on purchases by consumers (sales, solid waste management) are borne by consumers of the taxed items.
- The property tax on homeowners is borne by the homeowner.
- The motor vehicle registration tax on vehicles owned by households is borne by the owner of the vehicle.
- Mortgage registration and deed transfer taxes on homes are borne by homeowners.
- Excise taxes – those on motor fuels (bought by consumers), tobacco, and alcohol – are assumed fully shifted to consumers, as are the taxes on consumer purchases of insurance, MinnesotaCare taxes, and taxes on gambling. For purposes of this study, these are considered taxes on households even though they are paid by businesses. The term “business taxes” in this study does not include these taxes.

##### 2. Incidence of Taxes on Business

Most taxes on business property, business purchases, and corporate income are partially shifted to consumers and workers. The amount of tax shifting varies by tax and by business sector, depending on the scope of the product market (local or national) and the magnitude of Minnesota's tax rates compared to those in other states. To shift a tax, the individual or business legally liable to pay the tax must alter its economic behavior because of the tax. For example, a property tax paid by a business firm may lead the firm to raise its prices, lower its pay to employees, or the business owner may experience reduced profits.

The rationale for this study's incidence assumptions is discussed in the next two sections. First, taxes on households are discussed. The incidence of business taxes, which is discussed next, is much more complex. Many issues are unsettled, and a wide variety of approaches have been used in incidence studies other than Minnesota's approach. As a result, this section provides an extended discussion of the methodology underlying this study's approach to business tax incidence.

## **Taxes on Households**

### ***Taxes on Income or Wealth***

*Individual Income Tax.* This study assumes that the burden of the individual income tax is not amenable to shifting through changes in either wages or interest rates. This assumption is correct if total hours worked and savings rates are unresponsive to after-tax returns and the package of public spending and taxes in Minnesota (compared to other states) does not cause significant migration. Given this assumption, the state income tax burden equals each household's tax liability, as listed in the study's database.

*Estate Tax.* Defining the incidence of the estate tax presents unique problems; the impact of the tax is on the estate, not on a currently acting economic entity (person or firm) as is true of all other taxes. There is no consensus among economists as to whether the incidence of the tax properly applies to the decedent or to the estate beneficiaries, and arguments can be made for either position. Given the information that was available for analysis, the computations reported here were carried out assuming that the incidence of the estate tax was on the decedent.

In order to eliminate the chance that decedent incomes were understated due to lack of a full year's income in the year of death, estate tax returns were matched against income tax returns for the last two full years prior to death. All returns for deaths occurring between 2000 and 2018 were included in estimating how the tax varied with income.

### ***Taxes on Consumer Purchases***

*Sales and Excise Taxes.* This study, like most other incidence studies, assumes that businesses legally liable for sales and excise taxes on final products and services will be able to raise product prices by the full amount of the tax, leaving wages and the return to capital unchanged. Therefore, the tax burden is fully shifted to consumers in higher prices. The sales and excise tax burdens were allocated in proportion to each household's consumption of taxed items, as estimated in the study's database.

*Insurance Premiums Taxes.* The insurance premiums tax equals a flat percentage of the premium paid on selected types of insurance. This tax was assumed to raise insurance premiums by the full amount of the tax, so its burden was distributed in proportion to each household's purchase of insurance subject to the tax. For auto, life, medical, and household insurance, the tax burden allocation was in proportion to expenditures as estimated from the *Consumer Expenditure Survey*.

*Gambling Taxes.* Gross receipts taxes on pulltabs, tipboards, bingo, raffles, and horse racing were assumed to be borne by the bettor. A 1994 survey by the Minnesota Lottery<sup>29</sup> provided substantial information about how gambling varies by income level. That information was supplemented by more recent data from a Wisconsin Lottery Tracking Study and current data from the Consumer Expenditure Survey.

*MinnesotaCare Taxes.* The 1.8 percent gross receipts tax on most medical bills (including hospital, physician, dental, and laboratory services along with prescription drugs) was assumed to be paid by consumers in higher out-of-pocket medical costs or higher costs for insurance (except for Medicare premiums). The higher costs of employer-provided health insurance were assumed to be borne by households in reduced wages or other fringe benefits. MinnesotaCare taxes were distributed in proportion to the sum of the total (employer plus employee) cost of health insurance plus out-of-pocket costs for medical services and prescription drugs.

### ***Property Taxes on Non-Business Property***

*Homeowner Property Taxes.* The homeowner is both the owner and consumer of housing. As a result, the homeowner bears the full tax burden, regardless of how the burden is split between consumers and owners. The tax burden on the household was assumed to be the total property tax paid on the homestead, as identified in the incidence study database. Similarly, the property tax on cabins was assumed borne by the owners.

*Motor Vehicle Registration Tax and County Wheelage Taxes.* The registration tax on motor vehicles owned by households was assumed to be fully borne by the owner. In this study, the actual tax paid by sample households was found by matching sample households to the motor vehicle registration files.

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<sup>29</sup> Minnesota State Lottery (1994). *Gambling in Minnesota*. St. Cloud University Survey Research, February.

*Mortgage Registration and Deed Transfer Taxes.* The homeowner portion of these taxes was assumed to be borne by the owner of the home. Given a lack of information about the identity of those buying homes or obtaining mortgages in 2018, the burden of the mortgage registration tax was distributed over all mortgage holders (in proportion to mortgage interest paid in 2018); the deed transfer tax burden was distributed over all homeowners (in proportion to the estimated market value of the home).

### ***Adjustment for Burdens on Nonresident Households***

The proportion of the total receipts from each of these taxes that was allocated to Minnesota households was given in *Table 1-2*. For the general sales and use tax and the excise taxes, the Minnesota household share was estimated by the Minnesota Consumption Tax Model. For the other taxes (insurance premiums tax, property tax on cabins, gambling taxes, MinnesotaCare taxes, motor vehicle registration tax, and mortgage and deed taxes), the total burden on Minnesota households was defined as total collections minus the estimated taxes paid by business and nonresident visitors and tourists.

Some incidence studies reduce state and local tax burdens to reflect the “federal tax offset.” State income taxes and homeowner property taxes are both deductible in calculating federal income tax liability, so households paying these Minnesota taxes will pay less in federal income tax (if they itemize deductions). A portion of these deductible taxes is sometimes considered to be shifted to the federal government in lower federal tax revenue. Although no such adjustment is included in this study’s general results, the impact of such an adjustment (and the arguments for and against it) are presented earlier. (See *Chapter 4, Section B.*)

## **Taxes on Business**

### ***Introduction***

This study includes \$11.4 billion in business taxes in 2018, as summarized in *Table 2-1*. These business taxes (including rental property taxes) account for a significant percent of Minnesota’s state and local tax revenue. Business taxes include both taxes on capital (structures, capital equipment, and land) and taxes on business purchases of short-lived intermediate inputs (such as gasoline and restaurant meals).

This study estimated the incidence of each of these business taxes. While the initial impact of these taxes is on business, they are partially shifted forward to consumers in higher prices or backward to labor in lower wages. Much of the tax is paid by nonresidents, either as consumers of goods and services produced in Minnesota or as owners of capital and land located in Minnesota. This section summarizes how this study estimated the incidence of business taxes, and how business tax burdens were allocated to Minnesota households.

## *Conceptual Structure*

The following six principles define this study's approach to estimating the incidence of Minnesota's existing business taxes.

1. *Capital moves to where it earns the highest return.* If a tax on capital in a single state (or industry) reduces the after-tax rate of return, investors will move their capital to lower-tax locations (or industries). As production falls, prices will rise or costs (including wages) will fall until the after-tax rate of return is again equal to the after-tax rate of return elsewhere. Only the average tax on all forms of capital in all states — a tax which owners of capital cannot avoid — will be fully borne by capital so long as capital is free to move in search of the highest rate of return.
2. *Minnesota's taxes do not occur in isolation.* Every state levies business taxes. The incidence of a tax levied at the same rate in all states differs greatly from the incidence of a tax levied only in Minnesota. For example, a one percent tax levied on business capital in only Minnesota will be largely shifted to consumers and workers; capital is unlikely to bear much of the final burden due to the ease of capital movement. In contrast, if all states impose the identical one percent tax on the value of all business capital, investors cannot escape the tax. Such a "national" tax on capital is much more likely to be borne by capital, reducing the after-tax rate of return on capital throughout the nation.

This distinction between a single-state tax and a nation-wide tax is crucial to the results of this study. The incidence of a particular Minnesota tax on business depends on how Minnesota's tax rate compares to those of other states. If, for example, a particular Minnesota business tax rate is 10 percent above the national average, the incidence of this 10 percent "Minnesota differential" will differ greatly from the incidence of the remainder of the tax.

3. *Minnesota's tax structure evolved over time.* In describing the incidence of existing business taxes, this study assumes that businesses, consumers, and workers have fully adjusted to tax differences across states.
4. *Some businesses, depending on their market, can shift Minnesota business taxes forward to consumers in higher prices.* Given time for full adjustment, the ability to shift taxes forward to consumers depends on the nature of the product being sold. Some producers, such as restaurants, compete only with other Minnesota companies; tax increases would affect all restaurants equally, and prices would rise to cover this higher cost. In contrast, a higher Minnesota tax on manufacturers is much harder to shift to consumers because firms compete in a national market. Therefore, Minnesota manufacturers cannot raise prices to cover higher state taxes. In this study, producers of "local market products" are assumed to pass tax differentials on to consumers but producers of "national market products" cannot.

5. *A tax that reduces the competitiveness of Minnesota businesses will be borne by immobile resources — those either unable or unwilling to leave the state.* If capital is mobile and prices cannot be increased (due to competition), the burden of business taxes will reduce payments to inputs that are geographically tied to the state, including labor and land.
6. *An increase in taxes reflects an increase in state and local government spending.* This study assumes that workers do not move between Minnesota and other states in response to changes in state taxes, because tax changes are offset by expenditure changes, leaving the net benefits to Minnesota taxpayers unchanged. In other words, labor (along with land) is assumed to be immobile. In contrast, changes in taxes on business income are assumed not to be offset by changes in benefits from government expenditures.

In summary, these six concepts have guided this study's approach to estimating the incidence of Minnesota's existing business taxes. The study provides an answer to the question: What is the burden of Minnesota taxes on Minnesota residents, in a multistate context where Minnesota's taxes coexist with those of other states, assuming that producers and consumers have fully adjusted to existing tax rate differences?

### ***Allocation of Business Taxes***

The six concepts discussed above are used in this section to determine the allocation of business taxes among the four major taxpayer categories: Minnesota consumers, Minnesota capital, Minnesota labor, and nonresidents. The methodology used in this step is discussed in detail before the results are presented.

Several major features of the tax incidence approach used in this study are important to keep in mind. First, this study emphasizes the importance of Minnesota tax rates relative to those in other states. In estimating the incidence of existing business taxes, it is the relative tax rate that matters, not the absolute level of taxes. The incidence of a property tax on manufacturers, for example, depends on how heavily other states tax such property.

Second, this study emphasizes the difference between the incidence of existing business taxes and the incidence of an incremental increase in those taxes. Much of an existing business tax is matched by taxes in other states. The incidence of an increase in such a tax (unmatched by increases in other states) would be quite different. The tax incidence results in this study measure the distribution of existing taxes, not the distribution of increasing Minnesota taxes relative to other states.

Third, this study estimates the burden of business taxes after businesses, consumers, and workers have fully adjusted to them in the long run. For example, relatively high tax rates on capital may reduce wages of Minnesota workers through less capital investment. This long-term perspective is appropriate for estimating the incidence of existing taxes.

## Allocation of Business Taxes: An Example

To understand the allocation approach used in this study, suppose that Minnesota levied a \$120 million tax on capital — manufacturing equipment, for example. The owners of that capital are legally liable for the tax, but who would bear the ultimate burden? The first step in answering this question is to determine how shifting spreads the tax to capital owners, consumers, and labor.

### *Allocating the Burden Among Capital, Consumers, and Labor*

For each of the business taxes on capital, the tax paid by a particular economic sector is divided into three parts:

- The portion representing the *national average tax rate on all capital*.
- The portion representing the *national sector differential*.
- The portion representing the *Minnesota sector differential*.

This 3-part division of the tax is based on the answers to three questions. The approach is summarized in *Figure B-1*, using the example of a \$120 million property tax on capital in the manufacturing sector.

*Question 1.* What portion of this \$120 million Minnesota tax represents the national average tax on all capital? If all states levied an identical tax on *all* forms of capital, capital would be unable to shift that tax to others and the entire burden would be borne by capital. Given the variation in rates among the states, it is the “average national tax rate on capital” which is borne by capital owners.

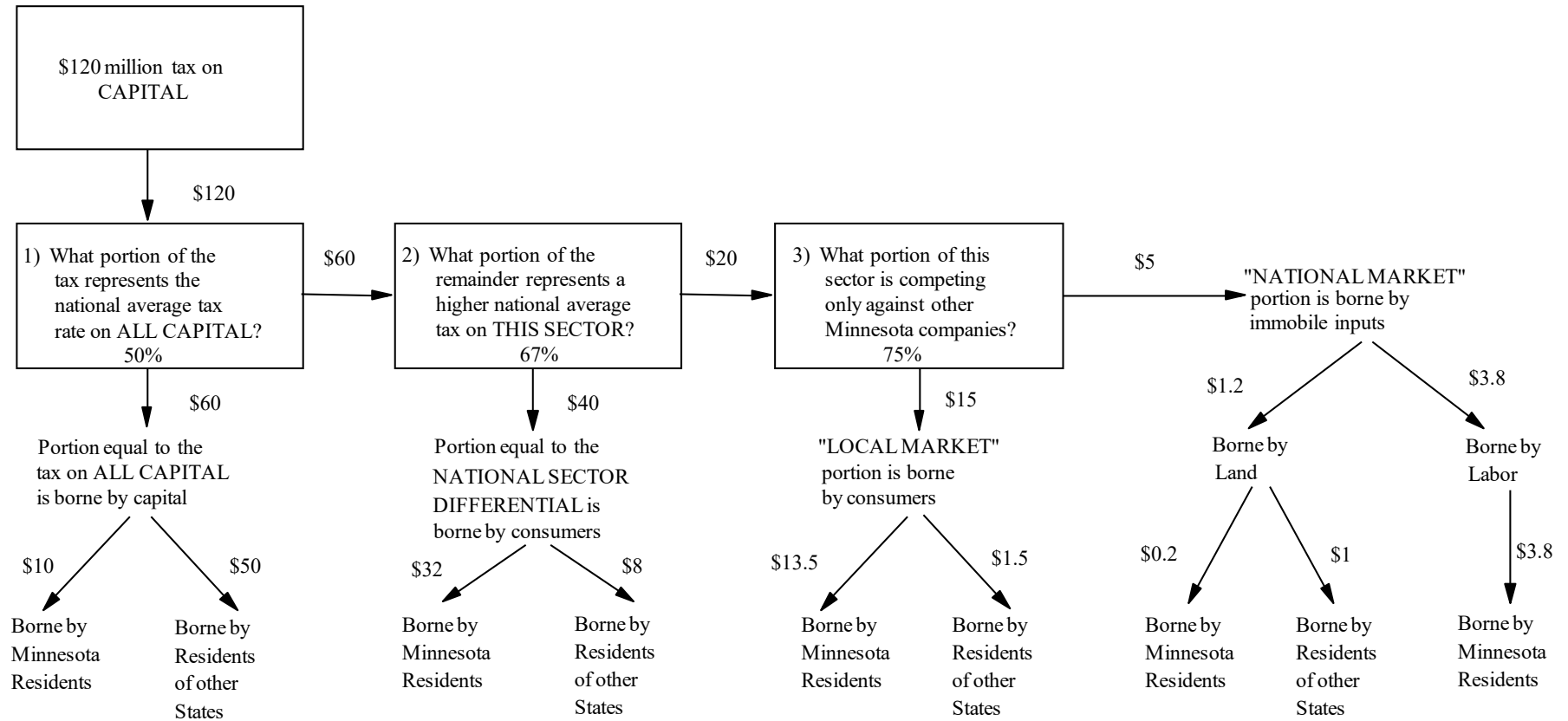
The average tax rate on all capital is measured in this study as the average state tax rate on all capital — total tax revenue (in all states) divided by the total national stock of capital. If the Minnesota tax rate on a particular sector is equal to the national average tax rate on all capital, then the tax will be borne entirely by the owners of capital; if the Minnesota tax rate exceeds the national average tax rate the remainder of the Minnesota tax would be shifted either forward to consumers or backward to labor and other immobile inputs.

For each particular tax on capital, this study estimates the average national tax rate on all capital. If the Minnesota tax rate on a particular form of capital is twice the national average (as is assumed hypothetically in *Figure B-1*), then the burden of the first half of the tax is assumed to fall on capital. What happens to the remaining half (\$60 million) depends on the answers to the next two questions.



**Figure B-1**

**Incidence of a Hypothetical \$120 Million Tax on Capital**



Summary of Tax Incidence (\$ Millions)			
<u>Taxpayer Category</u>	<u>Total</u>	<u>Minnesota Residents</u>	<u>Residents of Other States</u>
Capital*	\$61.2	\$10.2	\$51.0
Consumers	55.0	45.5	9.5
Labor	3.8	3.8	0.0
Total	\$120.0	\$59.5	\$60.5

\*Capital includes land.

*Question 2.* What portion of the remaining \$60 million in taxes on capital equipment represents a higher national average tax on this particular sector? Because capital taxes are levied at different rates on different forms of capital, some forms of capital are taxed in all states at a higher rate than all capital. For example, commercial property is taxed at a considerably higher rate than manufacturing property, and both are taxed more heavily than agriculture. In this example, suppose the national tax rate in the manufacturing sector is 1.67 times as high as the national average tax on all capital. This 67 percent higher-than-average tax rate difference for the manufacturing sector is referred to as its “national sector differential.”

Despite these heavier taxes, however, the after-tax rate of return in manufacturing cannot remain lower (with mobile capital) than the rate of return available in other sectors. As firms adjust by reducing output, the portion of a tax on capital equal to this “national sector differential” is borne entirely by consumers in the form of higher prices. For each tax on capital, this study estimates the average national tax rate on capital invested in each sector. The share of the Minnesota tax representing the “national sector differential” is allocated to consumers of products produced in Minnesota. (See *Figure B-1*.)

The remaining tax (if any) is the “Minnesota sector differential” — the amount by which Minnesota’s tax rate on capital invested in this sector exceeds the national average tax rate in this sector. To determine who bears the burden of this “Minnesota differential,” it is necessary to answer the third question.

*Question 3.* What portion of this sector’s producers compete only against other Minnesota producers in “local markets”? For products sold in local markets, the Minnesota differential will result in higher prices to consumers.

In contrast, prices for products that compete in national markets (including most manufactured products) are determined nationally. A “Minnesota sector differential” on producers of such national market products cannot usually be shifted to consumers, so that the burden of the tax must fall on immobile resources, land, and labor. This study assumes that immobile labor and landowners share the burden of any Minnesota sector differential for national market products in proportion to their relative shares in production.

In summary, to allocate the burden of taxes among capital owners, consumers, and labor, this study divides the \$120 million tax into three parts (the percentages refer to the example in *Figure B-1*):

1. The portion representing the “national average tax on all capital” is borne by capital (\$60 million, which is 50 percent of the total).
2. The portion representing the “national sector differential” is borne by consumers (\$40 million, which is 33 percent of the total).
3. The portion representing the “Minnesota sector differential” is borne by:
  - Consumers for products sold in “local markets” (\$15 million, 13 percent);
  - Labor and landowners for products sold in “national markets” (\$5 million, 4 percent).

This approach requires an estimate, for each tax, of the national average tax on all capital. For each tax and each sector, it requires an estimate of the Minnesota differential — the excess of Minnesota taxes over the national average for that sector. The study also needs to estimate, for each sector, the extent to which its products are sold in local as opposed to national markets.

### ***Allocating the Burden Between Minnesota Residents and Nonresidents***

*Exported Tax Burden.* A large amount of capital located in Minnesota is owned by nonresidents. For the portion of any tax borne by capital and land, much of the burden will fall on residents of other states. IRS data was used to identify the proportion of Minnesota businesses in each sector that are corporations, S-corps, partnerships, and sole proprietors. This study assumed that nonresidents own 90 percent of the stock in corporations subject to Minnesota tax, 50 percent of S-corps and partnerships subject to Minnesota tax, and 10 percent of sole proprietor businesses subject to Minnesota tax. As such, in sectors which are predominantly corporate, most of the burden falling on capital was exported.

Consumers located in other states will pay some of the “national sector differential” on Minnesota firms that is shifted forward in higher prices. In addition, nonresident visitors bear some of the tax shifted to in-state consumption. For each sector, this study estimated the proportion of sales made to (1) out-of-state consumers and (2) visitors.

The burden on labor (in the form of reduced wages) was assumed to fall entirely on Minnesota residents.

*Imported Tax Burden.* Both Minnesota consumers and Minnesota owners of capital and land located in other states pay taxes to other states. However, taxes that Minnesota residents pay to other states are ignored here; this study estimates and analyzes the incidence of Minnesota taxes on Minnesota residents.

*Federal Tax Offset.* In estimating the incidence of existing Minnesota taxes, this study makes no adjustment for the “federal tax offset” due to the deductibility of Minnesota business taxes in calculating federal taxable income. Given the “multistate” approach taken in this study, the federal tax offset is most likely to be quite small. All 50 states levy business taxes. Since approximately one-fifth of *every* state’s business taxes are offset by a reduction in federal revenues, the federal government has essentially replaced this lost tax revenue through higher federal tax rates. A state’s “net” federal tax offset would be its “gross” federal tax offset minus the state’s share of those increased federal tax payments. As a result, the net offset for the average state would be zero; with above average business taxes, Minnesota’s would be positive. However, given the offset’s small and uncertain size, this study simply assumes it is zero.

The same argument also applies to the federal tax offset for non-business taxes (the individual income tax, homeowner property tax, and motor vehicle registration tax) that may be deducted in calculating federal individual income tax liability. The net offset for the average state is again zero. The federal law changes in 2017 have further reduced the size of the federal offset by reducing the number of itemizers and lowering federal tax rates. Given the multistate perspective of this study, no federal tax offset for household taxes is included. For informational purposes, however, the impact of the federal tax offset for non-business taxes is presented in *Chapter 4, Section B*.

### ***Taxes on Intermediate Business Inputs***

The incidence of a tax on short-lived intermediate business inputs like gasoline, business meals, lodging, or liquor, is different from the incidence of a tax on capital. While a uniform national tax on all capital would be borne by capital, a uniform national tax on business purchases of gasoline, for example, would not. It would almost certainly be shifted forward to consumers in higher prices. Taxes on short-lived intermediate products raise the cost of production, but they do not raise the cost of capital.

As a result, the approach to the incidence of such taxes skips the first of the three questions asked about capital taxes. The tax on intermediate business purchases is divided into only two parts:

1. The portion representing the “average national tax rate” on this sector is shifted forward to consumers in higher prices.
2. The portion representing the “Minnesota differential” is borne by:
  - a. Consumers for products sold in “local markets;”
  - b. Labor and landowners for products sold in “national markets.”

### ***Property Taxes on Land***

Unlike reproducible capital, land is not mobile, so the land share of business property taxes is assumed to fall on its owners.

## Business Tax Allocators

After estimating the share of Minnesota business taxes borne by Minnesota owners of capital and land, consumers, and labor, the final step was to allocate those taxes to specific households based on each household's characteristics contained in the database records. In most cases, the study allocated to each household the average tax burden for households with the same characteristics. *Table B-1* summarizes the allocators used in this final step.

**Table B-1**  
**Business Tax Allocators**

Allocator	Used to Distribute Tax Borne By:
Dividend Income	Corporate Owners
Noncorporate Capital Ownership	Noncorporate Owners
Total Consumer Expenditures	Consumers
Labor Income	Workers
Adjusted Farm Property Tax	Farmers using their own land.
Farm Rents	Farmers leasing their land.

*Burden on Consumers.* Taxes shifted forward to consumers in higher prices were allocated based on their share of total consumer expenditures, as estimated from the *Consumer Expenditure Survey*. Total expenditures for a particular household were estimated based on household income and household type.

*Burden on Renters.* Renters are the consumers of rental housing, so the proportion of the total rental property tax shifted forward to renters in higher rents is estimated using the same methodology used for other business taxes. That portion of total taxes on rental housing is distributed across renter households in proportion to each household's annual rent. For renter households receiving a property tax refund, annual rent is known. For others, rent is estimated based on the most recent information from the U.S. Census.

*Burden on Corporate Capital.* The burden on corporate capital was allocated to households in proportion to taxable dividends received. This allocator was used to estimate the total income received by owners of corporate stock, both as dividends and as capital gains on appreciated stock. Although dividends received may not be a good measure of corporate ownership for particular individuals, the decile-by-decile distribution of dividend income should match the distribution of corporate capital fairly closely.

*Burden on Noncorporate Capital.* Noncorporate business capital includes capital owned by sole proprietors, partnerships, and S corporations. This study used a variety of information from Schedules C and E to develop a reasonable estimate of each household's ownership of noncorporate capital. The construction of this measure guaranteed that: (1) households with large business losses are assigned some capital ownership (based on either claimed depreciation or the size of claimed losses); and (2) the shares of capital ownership imputed to those with sole proprietor income, rental income, and partnership and S corporation income are roughly proportional to each income source's aggregate share of claimed depreciation.

*Burden on Farmers.* Rental land accounts for about one-third of Minnesota farm land. Approximately half of all farm business property taxes were paid on rented land, reflecting higher classification rates on non-homestead farms. Therefore about half of the farm business property tax burden was allocated in proportion to farm rents (reported on Schedule E), with the rest allocated in proportion to farm homestead property taxes.

*Burden on Labor.* The burden on labor (through lower wages) was allocated based on each household's share of earned income, defined as the sum of wages and salaries, plus three-quarters of income reported by sole proprietors.

A summary description of the incidence results for the distribution of each business tax to consumers, capital, and labor (both residents and nonresidents) is provided in *Table B-2*.

**Table B-2**  
**Distribution of Business Tax Burden by Taxpayer Category (2018)**

	Percent Borne by Minnesota Taxpayers			Percent Exported
	Capital	Labor	Consumers	
<b>State Taxes</b>				
Corporation Franchise Tax	9%	5%	42%	44%
Sales and Excise Taxes				
General Sales and Use Tax	8%	1%	56%	35%
Motor Vehicle Sales Tax	25%	0%	25%	50%
Motor Fuels Excise Taxes	0%	0%	36%	64%
Mortgage and Deed Taxes	48%	0%	11%	41%
Gross Earnings Taxes				
Insurance Premiums Taxes	17%	0%	37%	46%
In lieu of property taxes				
Motor Vehicle Registration Tax	14%	17%	38%	30%
Solid Waste Management Taxes	0%	0%	69%	31%
State Property Tax				
Commercial	20%	2%	32%	46%
Industrial	15%	1%	6%	79%
Utility	2%	3%	57%	38%
<b>Local Taxes</b>				
Property Taxes (Pay 2010)				
General Property Tax				
Commercial	20%	2%	32%	46%
Industrial	15%	1%	6%	79%
Farm (other than residence)	100%	0%	0%	0%
Rental Housing	46%	0%	38%	16%
Utility	2%	3%	57%	38%
Mining Production Taxes (taconite)	9%	1%	0%	90%
Wheelage Taxes	14%	17%	38%	30%
Local Sales Taxes	8%	1%	56%	35%
Local Gross Earnings Taxes	2%	3%	57%	38%

## Incremental vs. “Average” Incidence

The analysis in this study assumes that markets are in equilibrium, with economic factors fully adjusted to tax rates here and in other states. Analyzing the effect of a tax change poses a different problem.

The incidence of a *change* in business taxes would be different from those presented in this study. Compared to the results in this study, economic theory suggests that the long-run incidence impact of a change in Minnesota business taxes would tend to fall:

- *less* on nonresidents,
- *less* on Minnesota owners of capital,
- *more* on Minnesota consumers, and
- *more* on Minnesota labor.

In addition, the incidence of a change in Minnesota tax should include the impact of the federal tax offset. (See *Chapter 4, Section B.*)

Illustrations of the magnitude of these differences are presented in *Chapter 4, Section D.*

The logic of business tax incidence described in this Appendix divides a business tax on capital into three parts:

- The portion representing the *national average tax rate on all capital*.
- The portion representing the *national sector differential*.
- The portion representing the *Minnesota sector differential*.

The incidence of each of the three portions of the tax will generally be different. For example, the first part might be borne entirely by capital (in lower returns), the second entirely by Minnesota consumers (in higher prices), and the third primarily by Minnesota labor (in reduced wages). The “average” incidence, as presented in this study, would be a mixture of all three. In contrast, a change in the tax would change only the third portion – the *Minnesota differential*. As a result, the “incremental incidence” of a change in tax can be very different from the “average incidence” of an existing tax. This study only reports the latter. Great care should be taken in applying the results reported here to a proposed change in a tax on business.



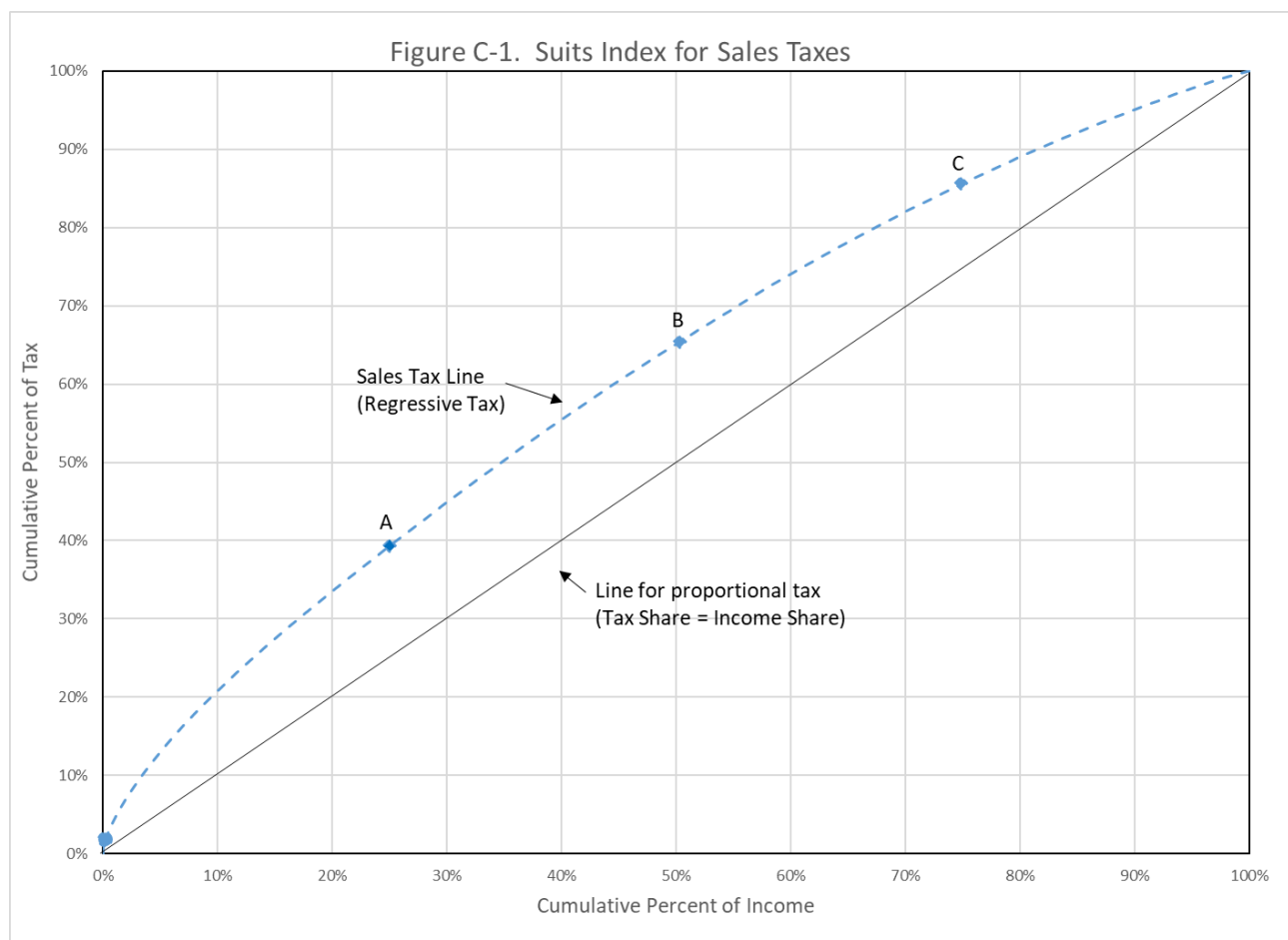
## Appendix C

### The Suits Index

The Suits index is a summary measure of the progressivity or regressivity of a tax. The index is named after economist Daniel Suits, who proposed it in 1977. The calculation of the index is illustrated in the two figures below, using 2018 data.

In the figures, the horizontal axis shows the cumulative percentage of total income, starting with the lowest income household. The straight diagonal line represents a proportional tax, where the cumulative percent of tax is the same as the cumulative percentage of income. Those with the bottom 25 percent of income would pay 25 percent of the tax; those with the bottom 50 percent of the income would pay 50 percent of the tax.

In Figure C-1, the line for the sales tax is above the proportional tax line. Those with the bottom 25 percent of income pay 40 percent of the tax. (See point A). Those with the bottom 50 percent of income pay 65 percent of the tax. (See point B). Because the share of tax exceeds the share of income, the tax is regressive.



The Suits index is the ratio of the area between the solid and dashed line to the area of the full triangle under the solid line, 0.197. If the dashed line is above the solid line (as it is for sales taxes), the tax is regressive, so the Suits index is negative. The Suits index for Minnesota's sales taxes in 2018 was -0.197.

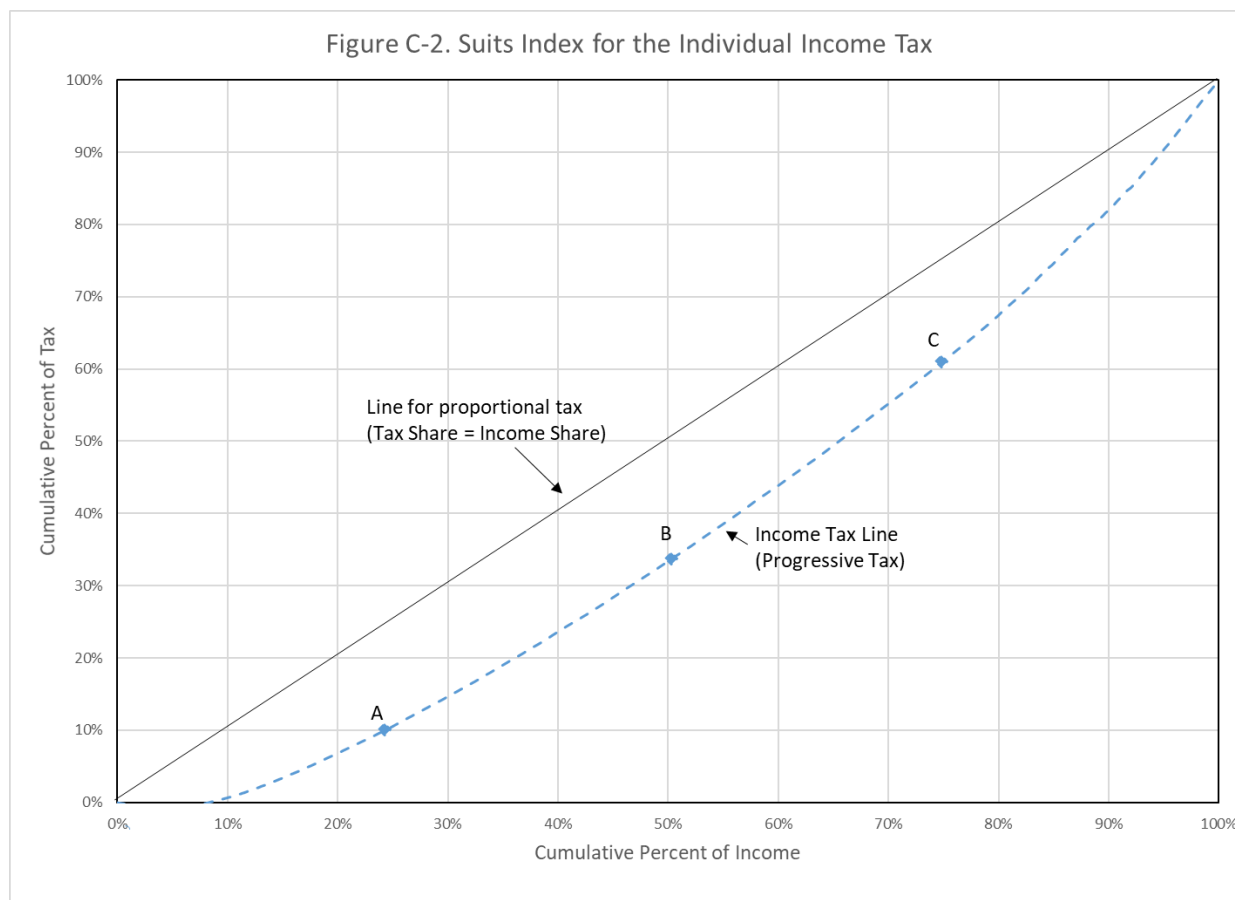


Figure C-2 shows the same diagram for the individual income tax. The income tax line is below the proportional tax line. Those with the bottom 25 percent of income pay 10 percent of the tax. (See point A). Those with the bottom 50 percent of income pay 34 percent of the tax. (See point B). Because the shares of tax are less than the shares of income, the tax is progressive.

The ratio of the area between the two lines to the size of the triangle is 0.244. Because it is a progressive tax, the Suits index is positive, at +0.244.

Suits indexes provide an easy way to compare the relative regressivity or progressivity of different taxes. The index also has some convenient mathematical qualities. The Suits index for the income tax and sales taxes combined, for example, is simply the weighted average of the individual Suits indexes, where the weights are each of the tax's share of the combined total tax burden.

## Appendix D

### Tax Incidence by Type of Tax (2018)

The tables in *Appendix D* provide more detail about the incidence of each of the taxes included in this study. For each tax, the following information is provided:

#### *Top Table*

- The total dollars of tax paid by Minnesota households, by non-resident households, and by business. The sum of these three parts equals the total tax collected in 2018. The business portion is based on this study's definition of business taxes. (For more information, see pages 6-11 of this study).
- The total dollars of tax burden that fall on Minnesota residents – after shifting of any business portion of the tax. This equals the sum of (a) the tax imposed on Minnesota households and (b) any portion of the tax imposed on business that is borne by Minnesota residents.
- The total dollars of tax burden “exported” to nonresident households. This equals the sum of (a) the tax imposed on non-resident households and (b) any portion of the tax imposed on business that is shifted to nonresidents.
- The share of the total burden on Minnesota residents that is imposed directly on Minnesota households (“Direct”) and the shares that represent business tax that is shifted to Minnesota consumers (in higher prices), shifted to Minnesota labor (in lower wages or benefits), or borne by Minnesota capital (as owners of businesses).

#### *Chart*

- The effective tax rate for this particular tax, by population decile – using the scale on the right-hand side of the chart.
- The effective tax rate for all Minnesota state and local taxes combined, by population decile – using the scale on the left-hand side of the chart.
- The average effective tax rate for this particular tax (and for all Minnesota state and local taxes combined) as a percent of income.

#### *Bottom Table*

- Effective tax rates by population decile, and more detail for the top decile (divided into its first 5 percent, next 4 percent, and top 1 percent).
- The Suits index for this particular tax (and for all Minnesota state and local taxes combined).

## Appendix D Tables

### State Taxes

#### Income and Estate Taxes

Individual Income Tax.....	114
Corporate Franchise Tax.....	115
Estate Tax .....	116
Total Income, Corporate, and Estate Taxes .....	117

#### Consumption Taxes

General Sales and Use Tax.....	118
Sales Tax on Motor Vehicles.....	119
Total State Sales Taxes .....	120
Motor Fuels Excise Taxes.....	121
Alcoholic Beverage Excise Taxes.....	122
Cigarette and Tobacco Excise Taxes .....	123
Total Excise Taxes .....	124
Insurance Premiums Taxes.....	125
Gambling Taxes .....	126
MinnesotaCare Taxes .....	127
Solid Waste Management Taxes .....	128
Total State Consumption Taxes .....	129

#### Property Taxes

State Property Tax.....	130
Motor Vehicle Registration Tax.....	131
Mortgage and Deed Taxes.....	132
Property Tax Refunds – Homeowners.....	133
Property Tax Refunds – Renters .....	134
Total Property Tax Refunds .....	135
Total State Taxes .....	136

### Local Taxes

Local Property Taxes .....	137
Mining Production Taxes (Taconite).....	138
Local Sales Taxes .....	139
Local Gross Earnings Taxes.....	140
Total Local Taxes.....	141

## Appendix D Tables (cont.)

### State and Local Property Taxes by Type of Property

Homeowner Property Tax (Before PTR) .....	142
Rental Property Tax (Before PTR).....	143
Farm Property Tax (other than residence) .....	144
Cabins and Second Homes Property Tax (State and Local) .....	145
Commercial Property Tax – (State and Local).....	146
Industrial Property Tax – (State and Local).....	147
Utility Property Tax – (State and Local) .....	148
Total State and Local Property Taxes (Before PTR).....	149

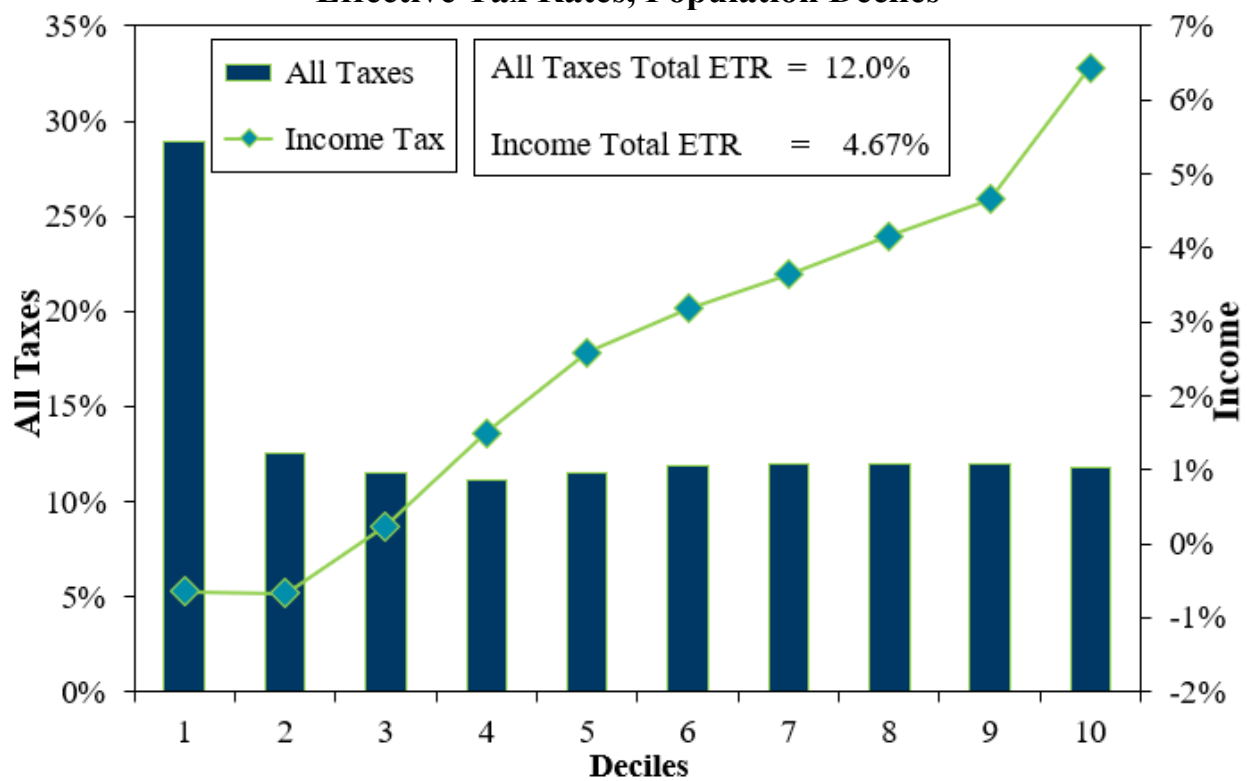
## 2018 Incidence Estimate for Individual Income Tax

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$12,094	\$11,383	\$711	\$0	\$11,383	\$711

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Income	-0.65%	-0.67%	0.24%	1.49%	2.58%	3.18%	3.64%	4.16%	4.65%	6.44%	5.14%	6.08%	7.67%	0.244

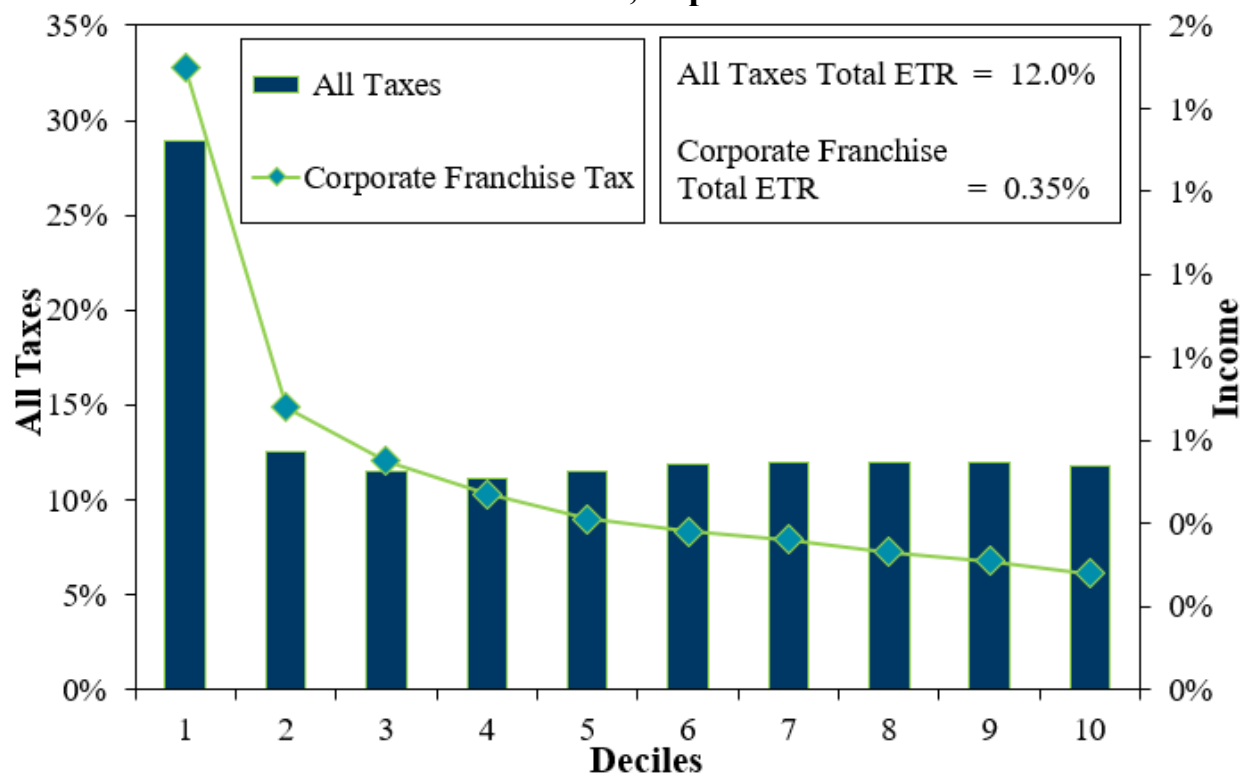
## 2018 Incidence Estimate for Corporate Franchise Tax<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$1,504	\$0	\$0	\$1,504	\$843	\$661

\*Shifting allocations: Direct = 0%, Consumers = 75%, Labor = 8%, Capital = 17%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Income	1.50%	0.68%	0.55%	0.47%	0.41%	0.38%	0.36%	0.33%	0.31%	0.28%	0.30%	0.29%	0.25%	-0.142

<sup>1</sup>Includes Corporate Franchise Tax (\$1,487 million) and Mining Occupation Tax (\$17 million).

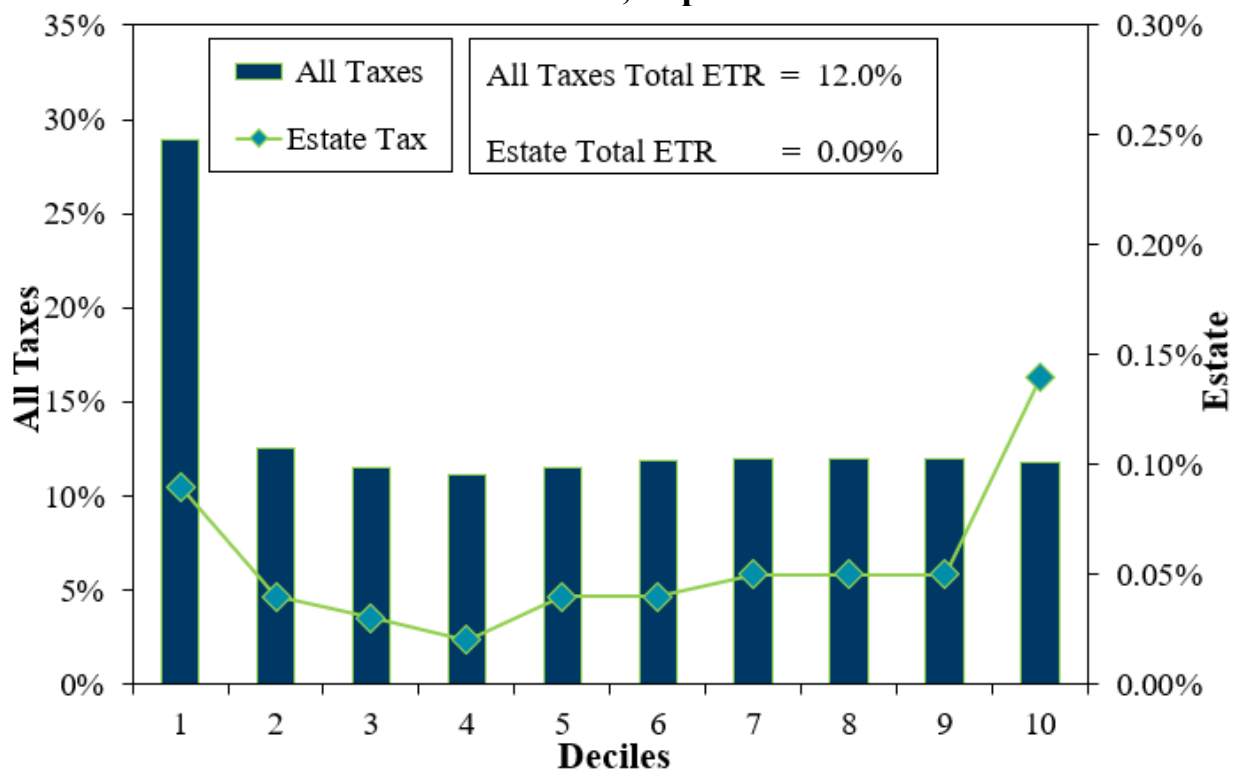
## 2018 Incidence Estimate for Estate Tax<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$219	\$210	\$9	\$0	\$210	\$9

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Income	0.09%	0.04%	0.03%	0.02%	0.04%	0.04%	0.05%	0.05%	0.05%	0.14%	0.07%	0.13%	0.20%	0.354

<sup>1</sup>A correction to the model since the 2016 report spread the impact of the estate more broadly across income ranges. The suits index for the estate tax is still the most progressive of the taxes, but less so than the previous reports.

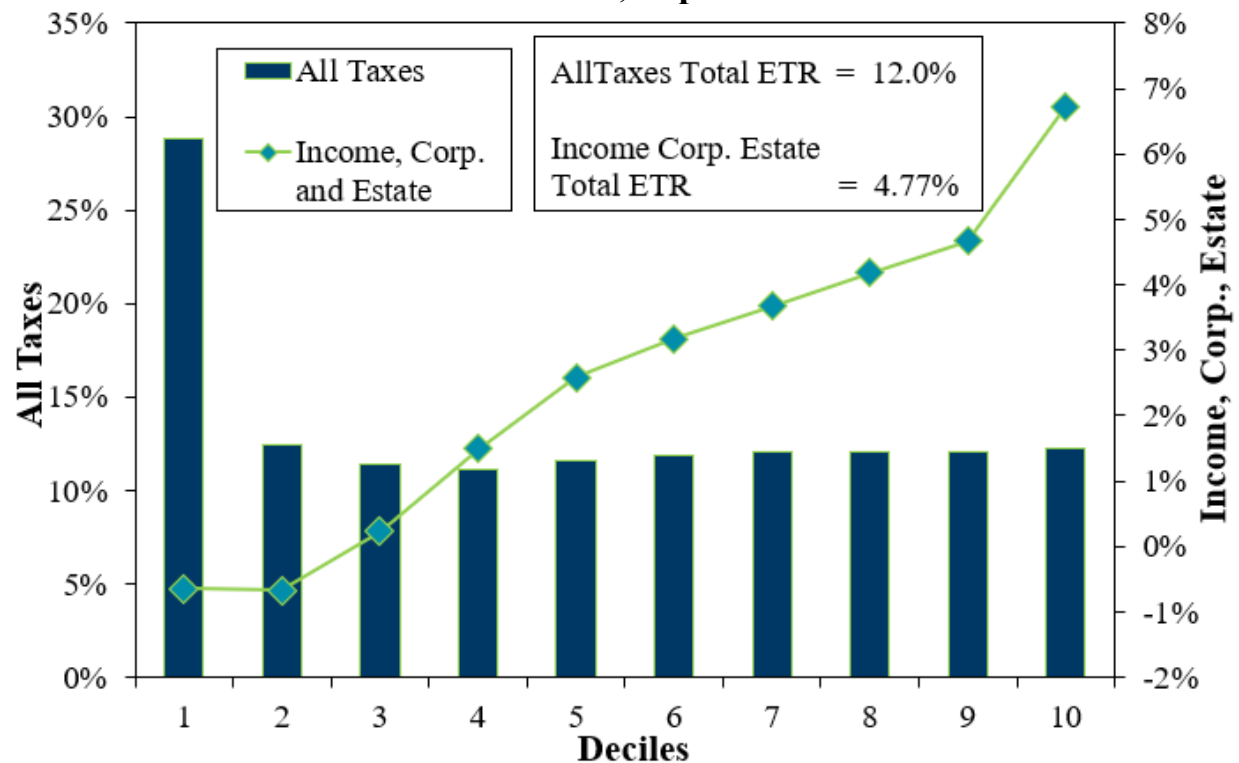


# 2018 Incidence Estimate for Total Income, Corporate, and Estate Taxes

## Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$13,818	\$11,593	\$720	\$1,504	\$12,436	\$1,382

## Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.80%	12.40%	11.40%	11.10%	11.60%	11.90%	12.10%	12.10%	12.10%	12.30%	11.90%	12.30%	12.40%	-0.013
Income	-0.64%	-0.67%	0.23%	1.49%	2.59%	3.18%	3.67%	4.18%	4.67%	6.73%	5.17%	6.24%	8.31%	0.220

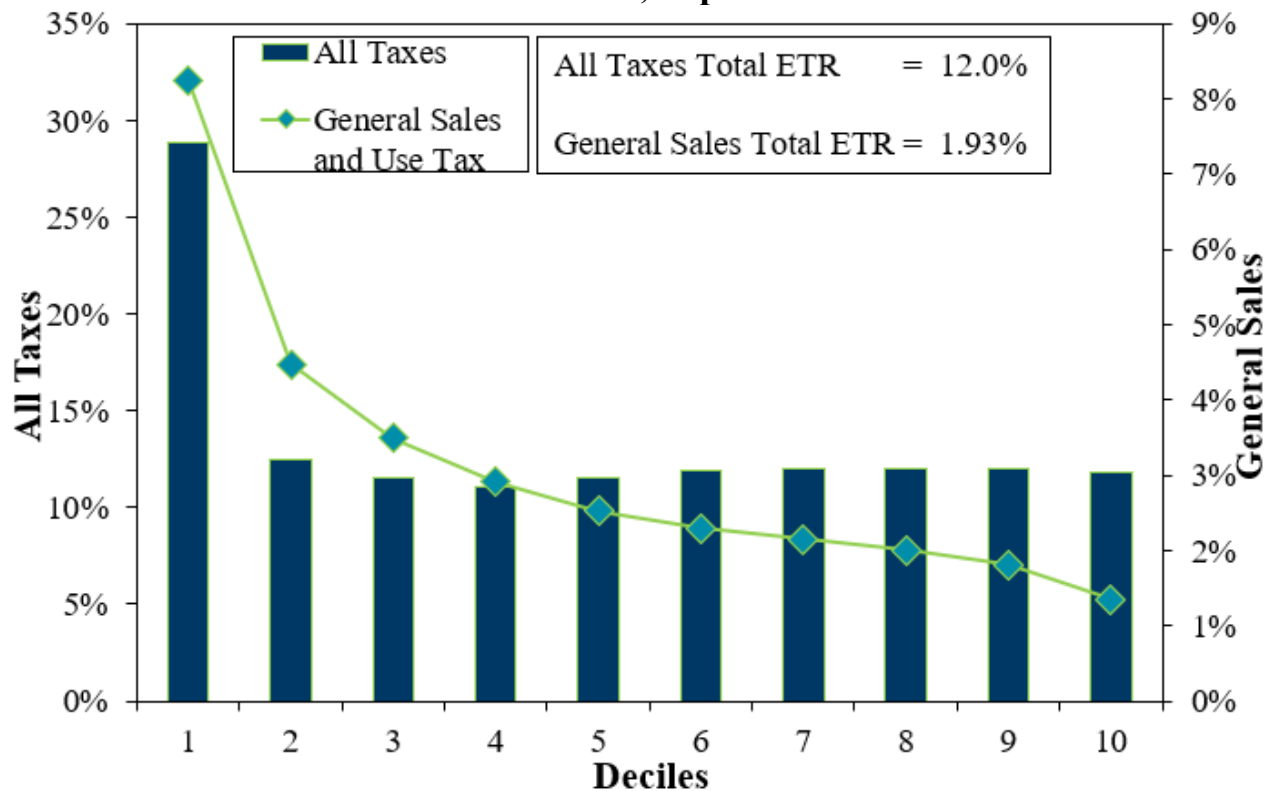
## 2018 Incidence Estimate for General Sales and Use Tax

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$6,131	\$2,733	\$359	\$3,040	\$4,713	\$1,418

\*Shifting allocations: Direct = 58%, Consumers = 36%, Labor = 1%, Capital = 5%

### Effective Tax Rates, Population Deciles



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
General Sales and Use Tax	8.24%	4.47%	3.49%	2.91%	2.52%	2.29%	2.15%	2.00%	1.81%	1.35%	1.64%	1.45%	1.06%	-0.207

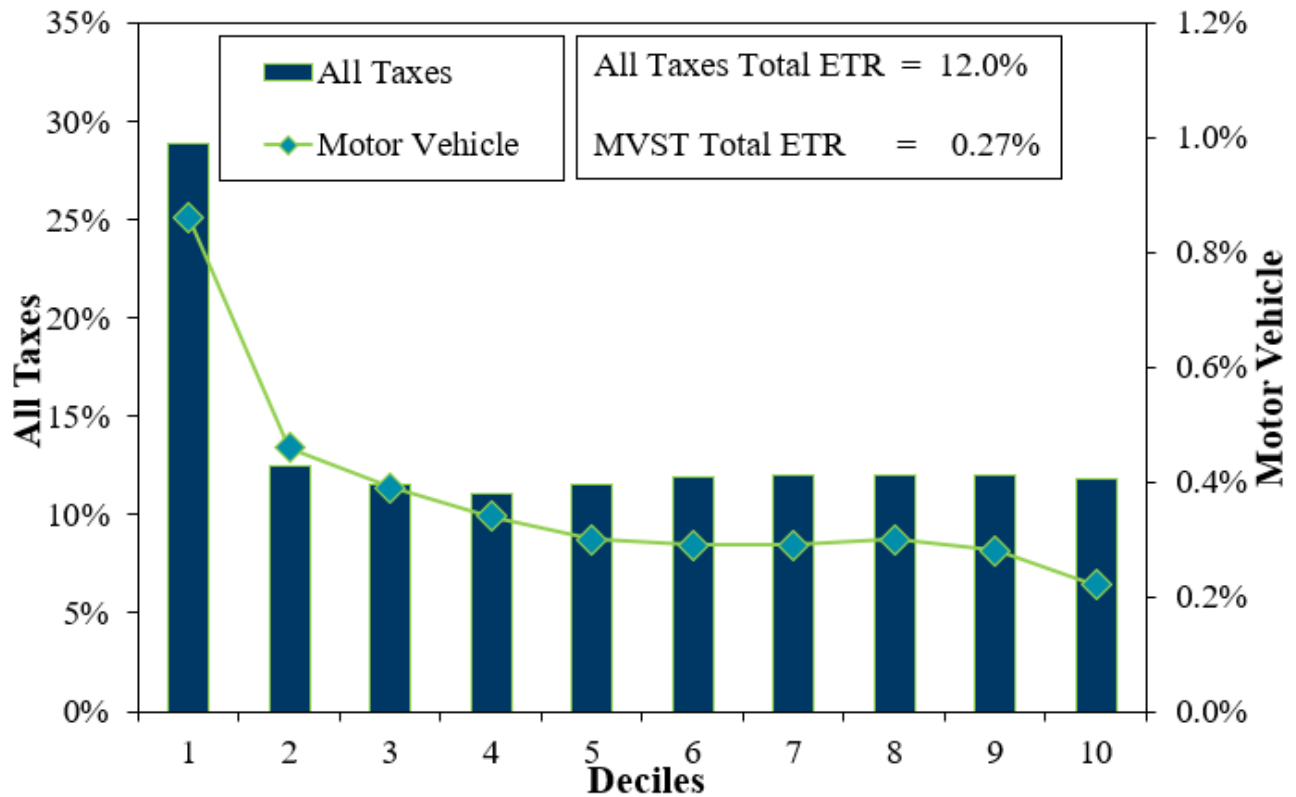
## 2018 Incidence Estimate for Sales Tax on Motor Vehicles

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$791	\$542	\$0	\$249	\$667	\$124

\*Shifting allocations: Direct = 81.2%, Consumers = 9.4%, Labor = 0.0%, Capital = 9.4%

### Effective Tax Rates, Population Deciles



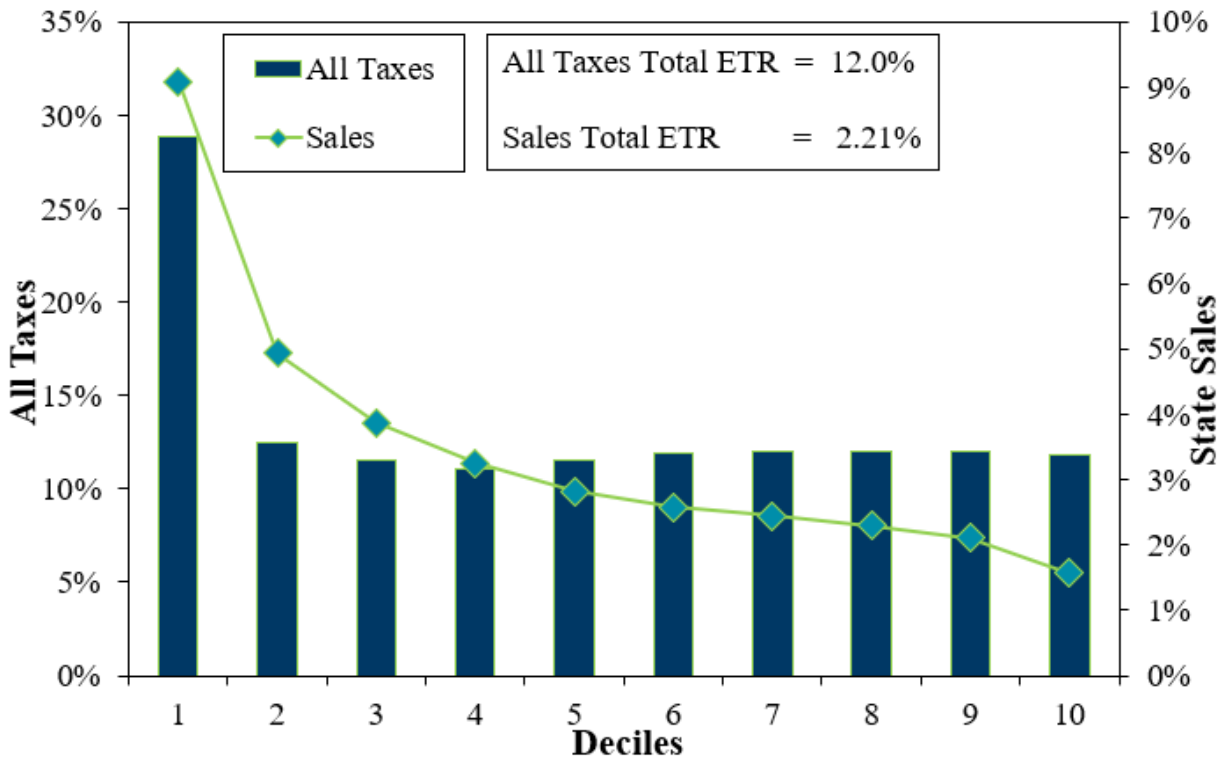
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Motor Vehicle	0.86%	0.46%	0.39%	0.34%	0.30%	0.29%	0.29%	0.30%	0.28%	0.22%	0.26%	0.23%	0.18%	-0.126

## 2018 Incidence Estimate for Total State Sales Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$6,923	\$3,275	\$359	\$3,289	\$5,380	\$1,542

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Sales	9.09%	4.93%	3.87%	3.25%	2.82%	2.58%	2.44%	2.29%	2.10%	1.57%	1.90%	1.68%	1.24%	-0.197

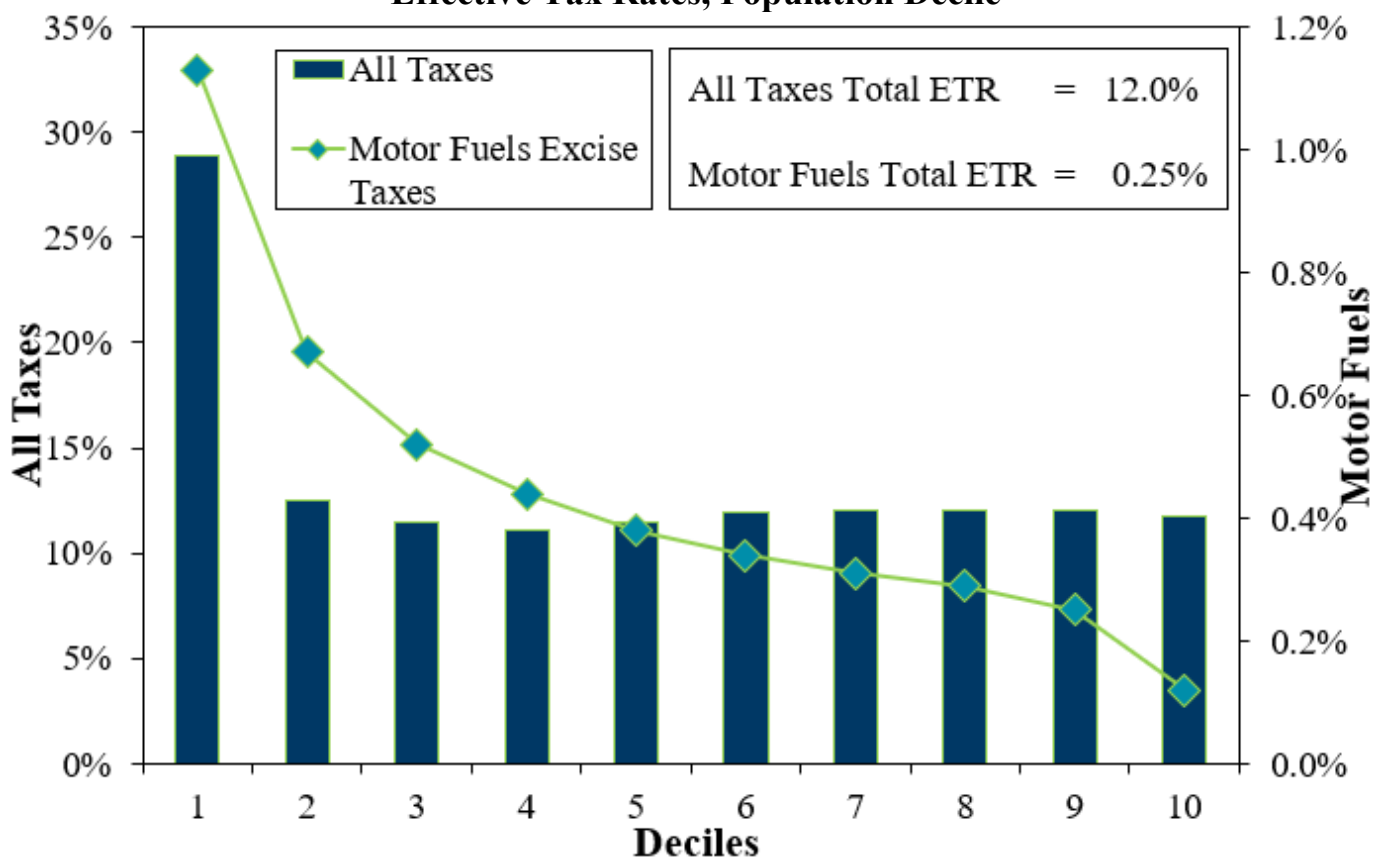
## 2018 Incidence Estimate for Motor Fuels Excise Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$937	\$447	\$51	\$440	\$606	\$331

\*Shifting allocations: Direct = 74%, Consumers = 26%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Motor Fuels Excise Taxes	1.13%	0.67%	0.52%	0.44%	0.38%	0.34%	0.31%	0.29%	0.25%	0.12%	0.20%	0.14%	0.05%	-0.323

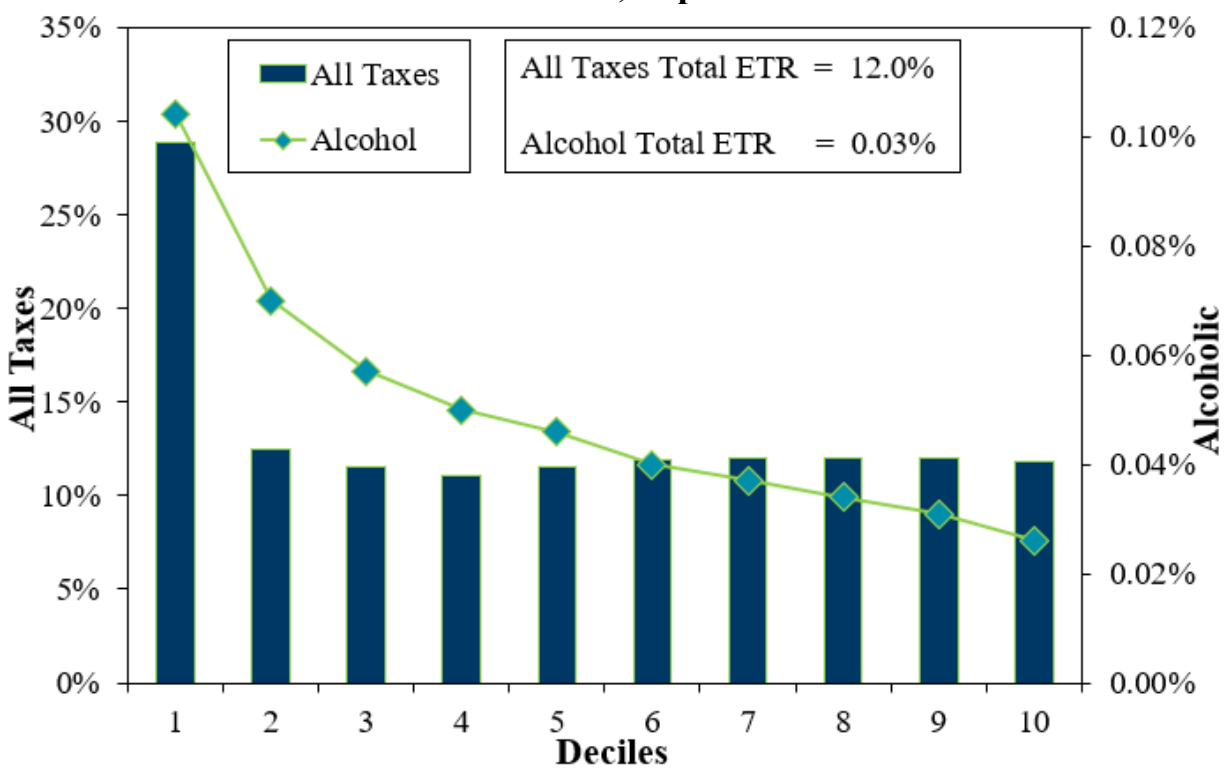
## 2018 Incidence Estimate for Alcoholic Beverage Excise Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$93	\$83	\$10	\$0	\$83	\$10

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Alcohol	0.10%	0.07%	0.06%	0.05%	0.05%	0.04%	0.04%	0.03%	0.03%	0.03%	0.03%	0.03%	0.02%	-0.160

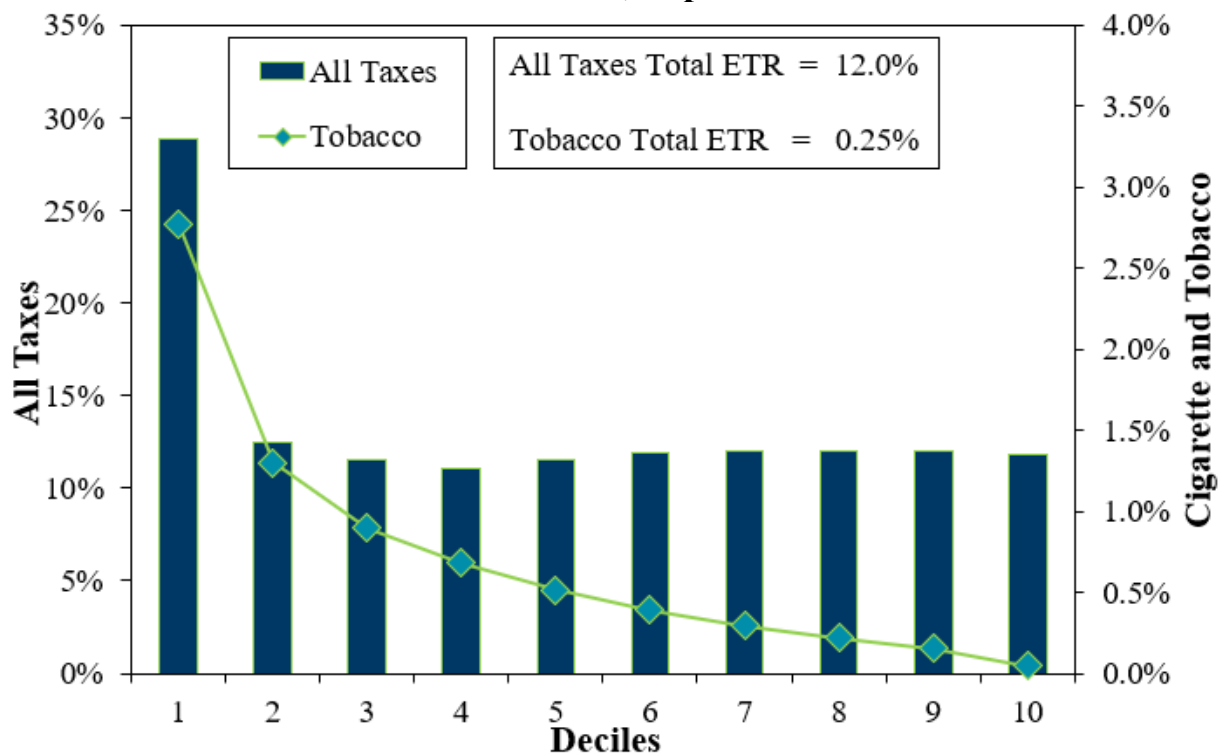
# 2018 Incidence Estimate for Cigarette and Tobacco Excise Taxes<sup>1</sup>

## Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$621	\$609	\$12	\$0	\$609	\$12

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

## Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Tobacco	2.77%	1.30%	0.90%	0.68%	0.52%	0.39%	0.30%	0.22%	0.16%	0.05%	0.10%	0.05%	0.01%	-0.583

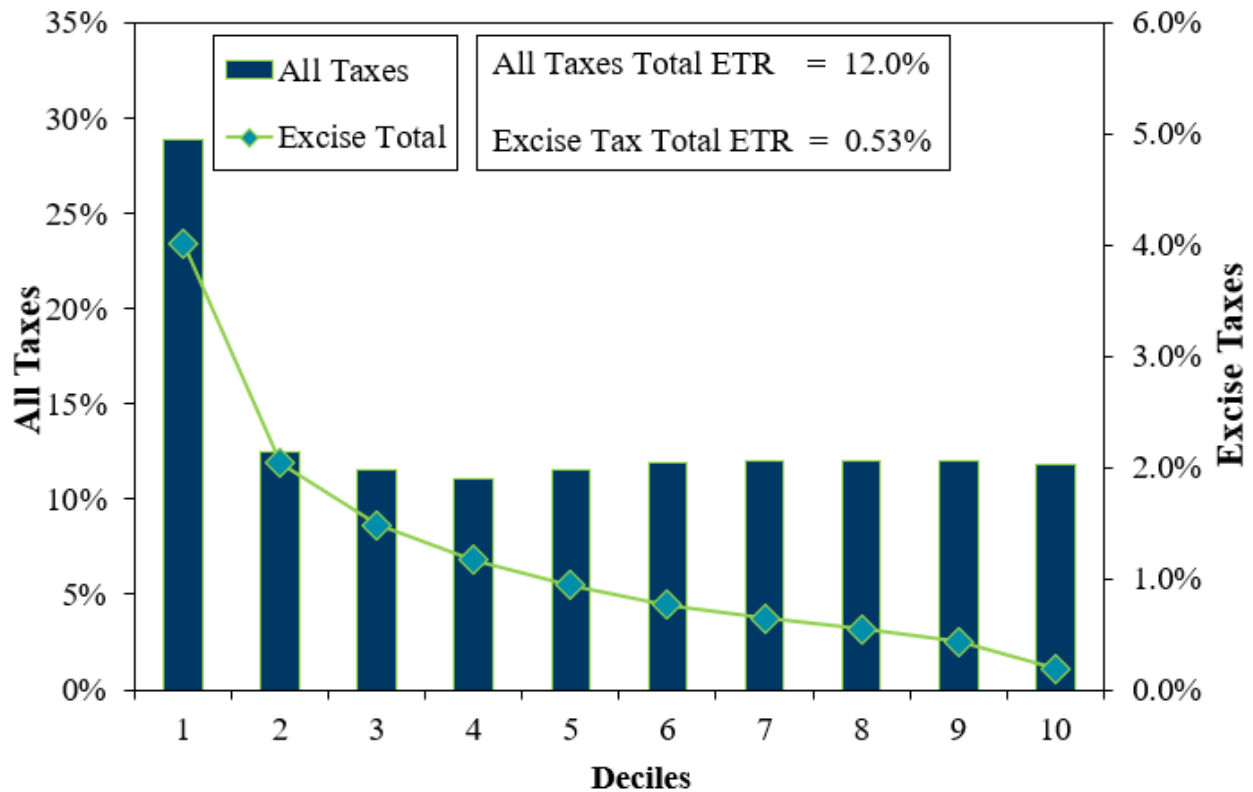
<sup>1</sup>Includes Cigarette Tax (\$511 million) and Tobacco Products Tax (\$110 million).

## 2018 Incidence Estimate for Total Excise Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$1,651	\$1,139	\$73	\$440	\$1,298	\$353

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Excise Total	4.01%	2.04%	1.48%	1.17%	0.94%	0.77%	0.64%	0.54%	0.44%	0.19%	0.33%	0.21%	0.09%	-0.434

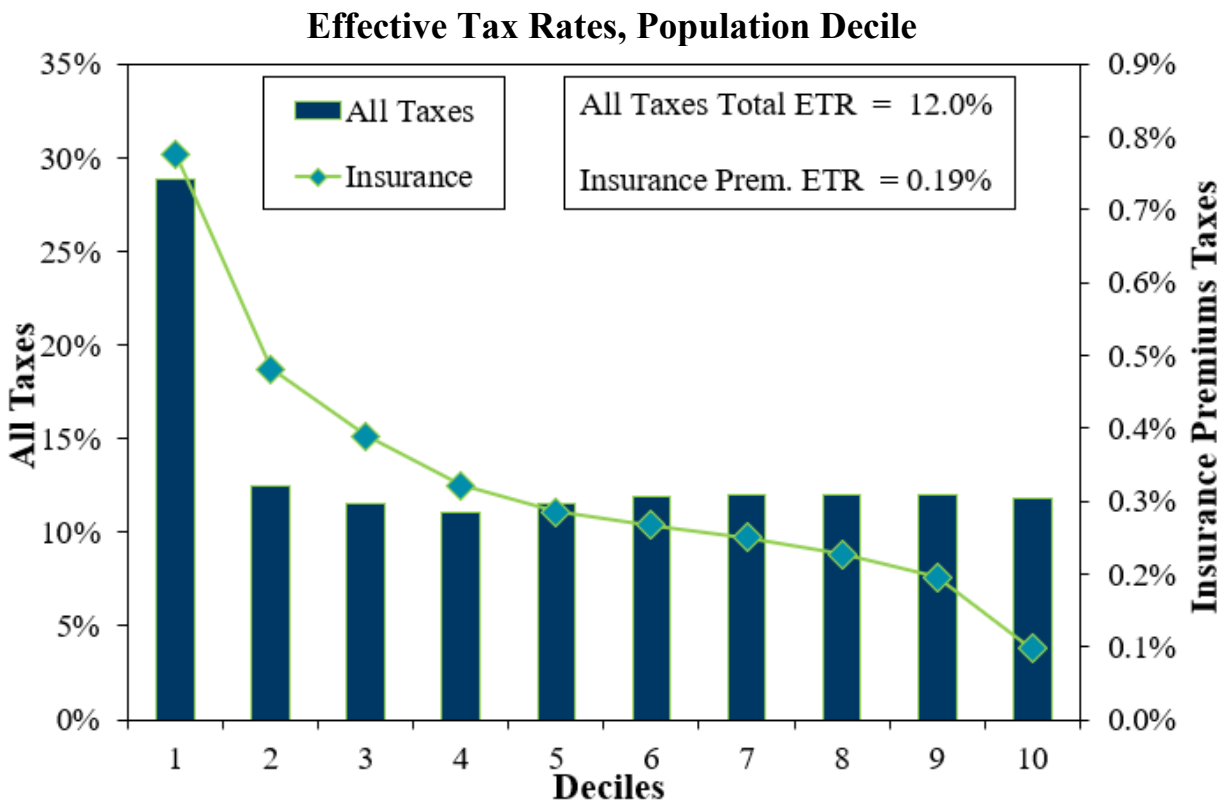


## 2018 Incidence Estimate for Insurance Premiums Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$515	\$417	\$0	\$98	\$470	\$45

\*Shifting allocations: Direct = 89%, Consumers = 8%, Labor = 0%, Capital = 4%



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Insurance	0.78%	0.48%	0.39%	0.32%	0.29%	0.27%	0.25%	0.23%	0.20%	0.10%	0.15%	0.11%	0.05%	-0.304

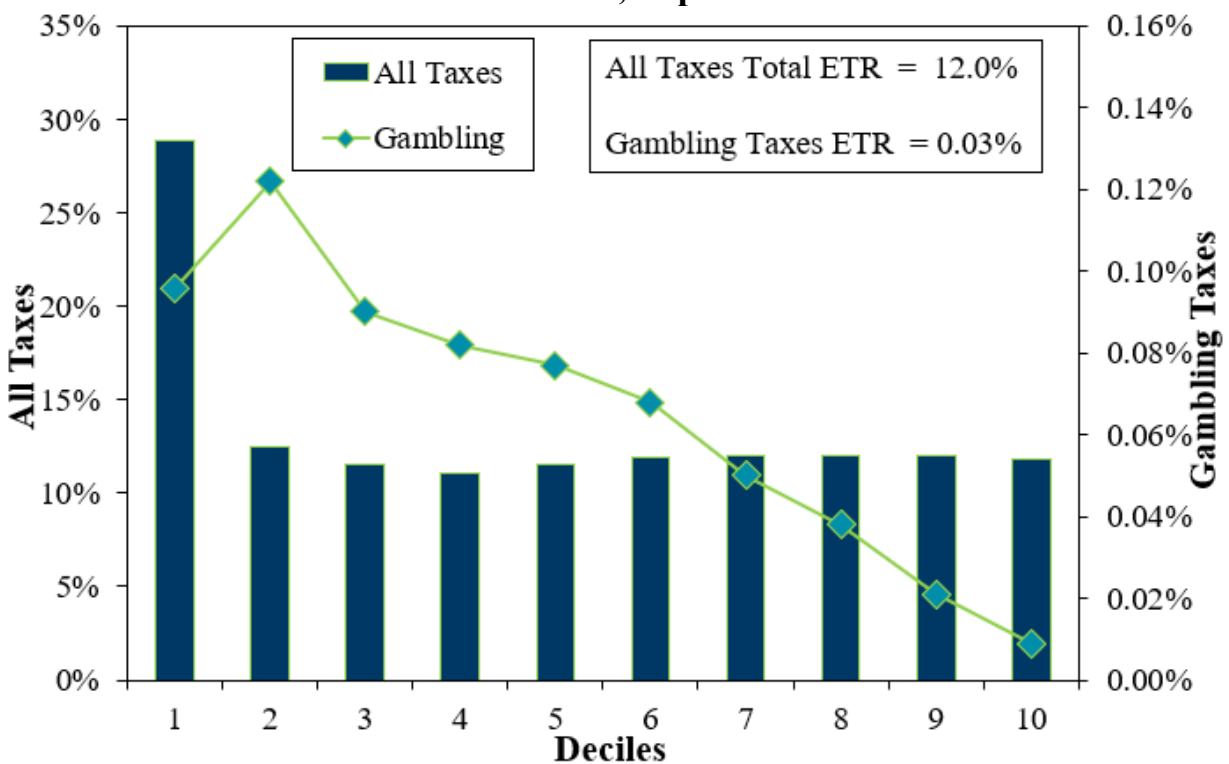
## 2018 Incidence Estimate for Gambling Taxes<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$83	\$82	\$2	\$0	\$82	\$2

\*Shifting allocations: Direct = 100%, Consumers =0%, Labor = 0%, Capital =0%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Gambling	0.10%	0.12%	0.09%	0.08%	0.08%	0.07%	0.05%	0.04%	0.02%	0.01%	0.02%	0.01%	0.00%	-0.481

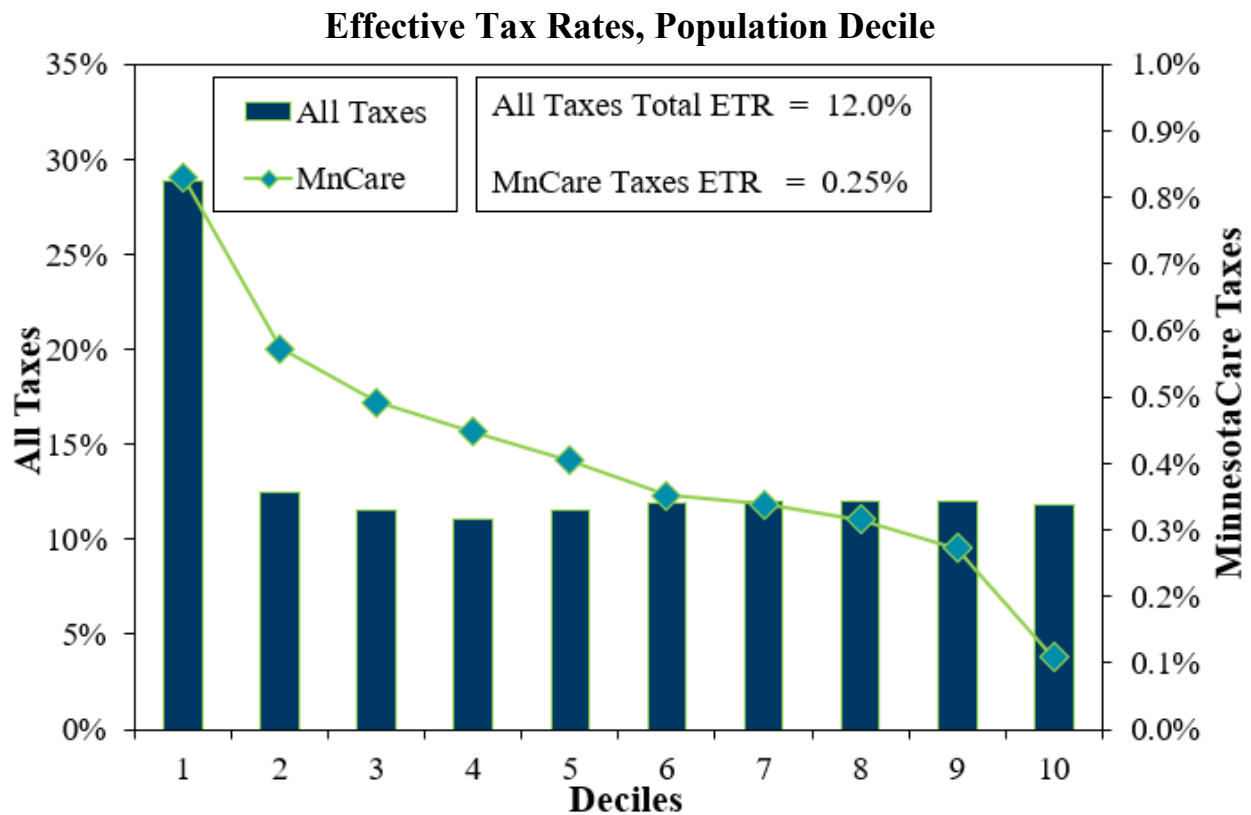
<sup>1</sup>Gambling taxes include Lawful Gambling (\$2.5 million), Combined Receipts (\$79.6 million), and Pari-Mutuel (\$1.2million).

## 2018 Incidence Estimate for MinnesotaCare Taxes<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$661	\$606	\$56	\$0	\$606	\$56

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
MnCare	0.83%	0.57%	0.49%	0.45%	0.40%	0.35%	0.34%	0.32%	0.27%	0.11%	0.21%	0.12%	0.03%	-0.338

<sup>1</sup>Includes the Provider Tax (\$255 million), Hospital Tax (\$253 million), and Drug Distributor Tax (\$153 million).

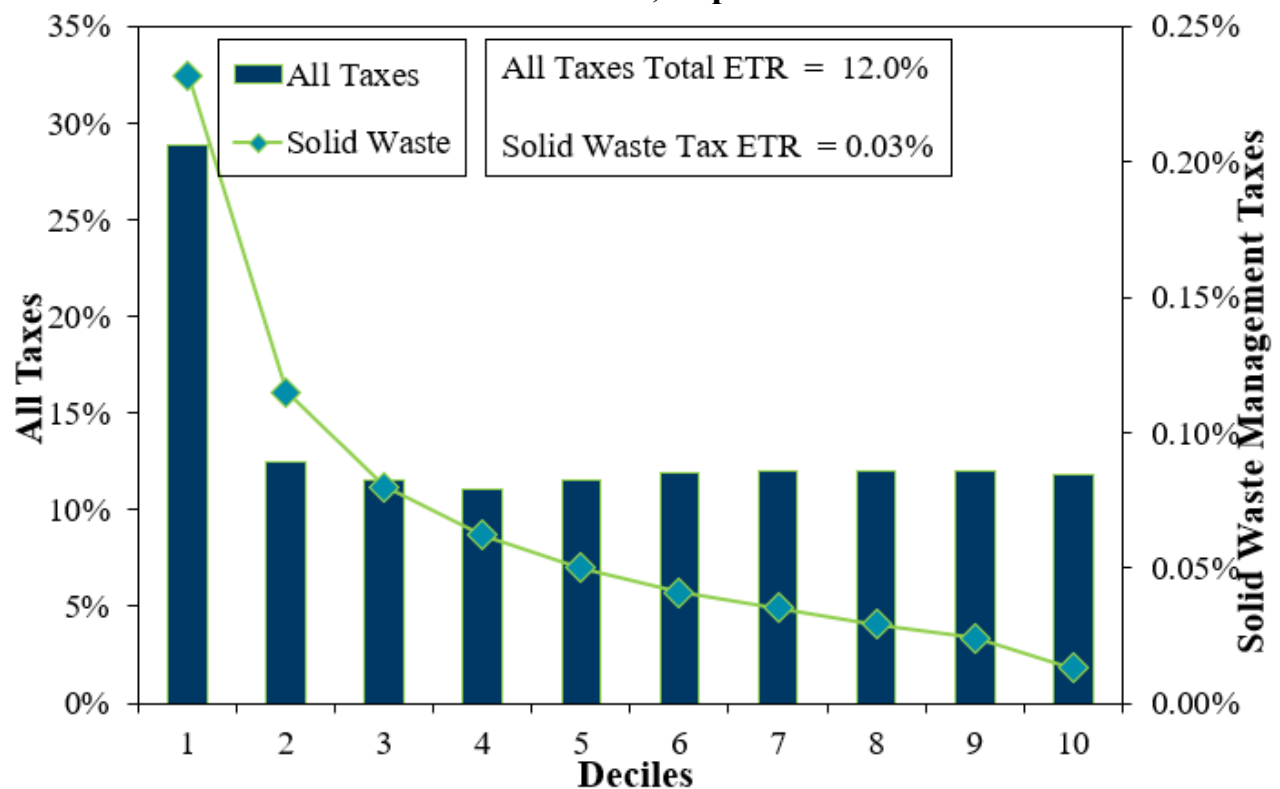
## 2018 Incidence Estimate for Solid Waste Management Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$90	\$37	\$0	\$53	\$74	\$16

\*Shifting allocations: Direct = 51%, Consumers = 49%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Decile



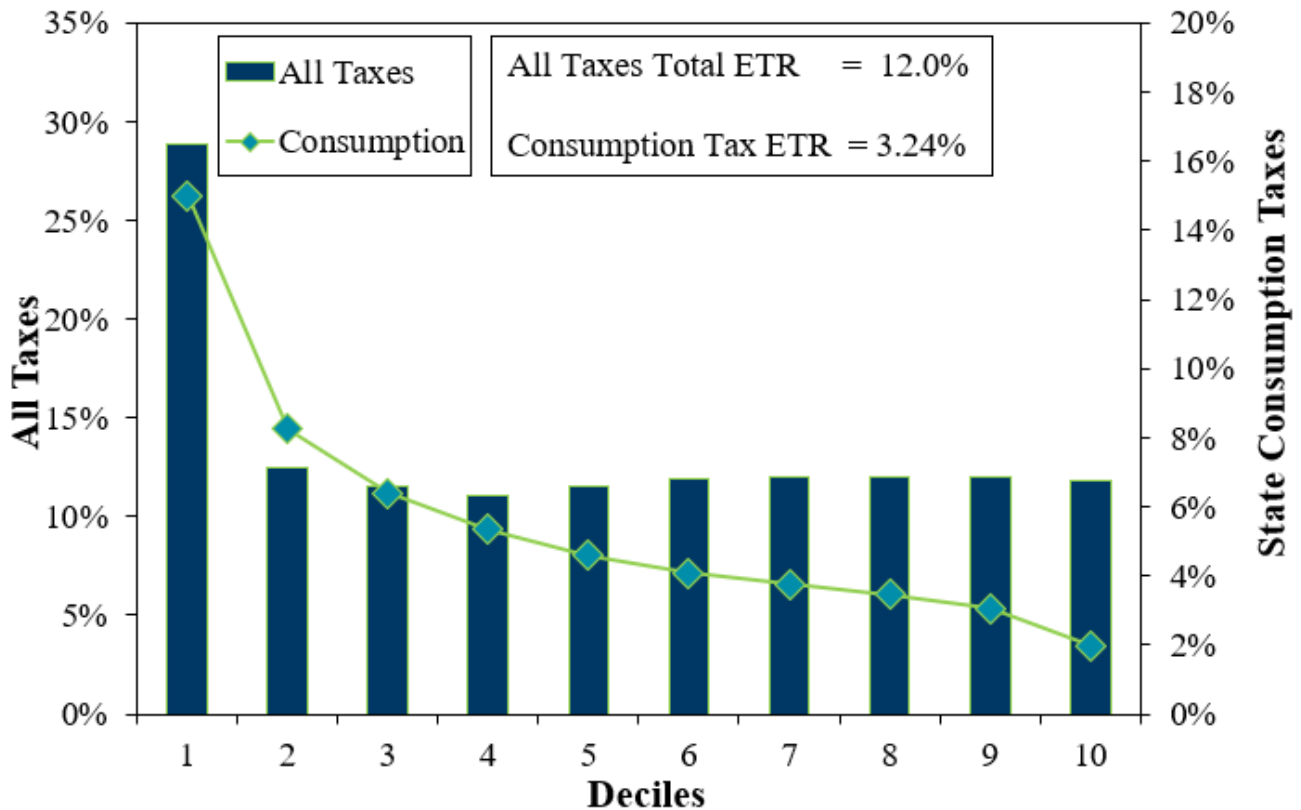
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Solid Waste	0.23%	0.12%	0.08%	0.06%	0.05%	0.04%	0.04%	0.03%	0.02%	0.01%	0.02%	0.02%	0.01%	-0.397

## 2018 Incidence Estimate for Total State Consumption Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$90	\$37	\$0	\$53	\$74	\$16

### Effective Tax Rates, Population Decile



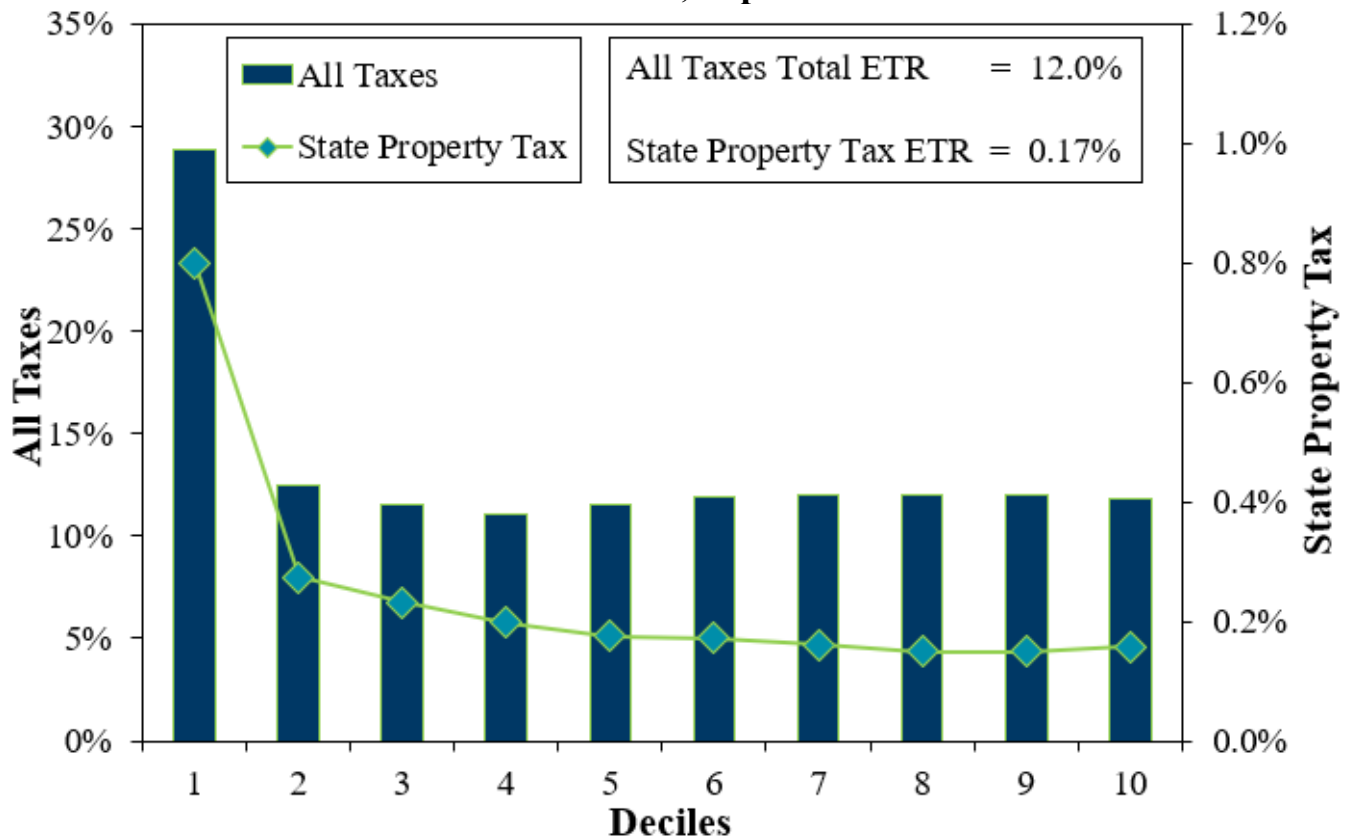
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Consumption	15.00%	8.26%	6.40%	5.33%	4.58%	4.08%	3.76%	3.45%	3.05%	1.99%	2.63%	2.15%	1.41%	-0.258

## 2018 Incidence Estimate for State Property Tax<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$818	\$34	\$8	\$775	\$413	\$405

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
State Property Tax	0.80%	0.27%	0.23%	0.20%	0.18%	0.17%	0.16%	0.15%	0.15%	0.16%	0.15%	0.16%	0.16%	-0.071

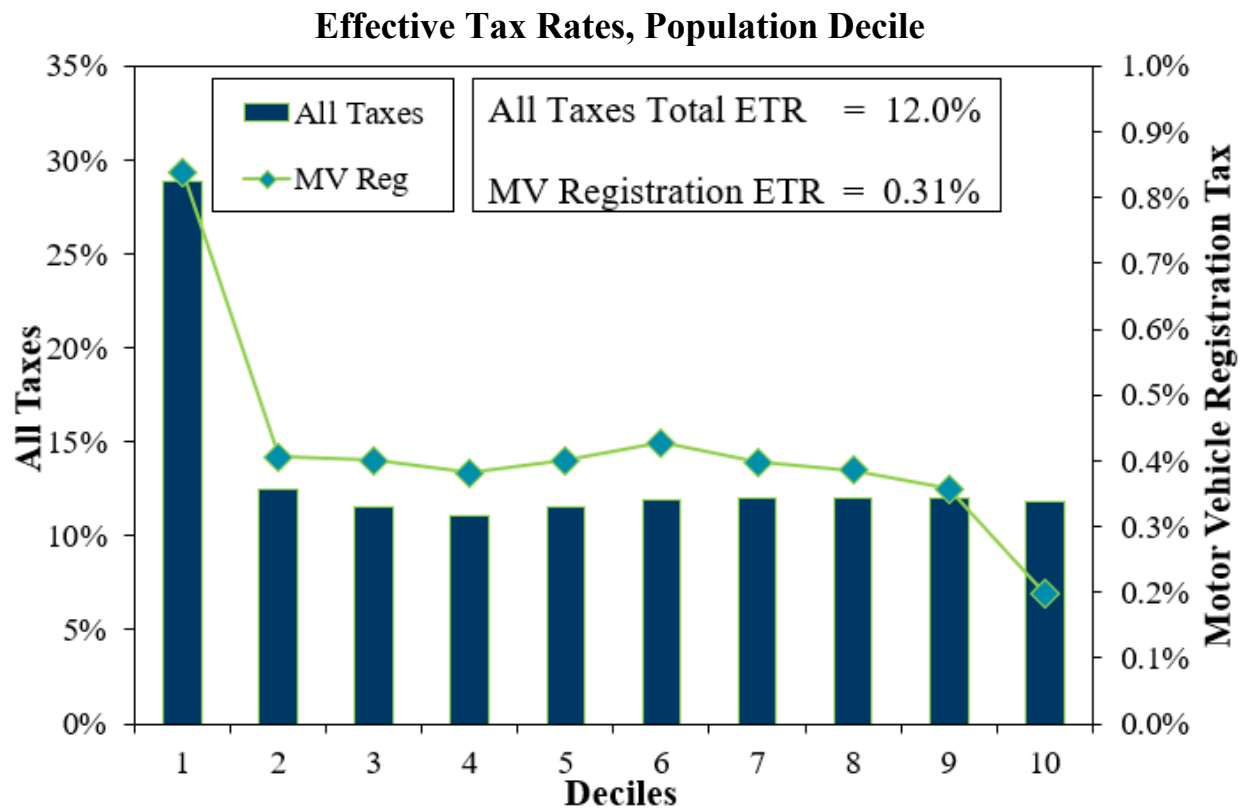
<sup>1</sup>Includes taxes on Commercial Property (\$506 million), Industrial Property (\$157 million), Utility Property (\$112 million), and Residential Seasonal Recreational Property (\$43 million).

## 2018 Incidence Estimate for Motor Vehicle Registration Tax<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$793	\$666	\$0	\$127	\$755	\$38

\*Shifting allocations: Direct = 88%, Consumers = 6%, Labor = 3%, Capital = 2%



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
MV Reg	0.84%	0.41%	0.40%	0.38%	0.40%	0.43%	0.40%	0.39%	0.36%	0.20%	0.31%	0.23%	0.10%	-0.206

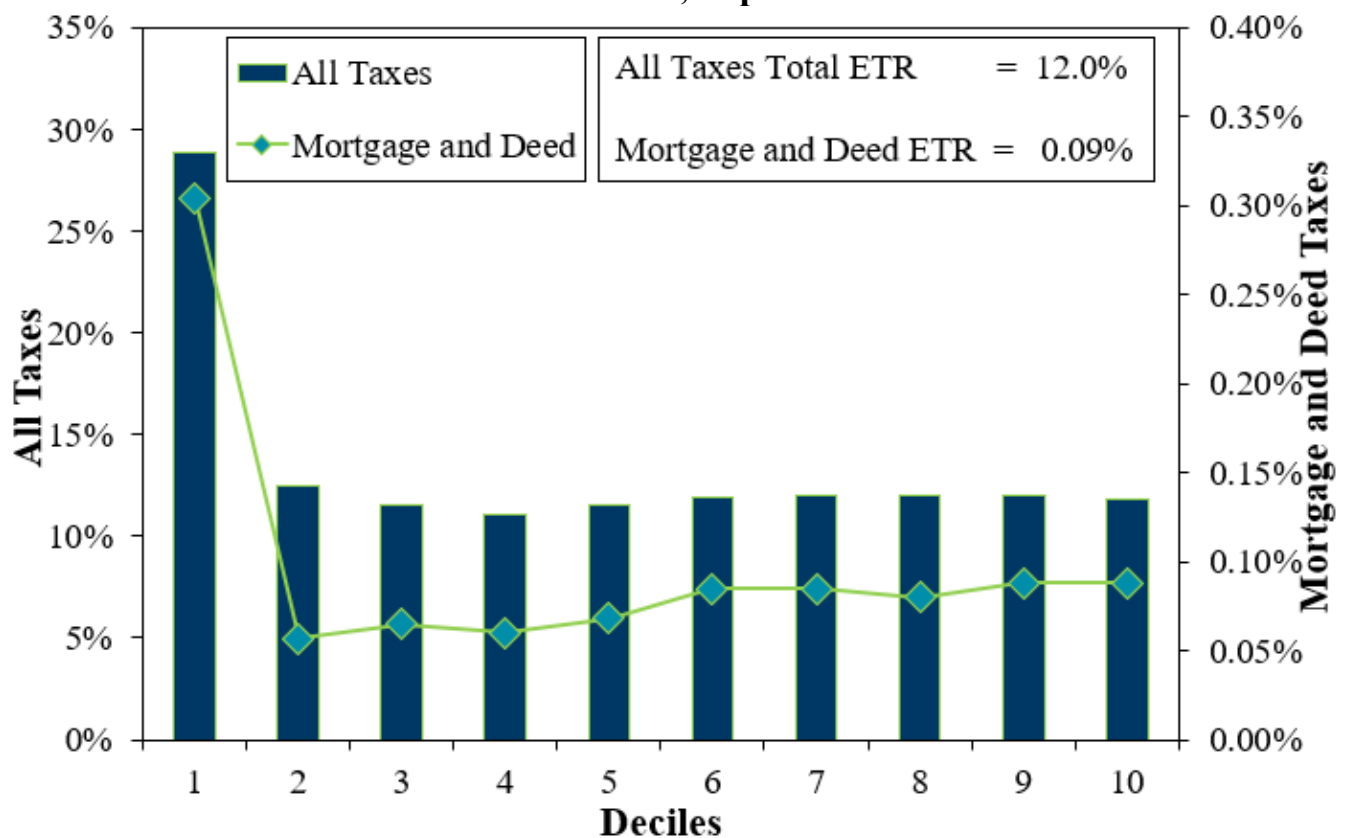
## 2018 Incidence Estimate for Mortgage and Deed Taxes<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$249	\$149	\$0	\$101	\$208	\$42

\*Shifting allocations: Direct = 72%, Consumers = 5%, Labor = 0%, Capital = 23%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Mortgage and Deed	0.30%	0.06%	0.07%	0.06%	0.07%	0.09%	0.09%	0.08%	0.09%	0.09%	0.10%	0.11%	0.07%	-0.003

<sup>1</sup>Includes Mortgage Registry Tax (\$119 million) and Deed Transfer Tax (\$130 million).



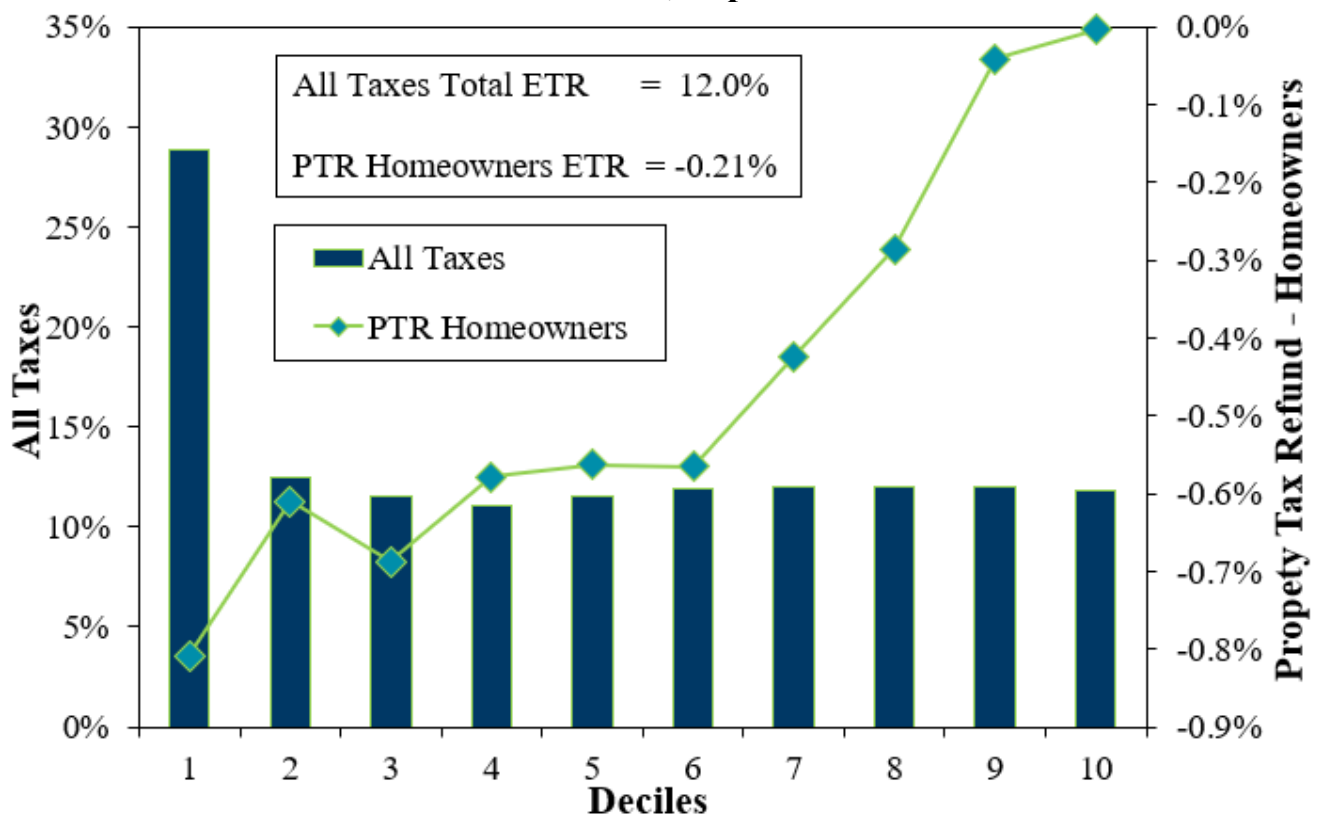
## 2018 Incidence Estimate for Property Tax Refunds - Homeowners

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
-\$501	-\$501	\$0	\$0	-\$501	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Decile



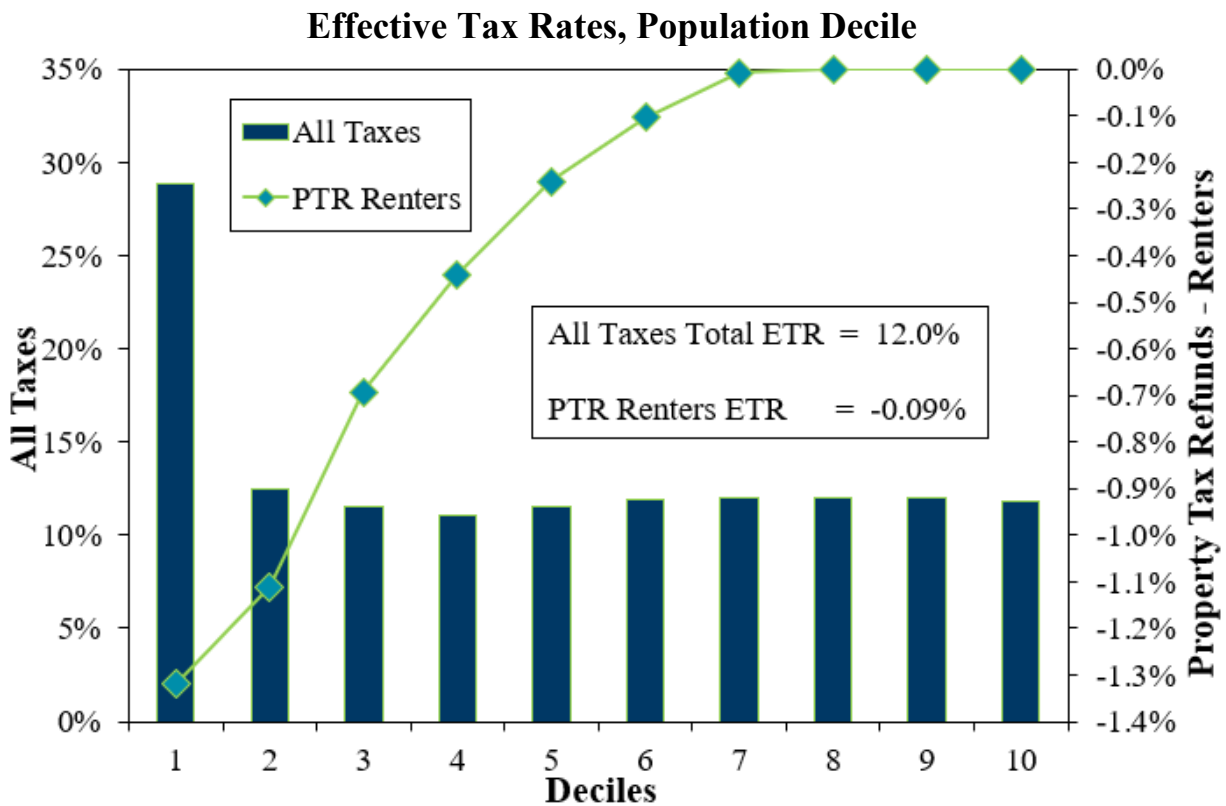
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
PTR Homeowners	-0.81%	-0.61%	-0.69%	-0.58%	-0.56%	-0.57%	-0.42%	-0.29%	-0.04%	0.00%	-0.01%	0.00%	0.00%	0.634

## 2018 Incidence Estimate for Property Tax Refunds - Renters

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
-\$223	-\$223	\$0	\$0	-\$223	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%



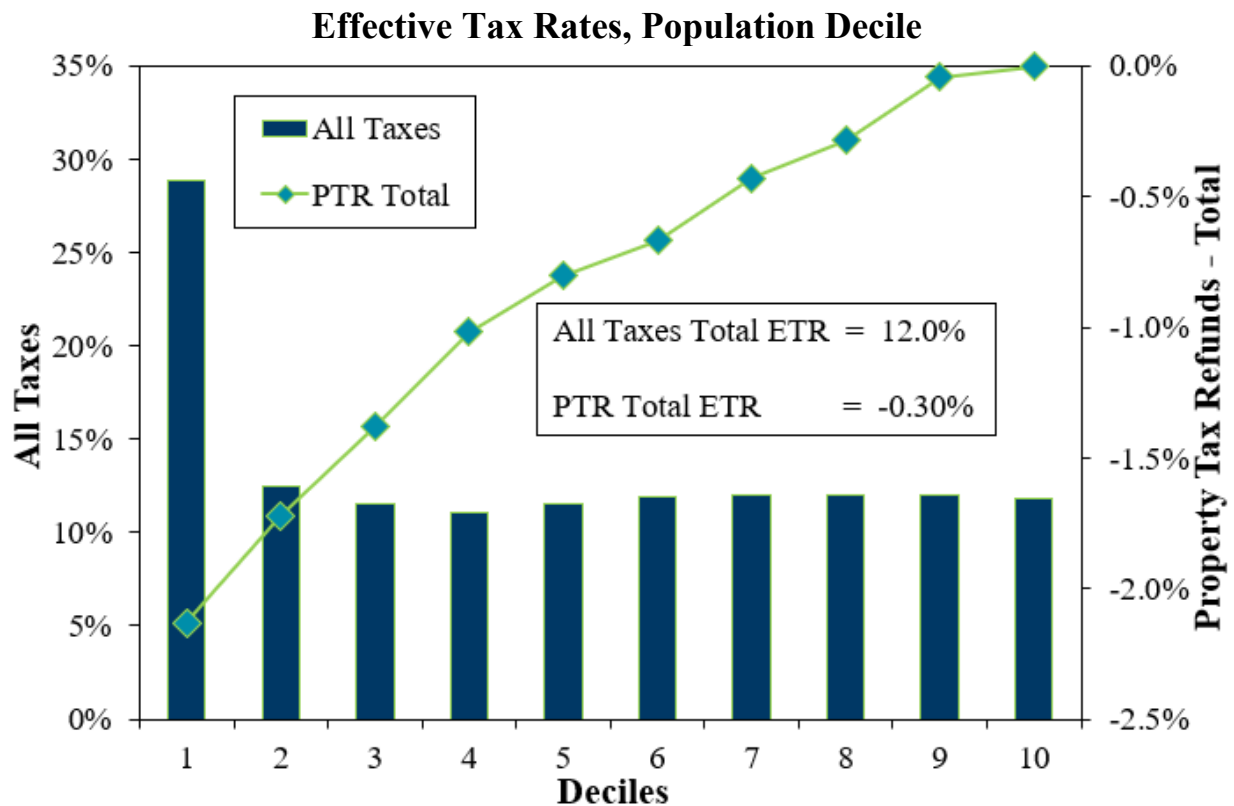
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
PTR Renters	-1.32%	-1.11%	-0.69%	-0.44%	-0.24%	-0.10%	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.878

# 2018 Incidence Estimate for Total Property Tax Refunds

## Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
-\$223	-\$223	\$0	\$0	-\$223	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%



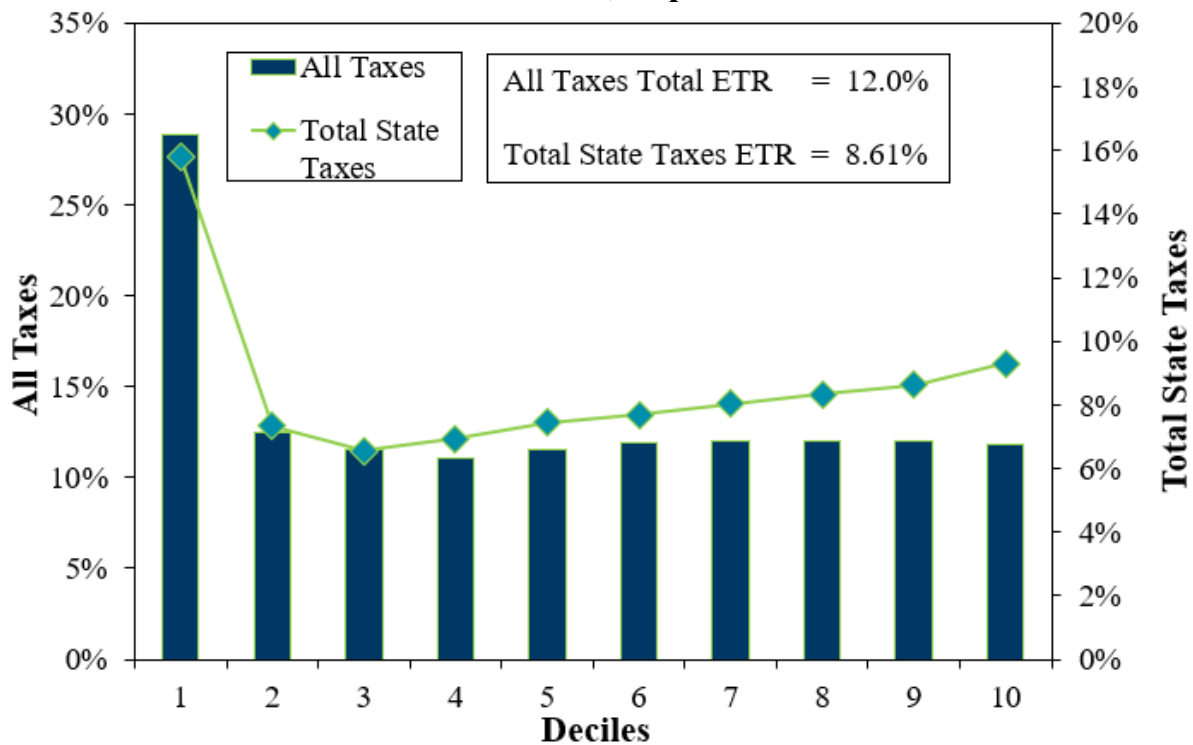
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
PTR Total	-2.13%	-1.72%	-1.38%	-1.02%	-0.80%	-0.67%	-0.43%	-0.29%	-0.04%	0.00%	-0.01%	0.00%	0.00%	0.709

## 2018 Incidence Estimate for *Total State Taxes*

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$24,878	\$17,275	\$1,218	\$6,385	\$20,997	\$3,881

### Effective Tax Rates, Population Decile



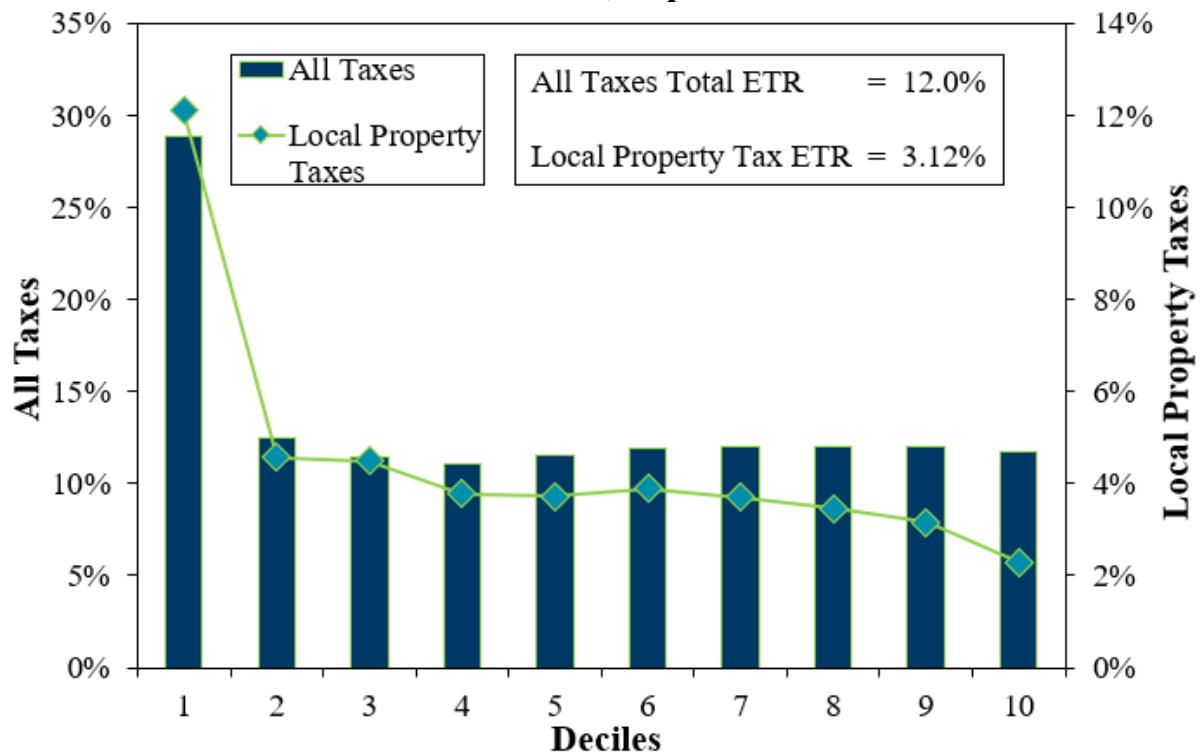
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Total State Taxes	15.80%	7.32%	6.54%	6.93%	7.44%	7.69%	8.02%	8.32%	8.62%	9.29%	8.68%	9.13%	9.86%	0.049

## 2018 Incidence Estimate for Local Property Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$9,211	\$4,684	\$70	\$4,457	\$7,599	\$1,612

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Local Property Taxes	12.11%	4.58%	4.49%	3.77%	3.73%	3.89%	3.71%	3.45%	3.16%	2.29%	2.85%	2.71%	1.53%	-0.169

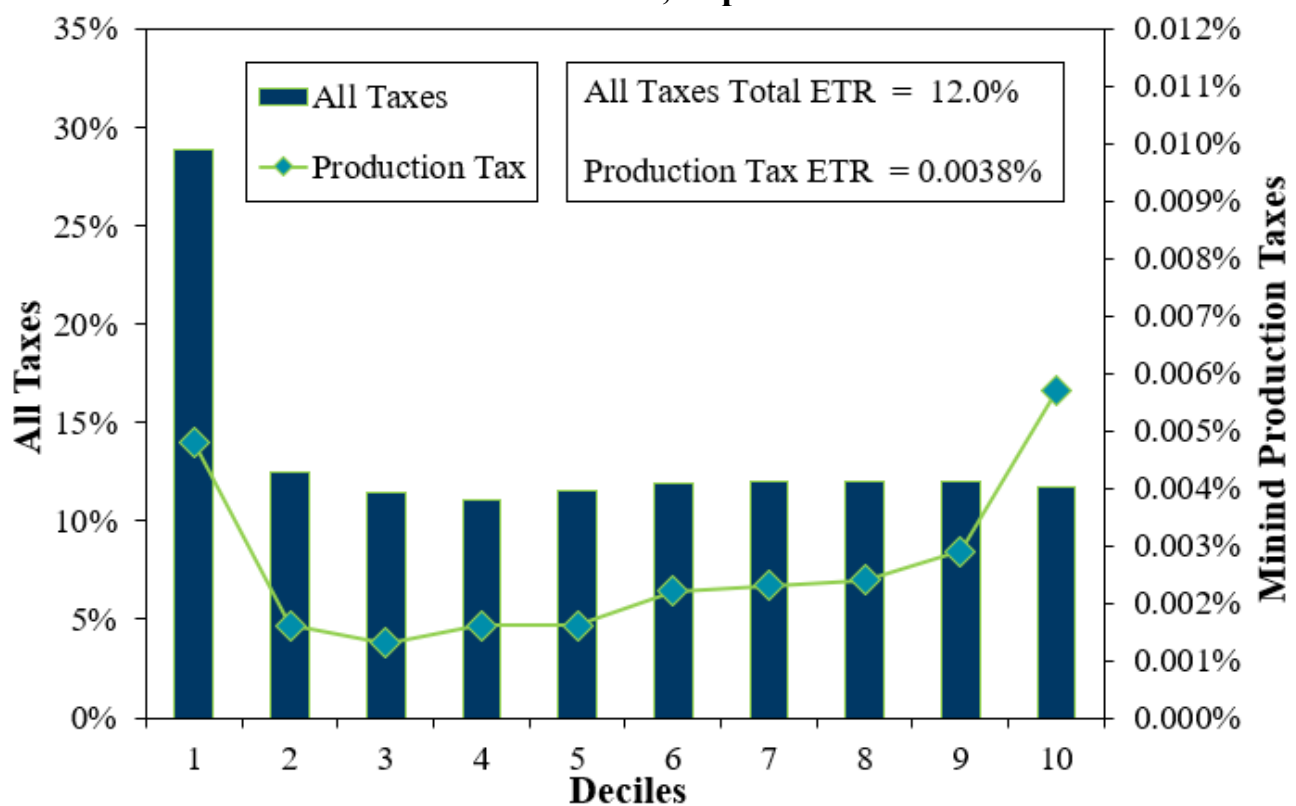
## 2018 Incidence Estimate for Mining Production Taxes (Taconite)

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$94	\$0	\$0	\$94	\$9	\$85

\*Shifting allocations: Direct = 0%, Consumers = 0%, Labor = 7%, Capital = 93%

### Effective Tax Rates, Population Decile



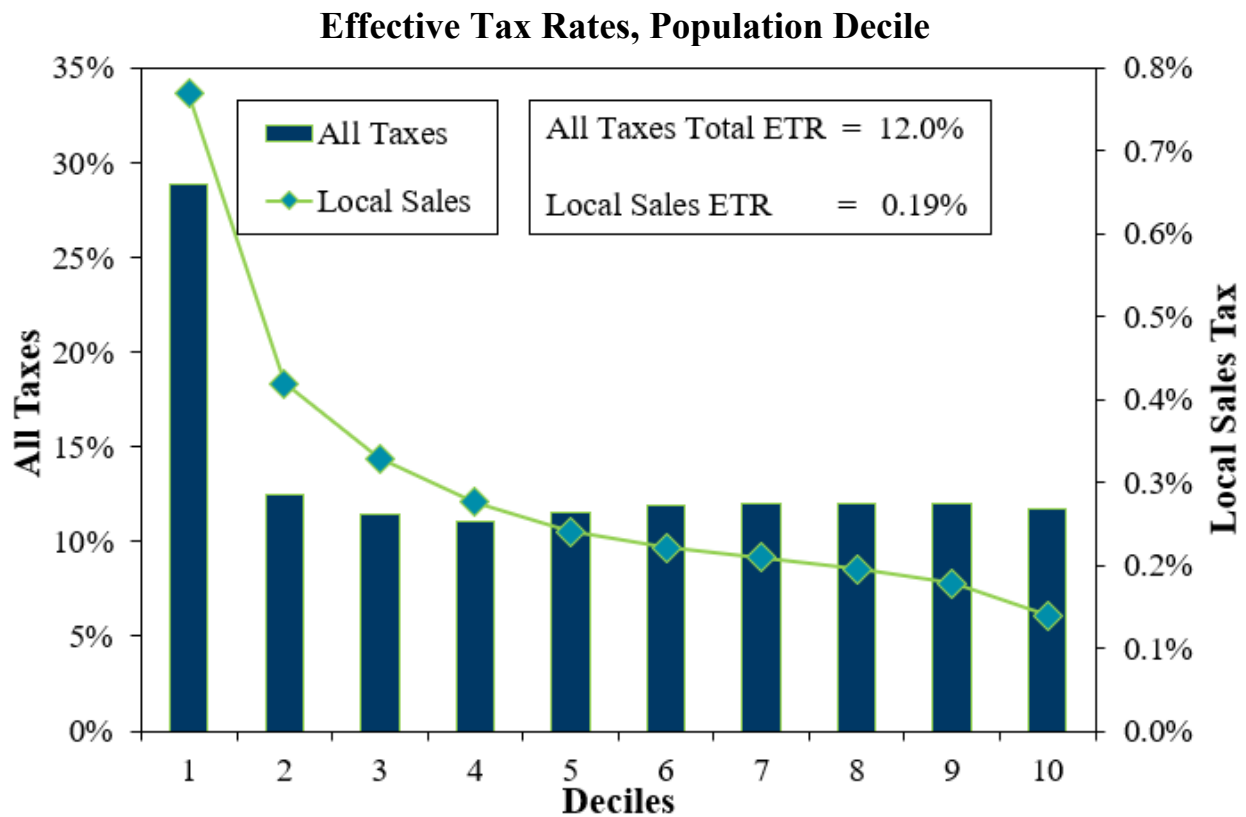
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Production Tax	0.005%	0.002%	0.001%	0.002%	0.002%	0.002%	0.002%	0.002%	0.003%	0.006%	0.003%	0.005%	0.008%	0.303

## 2018 Incidence Estimate for **Local Sales Taxes**

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$650	\$263	\$77	\$310	\$465	\$185

\*Shifting allocations: Direct = 56%, Consumers = 38%, Labor = 1%, Capital = 5%



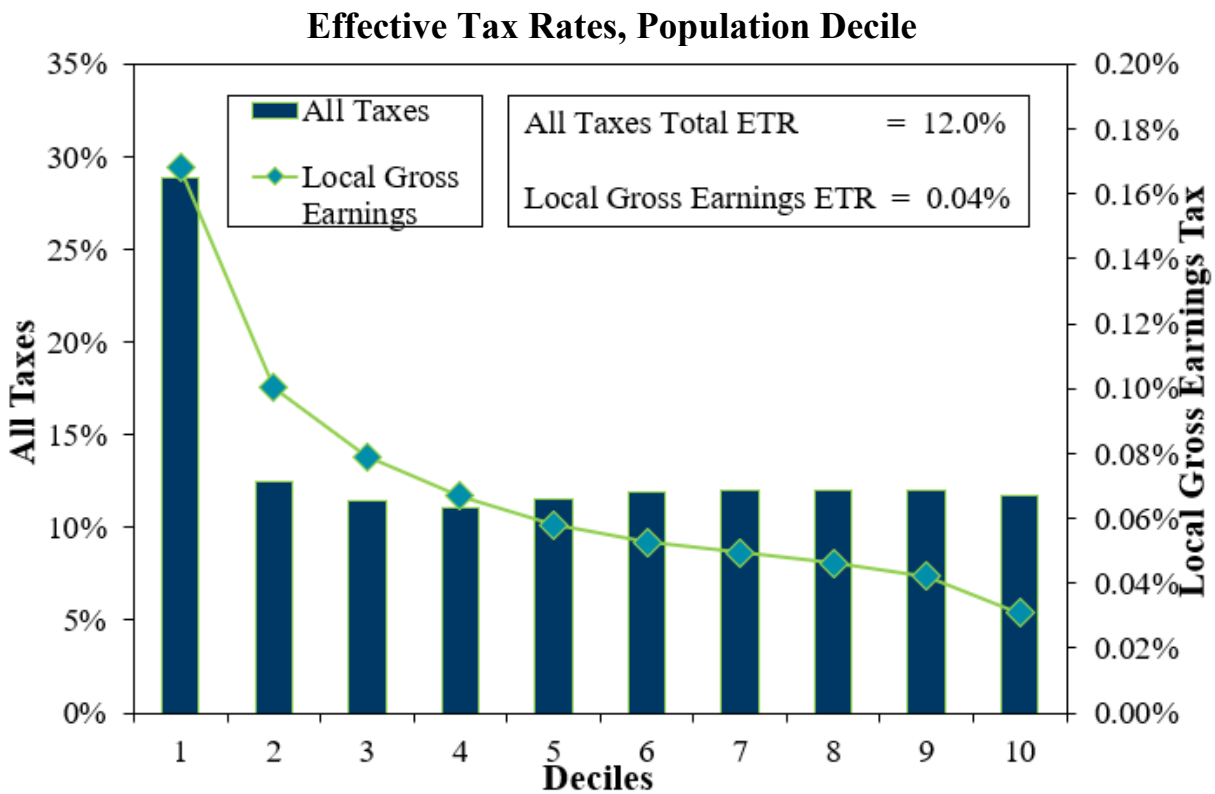
Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Local Sales	0.77%	0.42%	0.33%	0.28%	0.24%	0.22%	0.21%	0.20%	0.18%	0.14%	0.16%	0.15%	0.12%	-0.185

## 2018 Incidence Estimate for Local Gross Earning Taxes

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$173	\$0	\$0	\$173	\$108	\$66

\*Shifting allocations: Direct = 0%, Consumers = 91%, Labor = 5%, Capital = 4%



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Local Gross Earnings	0.17%	0.10%	0.08%	0.07%	0.06%	0.05%	0.05%	0.05%	0.04%	0.03%	0.04%	0.03%	0.02%	-0.207

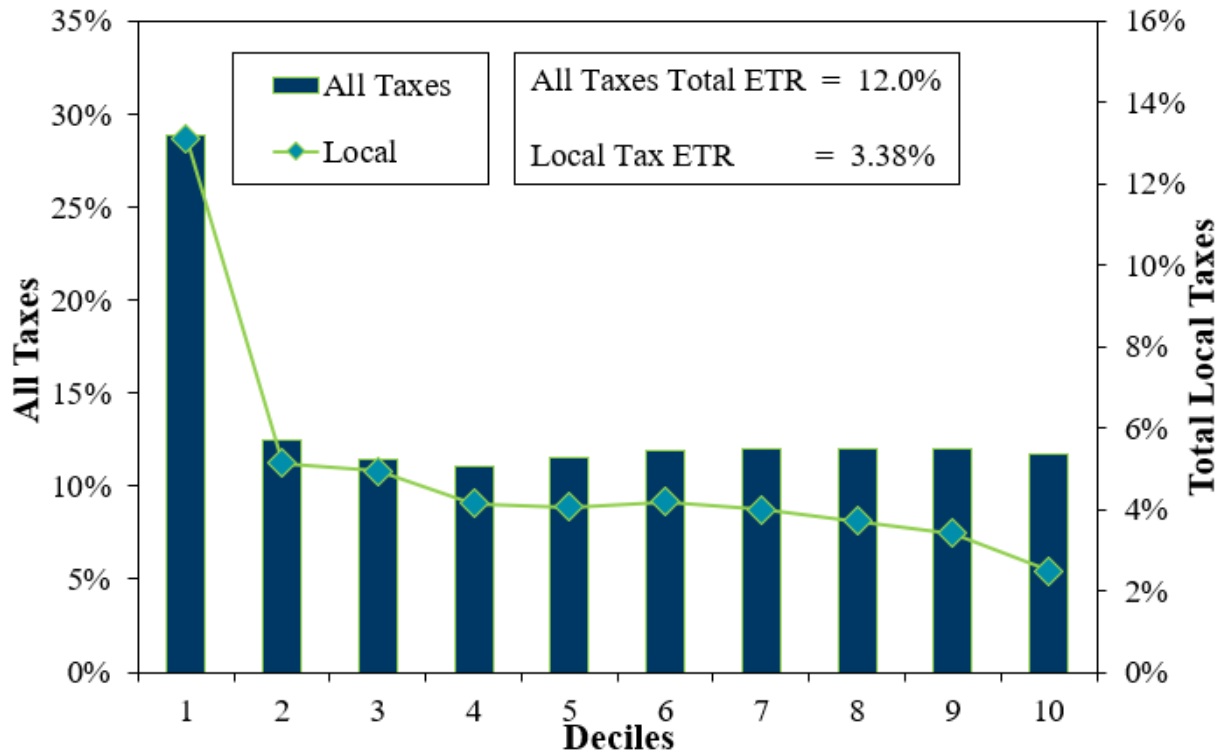


## 2018 Incidence Estimate for ***Total Local Taxes***

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$10,174	\$4,983	\$148	\$5,043	\$8,224	\$1,950

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Local	13.12%	5.14%	4.93%	4.14%	4.06%	4.19%	4.00%	3.72%	3.41%	2.48%	3.07%	2.91%	1.69%	-0.171

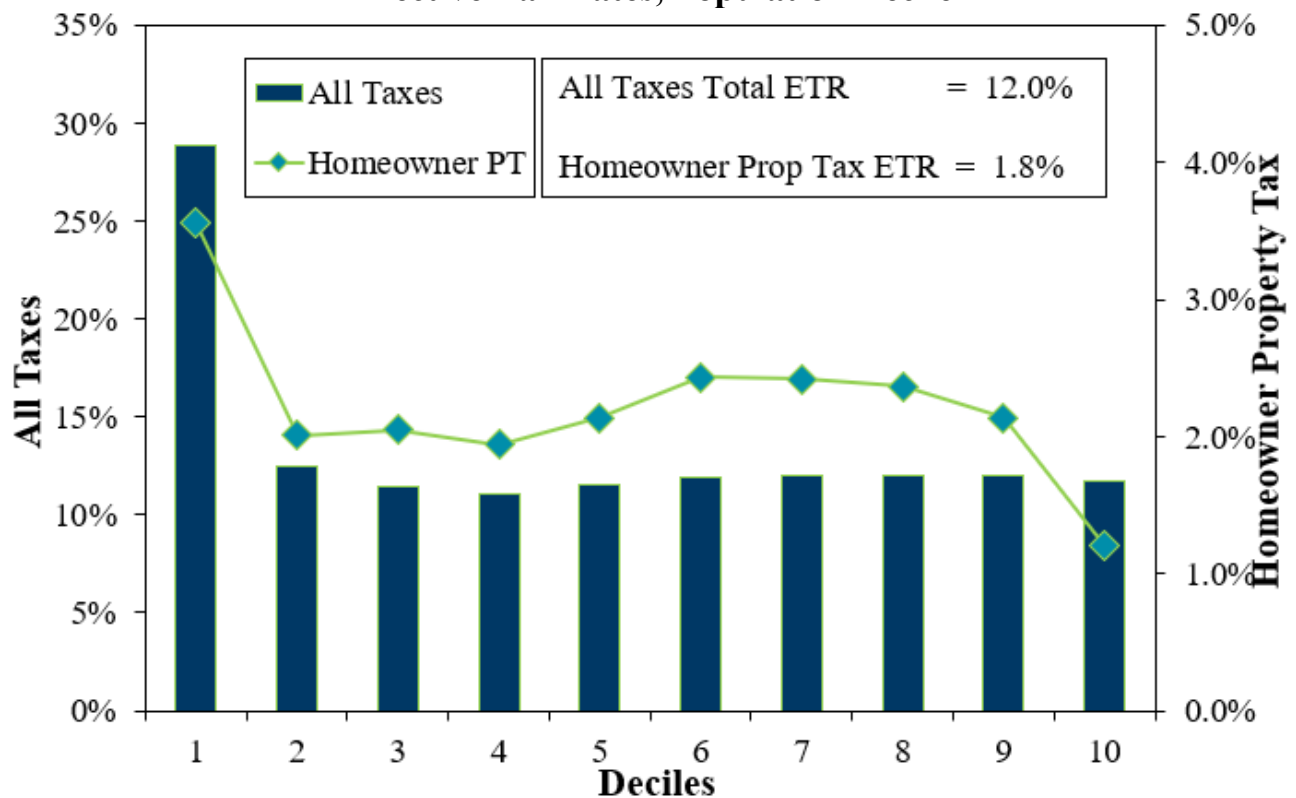
## 2018 Incidence Estimate for Homeowner Property Tax (Before PTR)

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$4,398	\$4,398	\$0	\$0	\$4,398	\$0

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Homeowner PT	3.56%	2.01%	2.05%	1.94%	2.14%	2.43%	2.42%	2.37%	2.14%	1.20%	1.83%	1.45%	0.54%	-0.181

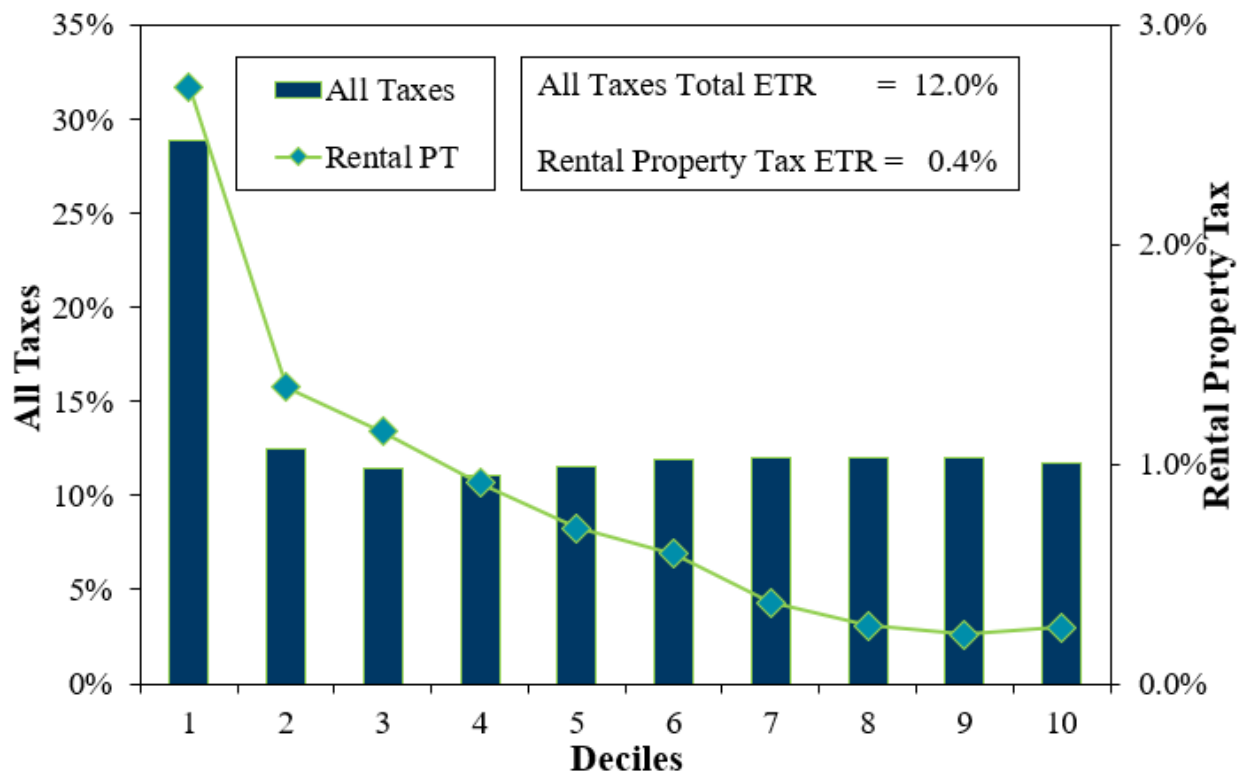
## 2018 Incidence Estimate for Rental Property Tax (Before PTR)

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$1,171	\$0	\$0	\$1,171	\$986	\$185

\*Shifting allocations: Direct = 0%, Consumers = 46%, Labor = 0%, Capital = 54%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
PTR Renters	-1.32%	-1.11%	-0.69%	-0.44%	-0.24%	-0.10%	-0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.299

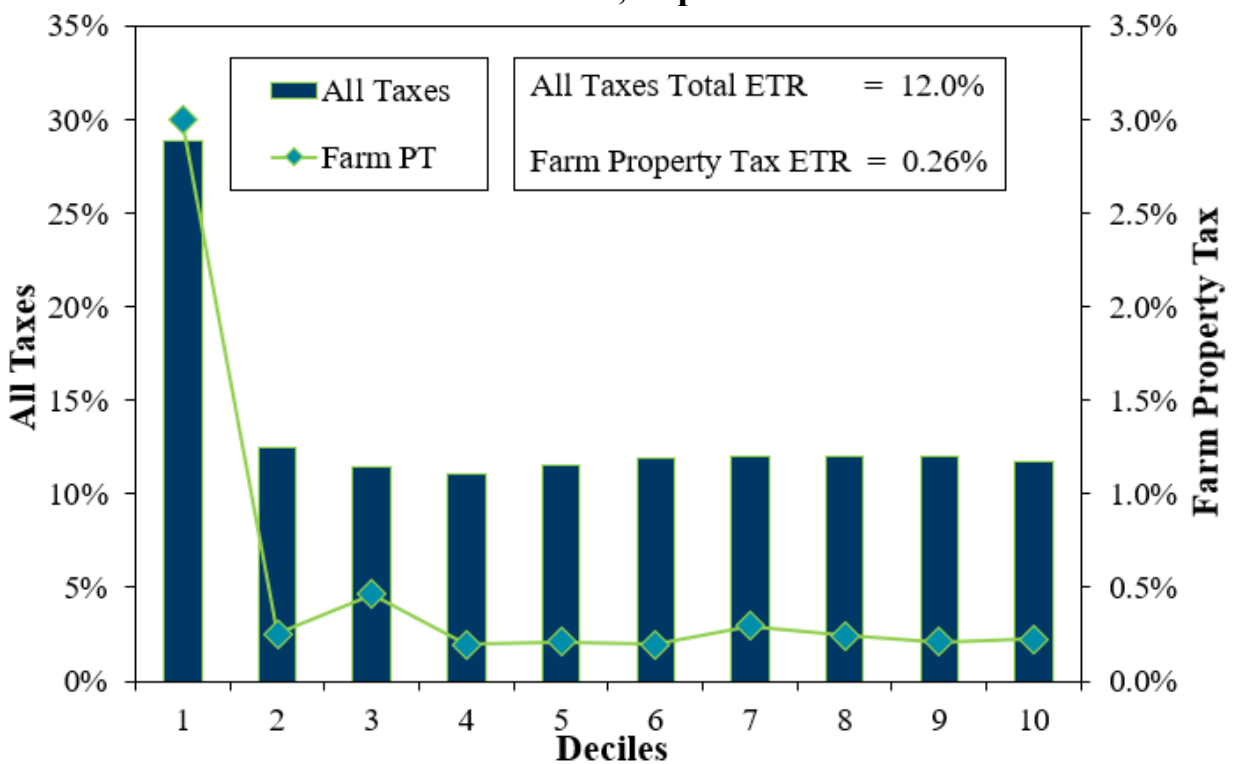
## 2018 Incidence Estimate for Farm Property Tax (other than residence)

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$630	\$0	\$0	\$630	\$629	\$2

\*Shifting allocations: Direct = 0%, Consumers = 0%, Labor = 0%, Capital = 100%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Farm PT	3.00%	0.25%	0.46%	0.19%	0.21%	0.20%	0.29%	0.24%	0.21%	0.22%	0.21%	0.40%	0.06%	-0.166

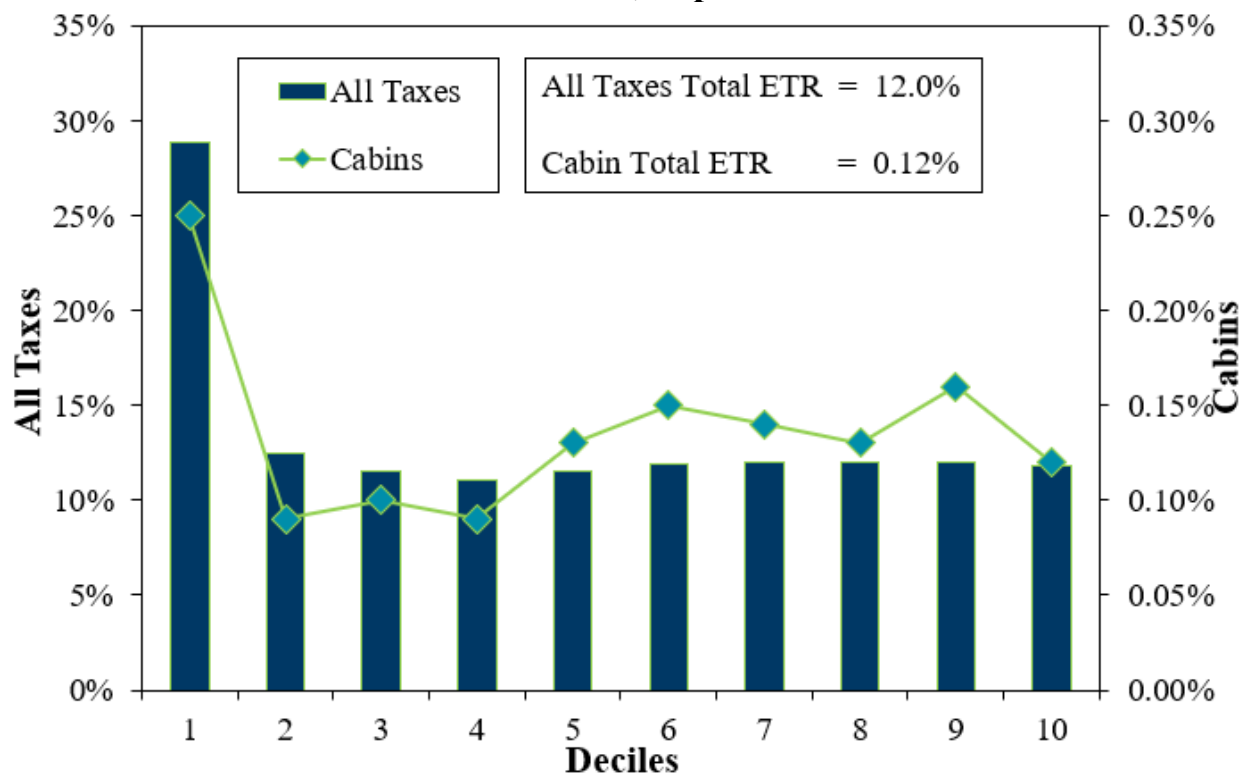
# 2018 Incidence Estimate for Cabins and Second Homes Property Tax (State and Local)<sup>1</sup>

## Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$398	\$0	\$0	\$0	\$320	\$79

\*Shifting allocations: Direct = 100%, Consumers = 0%, Labor = 0%, Capital = 0%

## Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.50%	11.50%	11.10%	11.50%	11.90%	12.00%	12.00%	12.00%	11.80%	11.70%	12.00%	11.50%	-0.013
Cabins	0.25%	0.09%	0.10%	0.09%	0.13%	0.15%	0.14%	0.13%	0.16%	0.12%	0.17%	0.14%	0.07%	-0.049

<sup>1</sup>Includes Seasonal Recreation Property Tax (\$263 million) and 20% of Residential Non-Homestead Property Tax (\$135 million).

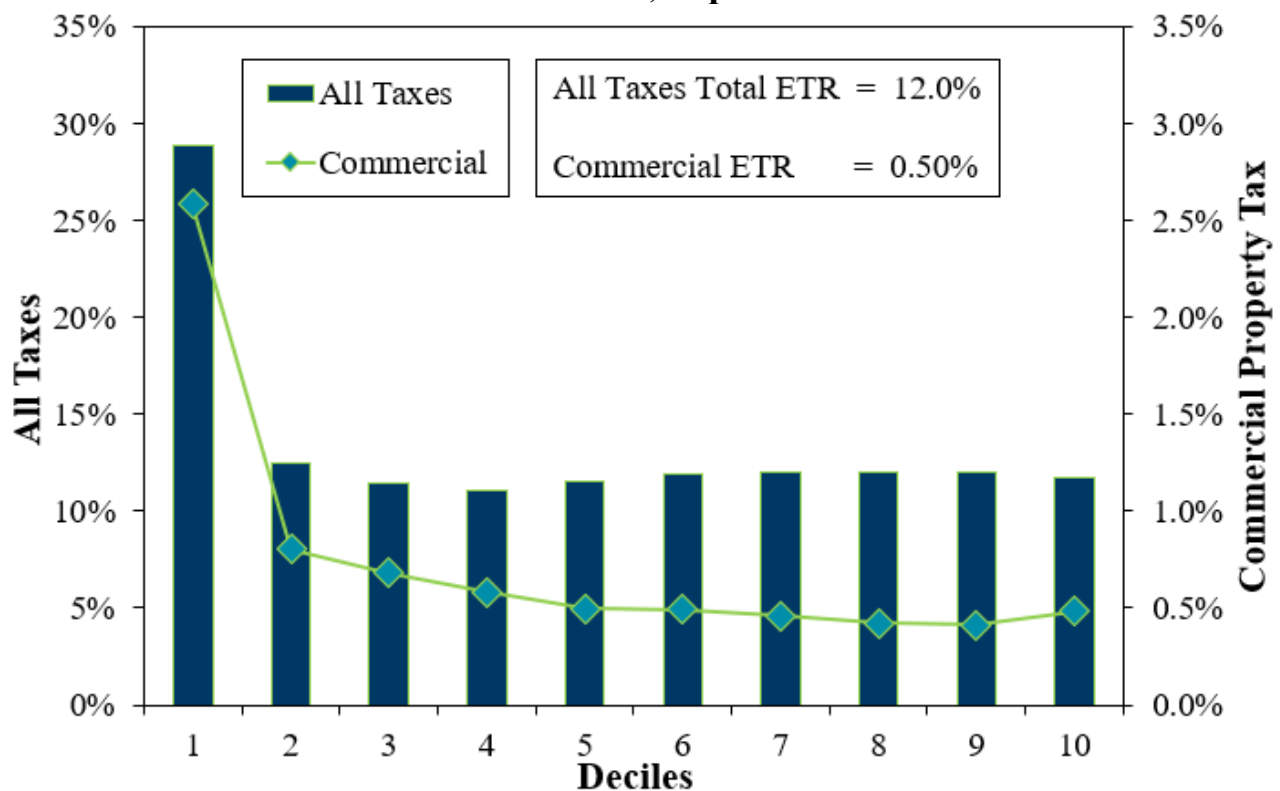
## 2018 Incidence Estimate for Commercial Property Tax (State and Local)

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$2,236	\$0	\$0	\$2,236	\$1,217	\$1,019

\*Shifting allocations: Direct = 0%, Consumers = 59%, Labor = 4%, Capital = 36%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Commercial	2.58%	0.80%	0.68%	0.58%	0.50%	0.49%	0.46%	0.42%	0.41%	0.48%	0.41%	0.47%	0.54%	-0.052

## 2018 Incidence Estimate for Industrial Property Tax (State and Local)<sup>1</sup>

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$685	\$0	\$0	\$685	\$145	\$539

\*Shifting allocations: Direct = 0%, Consumers = 26%, Labor = 5%, Capital = 69%



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Industrial	0.31%	0.06%	0.05%	0.05%	0.04%	0.05%	0.04%	0.04%	0.04%	0.07%	0.05%	0.07%	0.10%	0.124

<sup>1</sup>An error in the 2016 model understated the progressivity of the industrial property tax. Minnesota's taxes on industrial property have been moving closer to the national average, reducing Minnesota's differential and making the tax more progressive.

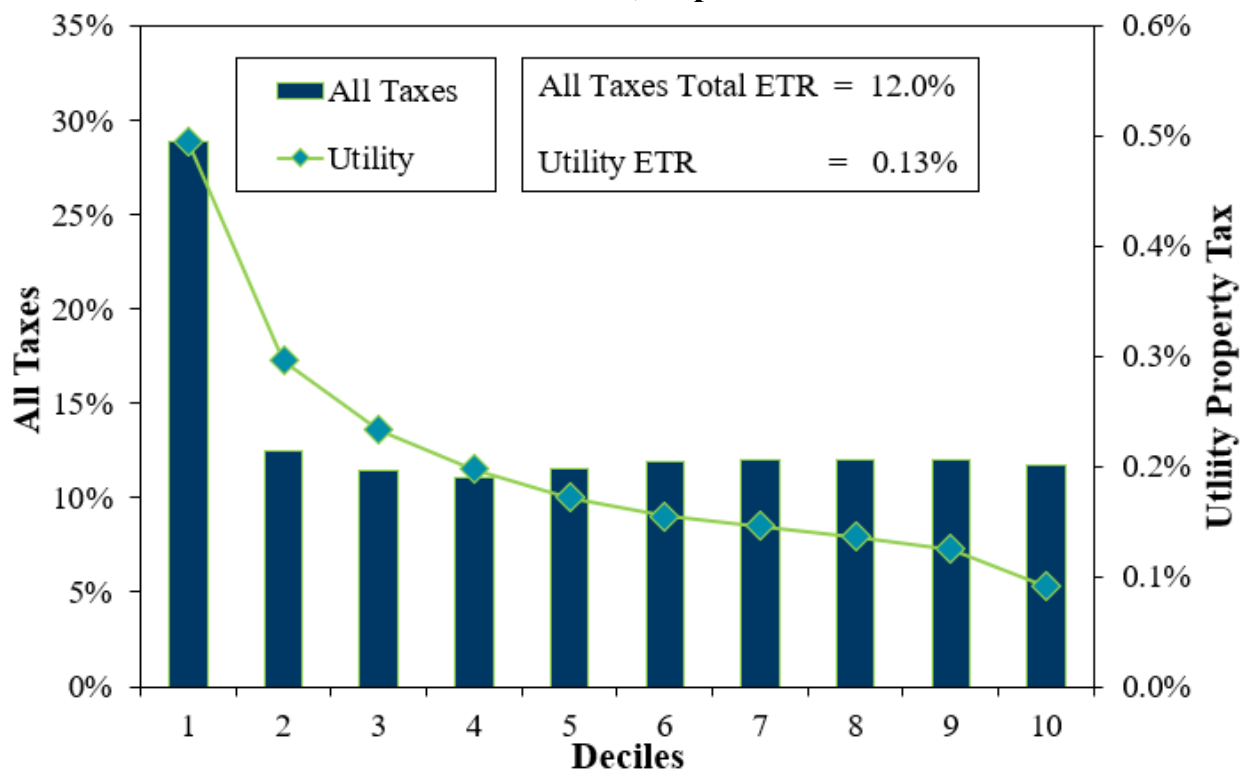
## 2018 Incidence Estimate for Utility Property Tax (State and Local)

### Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$511	\$0	\$0	\$511	\$318	\$193

\*Shifting allocations: Direct = 0%, Consumers = 91%, Labor = 5%, Capital = 4%

### Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Utility	0.50%	0.30%	0.23%	0.20%	0.17%	0.15%	0.15%	0.14%	0.12%	0.09%	0.11%	0.10%	0.07%	-0.207

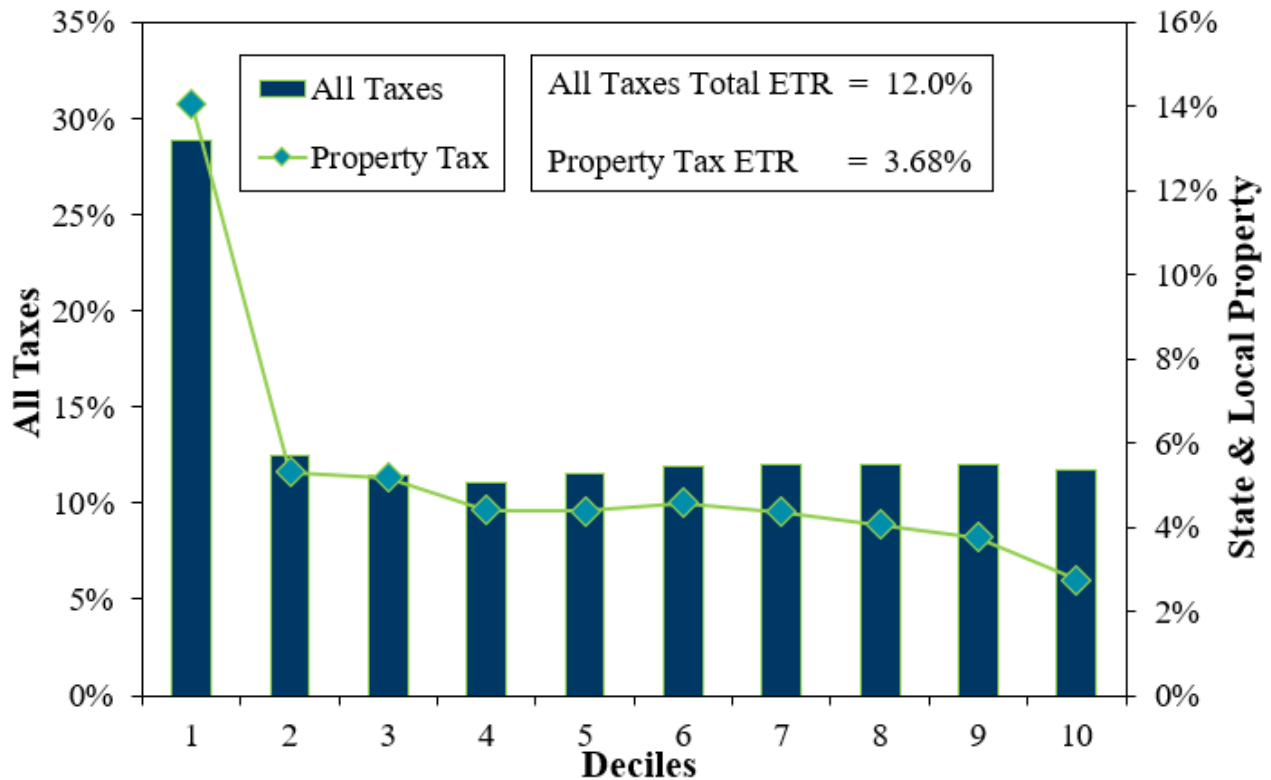


# 2018 Incidence Estimate for Total State and Local Property Tax (Before PTR)

## Tax Collection Amounts 2018 (\$ Millions)

Total	As Imposed			After Shifting	
	MN HH's	NR	Business	Minnesota*	Exported
\$10,029	\$4,718	\$79	\$5,232	\$8,012	\$2,017

## Effective Tax Rates, Population Decile



Deciles	1	2	3	4	5	6	7	8	9	10	91%-95%	96%-99%	Top 1%	Suits Index
All Taxes	28.90%	12.46%	11.47%	11.07%	11.50%	11.88%	12.01%	12.04%	12.02%	11.77%	11.75%	12.04%	11.54%	-0.013
Property Tax	14.05%	5.31%	5.19%	4.41%	4.37%	4.57%	4.35%	4.07%	3.76%	2.74%	3.40%	3.20%	1.86%	-0.165

## Glossary of Tax Incidence Study Terms

***Consumer Expenditure Survey*** – a database produced annually by the Bureau of Labor Statistics that contains information from a large nationwide sample of households on the amounts spent for a great variety of goods and services. Used to estimate consumption patterns for Minnesota households.

***Decile*** – one tenth of an ordered list. In this study decile usually means a particular tenth of the total number of households in the state after those households have been ordered or ranked by income; sometimes referred to as a population decile. For example, the first decile means the tenth of the population ranking lowest in income; the tenth decile is the tenth of the population having the highest incomes. An alternative use of the term in this study means a tenth of the total income of the households so ranked; this is referred to as an income decile. For example, the tenth income decile refers to those households receiving the highest tenth of total income.

***Effective tax rate*** – tax paid as a percentage of gross income. Effective tax rates can be calculated for single taxes or groups of taxes. Effective tax rates by decile are one of the main methods by which study results are presented. It should be noted that effective tax rates for the first decile are unreliable for several reasons. That decile includes households with temporarily low incomes or who consume based on wealth rather than current income (retirees, for example).

***Federal offset*** – the reduction in federal taxes due to the reduction in federal taxable income that occurs when state taxes are included in itemized deductions. Because of this offset, the burden of state taxes would be lower than it otherwise appears, as long as federal rates are not increased to make up for the lower revenue.

***Household*** – for tax filers, in this study a household is defined as the one or two people entitled to file one income tax return or property tax refund return, plus any dependents. For the nonfilers in this study, a household means those people living at the same address who presumably would be entitled to file one income tax return if they were filers, plus any dependents. This definition differs from that used by the U.S. Census Bureau, which defines a household as any group of people who share living arrangements.

***Impact of tax*** – refers to the initial burden of the tax, experienced by the person or firm legally obligated to pay the tax. The impact is distinguished from the incidence of the tax.

***Incidence of tax*** – refers to the ultimate burden of the tax after the person or business firm legally obligated to pay the tax alters its behavior in response (if it does alter its behavior). In some cases, namely taxes imposed directly on households, both the impact and the incidence are the same. In other cases, such as taxes on businesses, some or all of the incidence may be shifted from the business to others.

***Progressive tax*** – a tax for which the effective tax rate rises as income rises.

***Proportional tax*** – a tax for which the effective rate does not change with income.

***Regressive tax*** – a tax for which the effective tax rate falls as income rises.

***Suits index*** – a numerical score ranging between –1 and +1 that indicates the extent to which a tax is progressive or regressive. Negative values indicate a regressive tax, positive values a progressive tax, and zero shows a proportional tax. The closer the Suits index is to +1 or –1, the higher the degree of progressivity or regressivity. Suits indexes can be calculated based on totals for 10 deciles (a “10-point” Suits index) or based on the full sample. Except where noted, all Suits indexes reported in this report are “full-sample” Suits indexes.

***Tax shifting*** – the process by which the incidence of a tax is translated from the economic entity legally obligated to pay the tax to those bearing the ultimate burden of the tax.

## Legislative Mandate

### 270C.13 Tax Incidence Reports

Subdivision 1. **Biennial report.** The commissioner of revenue shall report to the legislature by March 1 of each odd-numbered year on the overall incidence of the income tax, sales and excise taxes, and property tax. The report shall present information on the distribution of the tax burden as follows: (1) for the overall income distribution, using a systemwide incidence measure such as the Suits index or other appropriate measures of equality and inequality; (2) by income classes, including at a minimum deciles of the income distribution; and (3) by other appropriate taxpayer characteristics.

Subd. 2. **Bill analyses.** At the request of the chair of the house Tax Committee or the senate Committee on Taxes and Tax Laws, the commissioner shall prepare an incidence impact analysis of a bill or a proposal to change the tax system which increases, decreases, or redistributes taxes by more than \$20,000,000. To the extent data is available on the changes in the distribution of the tax burden that are affected by the bill or proposal, the analysis shall report on the incidence effects that would result if the bill were enacted. The report may present information using system wide measures, such as Suits or other similar indexes, by income classes, taxpayer characteristics, or other relevant categories. The report may include analyses of the effect of the bill or proposal on representative taxpayers. The analysis must include a statement of the incidence assumptions that were used in computing the burdens.

Subd. 3. **Income measure.** The incidence analyses shall use the broadest measure of economic income for which reliable data is available.

History: 1990 c 604 art 10 s 9, 2005 c 151 art 1 s 15; 1Sp2011 c 7 art 10 s 1; 2013 c 3 s 2

