

# Background Briefing on Minnesota Taxes

---

MINNESOTA HOUSE RESEARCH DEPARTMENT AND FISCAL ANALYSIS DEPARTMENT

January 2023



# Presentation Outline

---



# Staff Introductions (House Research)



Sean Williams

- Individual Income Tax
- Property Tax Refunds



Jared Swanson

- State General Property Tax



Chris Kleman

- Corporate Franchise Tax
- Estate Tax
- MinnesotaCare Taxes
- Insurance Taxes
- Liquor Taxes



Alex Haigler

- Sales Tax
- Lawful Gambling Taxes
- Cigarette/Tobacco Taxes
- Cannabis Tax



Justin Cope

- Mortgage and Deed Taxes
- Solid Waste Taxes

# Staff Introductions (House Fiscal)

---



Cynthia Templin

- State Taxes



Katherine Schill

- State General Property Tax
- Property Tax, Aids, & Credits

# Nonpartisan Staff Roles

---

## House Research

- Draft bills and amendments
- Write bill summaries
- Provide background research and overviews
- Answer questions on bill content and legal consequences
- Modeling

## House Fiscal

- Track revenue and budget effect of executive and legislative policy goals
- Interpret and analyze revenue estimates and fiscal notes
- Offer confidential fiscal analysis of spending, revenue and policy proposals

*Our Departments' services are confidential and available to all House Members.*

# Important Resources

---

## Committee Documents

- Bill summaries
- Revenue estimates / Fiscal notes
- Spreadsheets
- Partisan briefs
- Testifier letters and information

# Frequently Used Terms

## Budget Terms

- Fiscal Year
- Tax Year
- Pay Year
- Revenue Analysis (Not a Fiscal Note)
- Fiscal Note

## Tax Incidence Terms

- Tax Incidence
- Burden
- Progressive Tax
- Regressive Tax

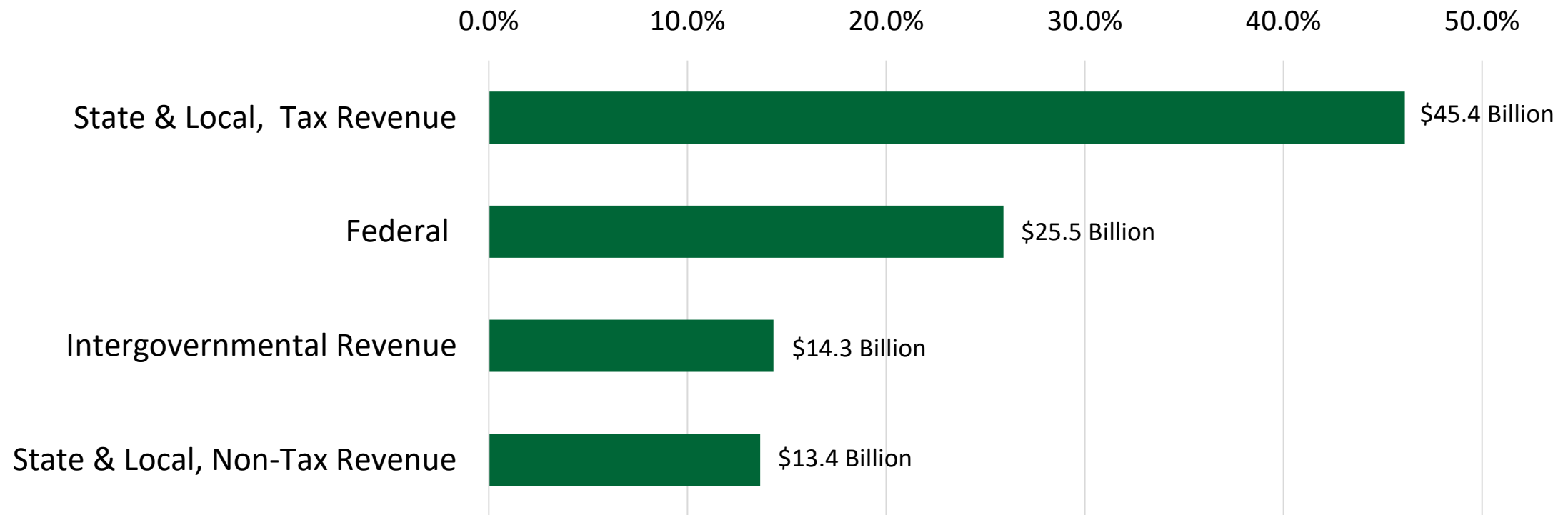
## Other Terms

- Tax Expenditure
- Refundable Credits
- Nonrefundable Credits

# Resources Available

## *All State Revenue for Public Services*

Actual FY 2022: Total \$98.6 Billion



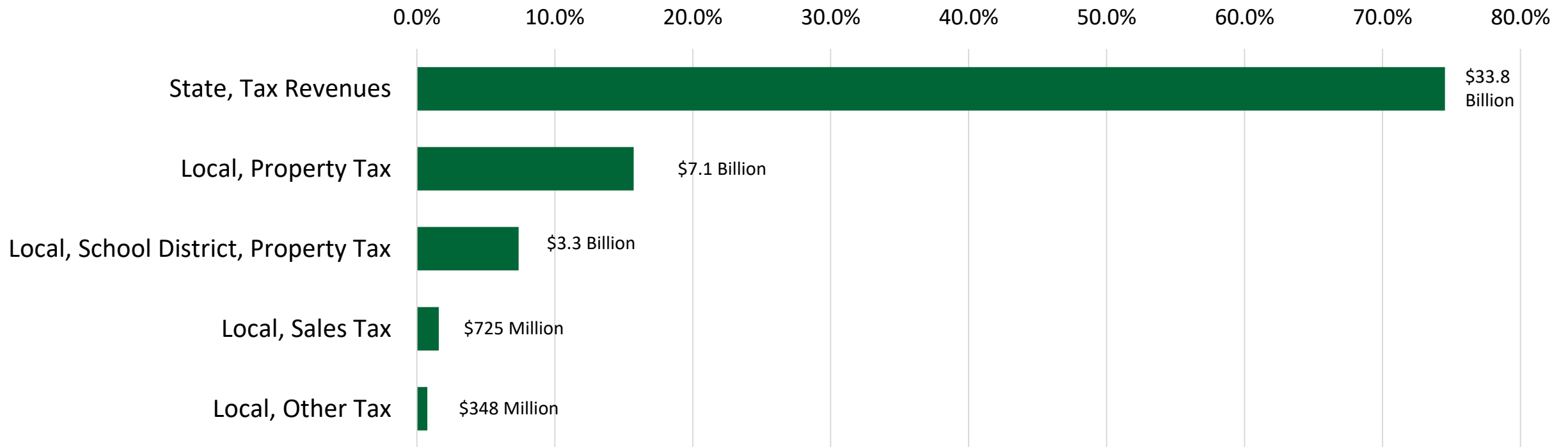
Source: MMB, Price of Government, November 2022 Forecast

Graph by House Fiscal Analysis

# Resources Available

## *Own Source Revenue or Who Collects Taxes?*

Actual FY 2022: Total \$45.4 Billion

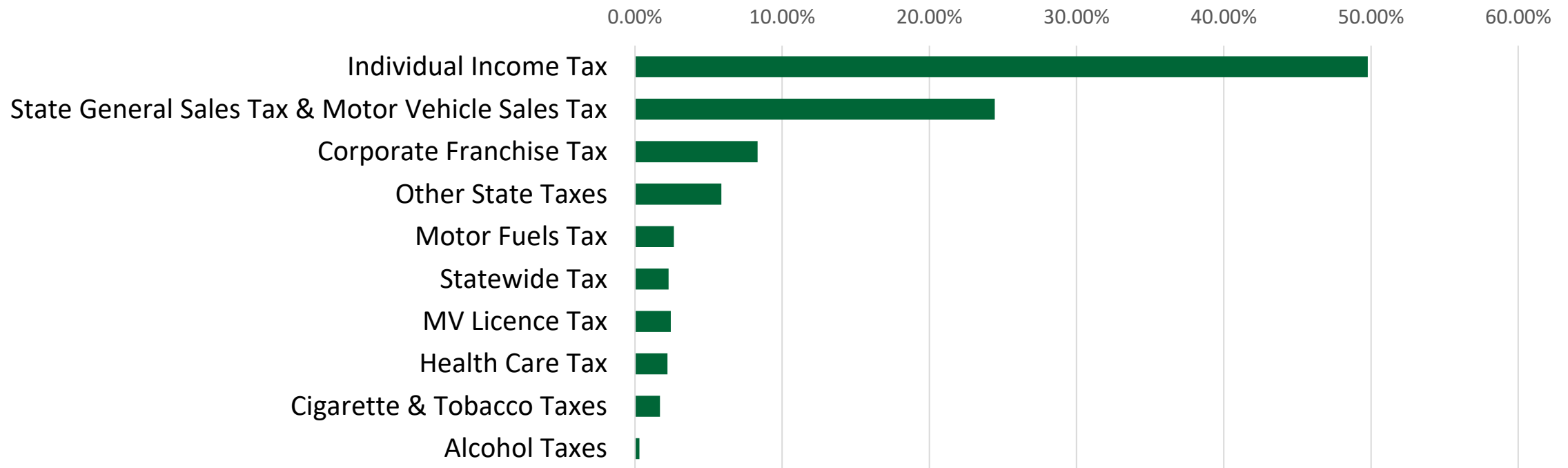


Source: MMB, Price of Government, November 2022 Forecast  
Graph By House Fiscal Analysis

# Resources Available

## *Percent Share of Total State Tax Collections by Tax Type - All Funds*

Actual FY 2022: Total \$33.8 Billion



Note: "Other State Taxes" includes but is not limited to mortgage and deed taxes, insurance gross premium taxes, lawful gambling taxes, estate taxes, and motor vehicle registration taxes.

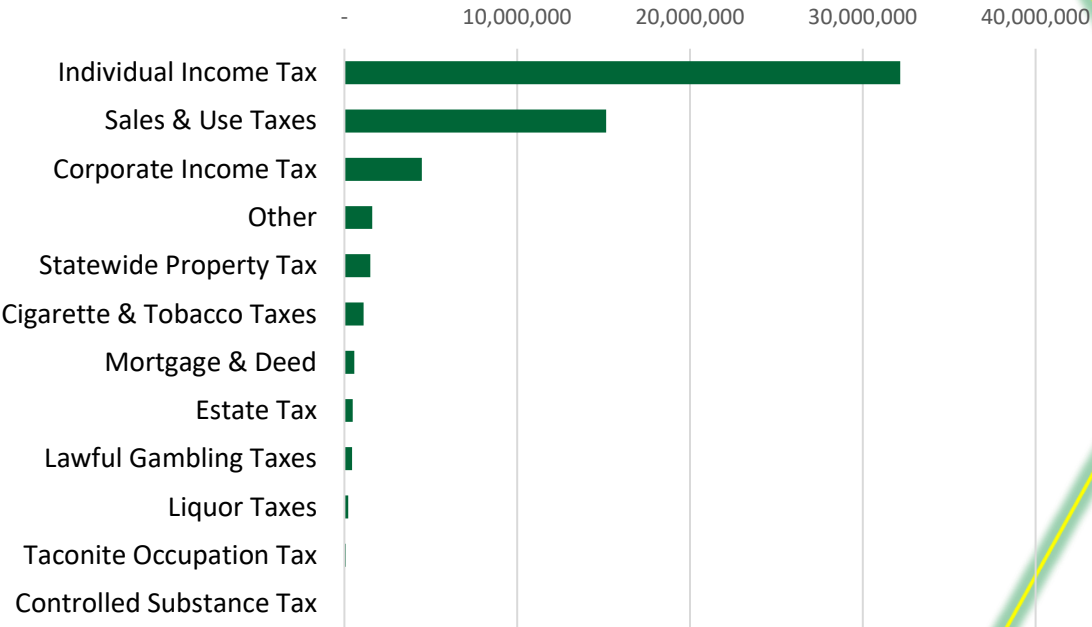
Source: MMB, Price of Government, November 2022 Forecast

Graph by House Fiscal Analysis

# Resources Available

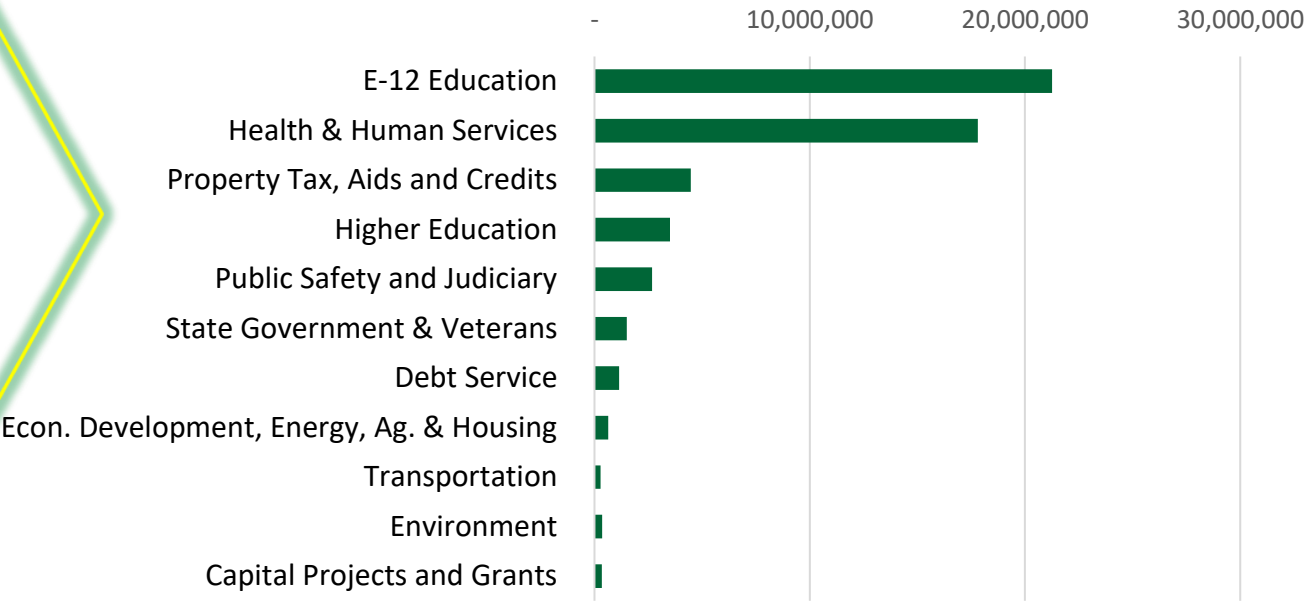
## General Fund Tax Revenue

FY 2024-25 Biennium, Total: \$57.8 Billion



## General Fund Expenditures by Bill Area

FY 2024-25 Biennium, Total: \$53.9 Billion



Note: "Other" includes but is not limited to insurance gross premium taxes and medical assistance surcharges.  
Source: MMB, Price of Government, November 2022 Forecast  
Graph By House Fiscal Analysis

# GAO Criteria for a Good Tax System

---

- **Equity:** Horizontal and Vertical:
  - **Horizontal equity:** same tax applies to individuals with same ability to pay
  - **Vertical equity:** taxpayers with greater ability to pay should pay more tax
- **Economic Efficiency:** Reduce economic distortion caused by the tax system. Distortions reduce well-being by directing resources away from the highest value uses.
- **Simplicity, Transparency, Administrability:**
  - Simplicity makes the system more understandable, reduces compliance costs for taxpayers, reduces administrative costs.
  - Transparent systems reduce taxpayer uncertainty, which allows for better decision-making.
  - Administrative costs fall on both private and public actors.
- **Economic distortion and compliance costs are “dead-weight losses”**

Source: Government Accountability Office (GAO). “Understanding the tax reform debate.” September 2005.

# Other Tax Policy Criteria

---

- **Competitiveness:** Does the tax system disadvantage the state in competing for investment and business?
- **Revenue sufficiency:** Does the tax system raise enough revenue to fund state government?
- **Certainty:** Can taxpayers adequately predict the future tax climate?
- **Compliance/Tax Gap:** Reducing the difference between taxes paid and taxes owed.

## Property tax revenue estimates score bills based on 6 benchmarks:

1) Transparency, Understandability, Simplicity & Accountability; 2) Efficiency & Compliance; 3) Equity (Vertical & Horizontal); 4) Stability & Predictability; 5) Competitiveness for Businesses; 6) Responsiveness to Economic Conditions

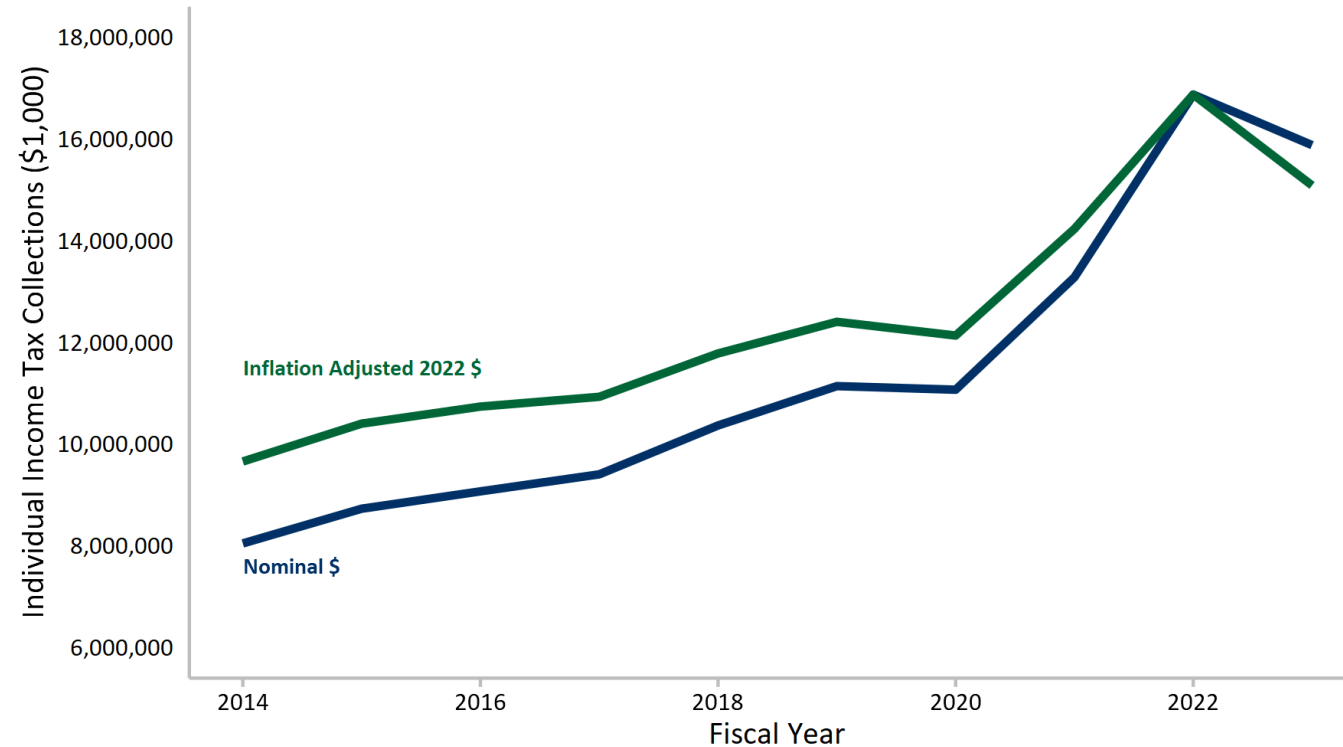
# Individual Income Tax

---

# Recent Individual Income Tax Collections

## FY 23 Forecast: \$15.1 billion

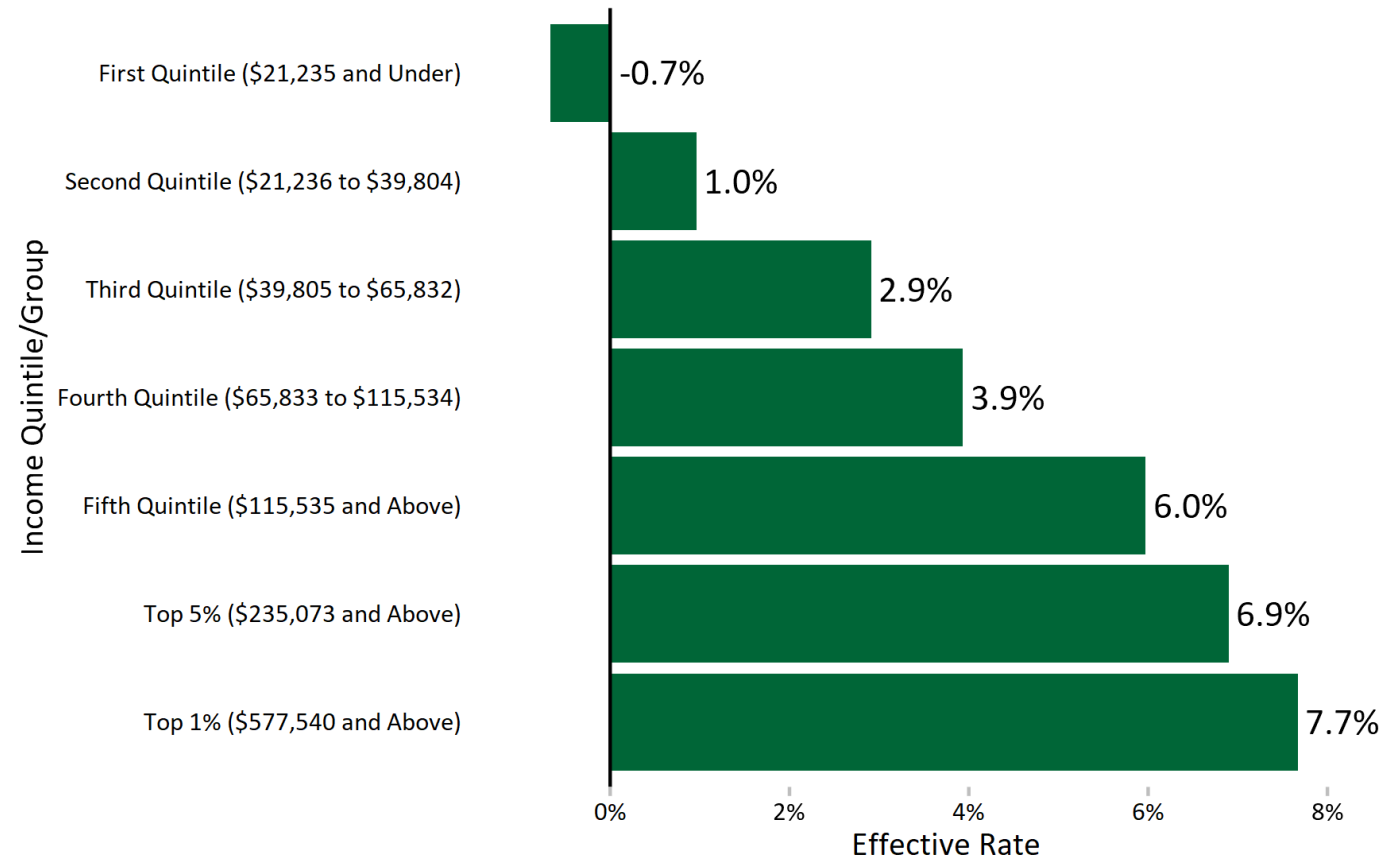
Income Tax Collections, FY 2014-2023



Data from Minnesota Management and Budget. Consolidated Fund Statements (Feb. 2012 - Nov. 2022).  
Amounts adjusted using the Consumer Price Index For All Urban Consumers (CPI-U). FY 21 Amounts are MMB Projections.  
Graphic by MN House Research.

# Income Tax is Progressive

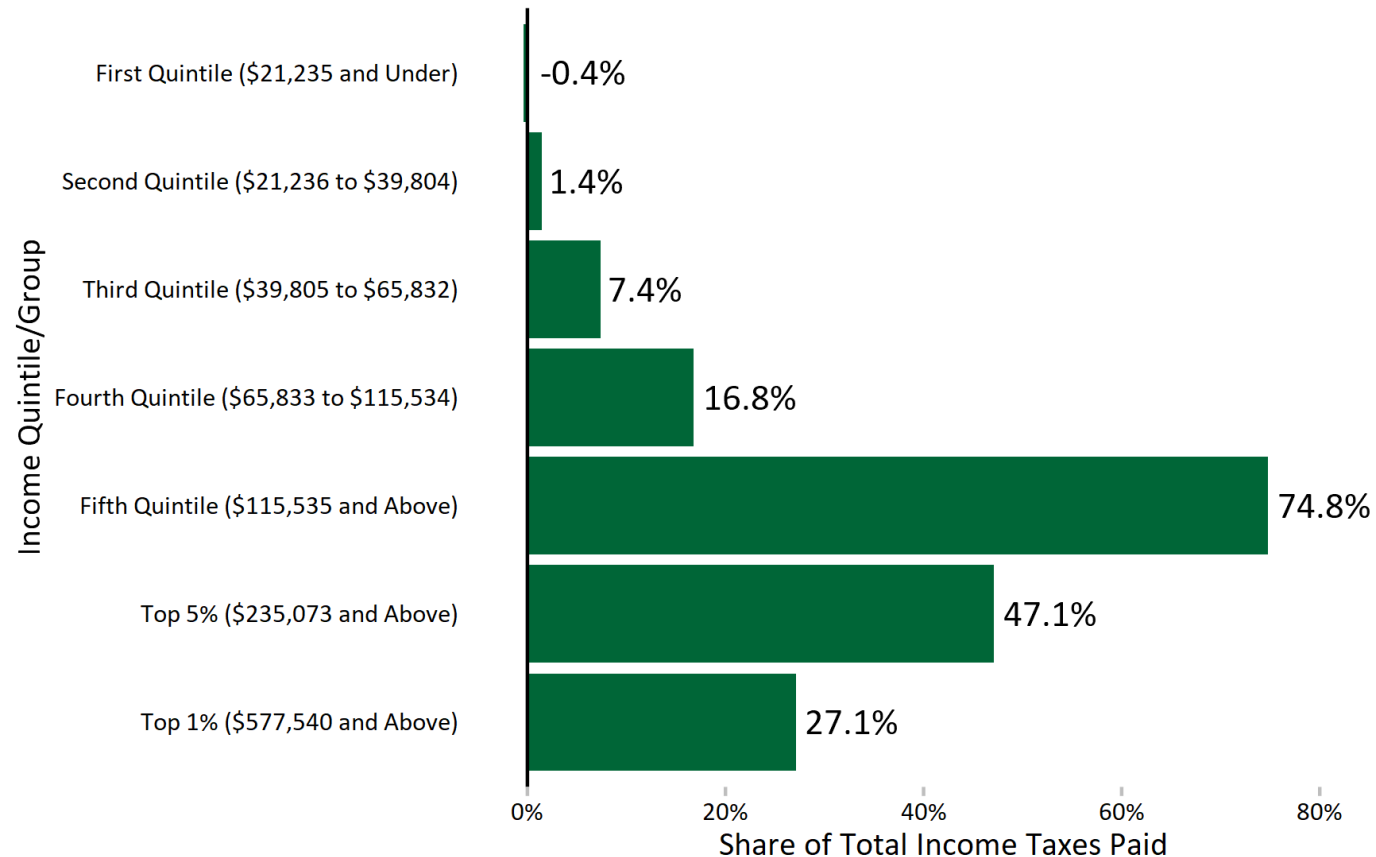
Effective Income Tax Rate by Population Quintile (2018)



Source: Department of Revenue 2021 Tax Incidence Study.  
Graphic by MN House Research/Fiscal.

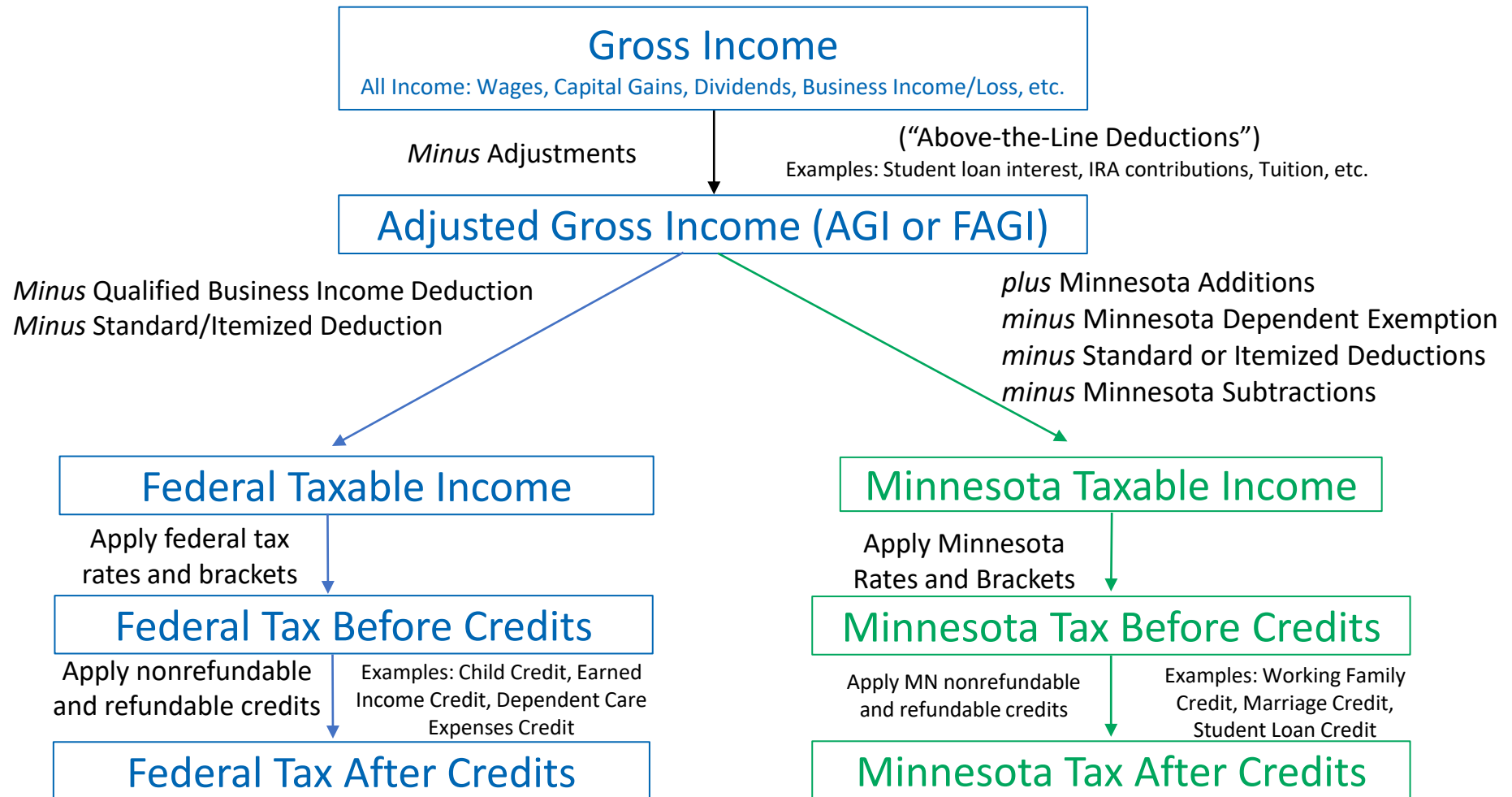
# Income Tax is Progressive

Share of Total Income Tax Paid by Population Quintile (2018)



Source: Department of Revenue 2021 Tax Incidence Study.  
Graphic by MN House Research/Fiscal.

# Federal-State Tax Relationship



# Income Tax Base: Minnesota Taxable Income

Federal Adjusted Gross Income (FAGI)

+ Minnesota Additions

- Minnesota Dependent Exemption

- Standard or Itemized Deductions

- Other Minnesota Subtractions

---

= Minnesota Taxable Income (MTI)

# Rates and Brackets (Tax Year 2023)

Married Joint	Single	Head of Household	Rate
\$0 to \$43,950	\$0 to \$30,070	\$0 to \$37,010	5.35%
\$43,950 to \$174,610	\$30,070 to \$98,760	\$37,010 to \$148,730	6.80%
\$174,610 to \$304,970	\$98,760 to \$183,340	\$148,730 to \$243,720	7.85%
\$304,970 and above	\$183,340 and above	\$243,270 and above	9.85%

## Standard Deduction (TY 23)

Married Joint	Single	Head of Household
\$27,650	\$13,825	\$20,800

## Dependent Exemption (TY 23)

All filing statuses
\$4,800 per dependent

# Example Calculation

Family of 3, \$75,000 of wage income with student loan and child care expenses, Tax Year 2023

Calculation Step	Item	Amount
<b>Gross Income</b>	<b>Wages</b>	<b>\$75,000</b>
- Adjustments (above-the-line)	Student loan interest	-2,500
<b>Adjusted Gross Income (Federal Return)</b>		<b>\$72,500</b>
-Minnesota Subtractions	K-12 Expense Subtraction	-1,625
-MN Standard Deduction (or itemized)		-27,650
-MN Dependent Exemption	1 Child	-4,800
+Minnesota Additions		0
<b>Minnesota Taxable Income (Tax Base)</b>		<b>\$38,425</b>
<b>Minnesota Tax before credits</b>		<b>\$2,056</b>
-Nonrefundable Credits	Student loan credit	-500
<b>Minnesota Tax before refundable credits</b>		<b>\$1,556</b>
-Refundable Credits	Dependent Care Credit	-600
<b>Net Minnesota Tax Liability</b>		<b>\$956</b>

# Tax Expenditures

---

**Tax Expenditures:** “Spending through the tax code.”

- 270.11, subd. 6: “a tax provision which provides a gross income definition, deduction, exemption, credit, or rate for certain persons, types of income, transactions, or property that results in reduced tax revenue, but excludes provisions used to mitigate tax pyramiding.”

**Tax Expenditure Review Commission:** Established in 2021 tax bill to regularly review state’s tax expenditures. Produced a report in December 2022. Tax committee is required to hold public hearing on the report during the legislative session.

# Income Tax Expenditures

---

## **Many federal exclusions (40 in the tax expenditure report):**

- Examples: employer health insurance contributions, portion of Social Security benefits, dependent care assistance.

## **Itemized/Standard Deductions (7):**

- Additional standard deduction for the elderly, property taxes, other taxes, charitable contributions, interest (mortgage), medical expenses, casualty/theft losses.

## **Subtractions (14):**

- Examples: A portion of Social Security income, K-12 education expenses, 529 contributions, national guard/military income, cannabis business expenses, volunteer driver reimbursement, etc.

## **Credits (14):**

- Examples: Working family credit, dependent care credit, small business/angel investment, student loan credit, 529 credit, beginning farmer credits, credit for parents of stillborn children, etc.

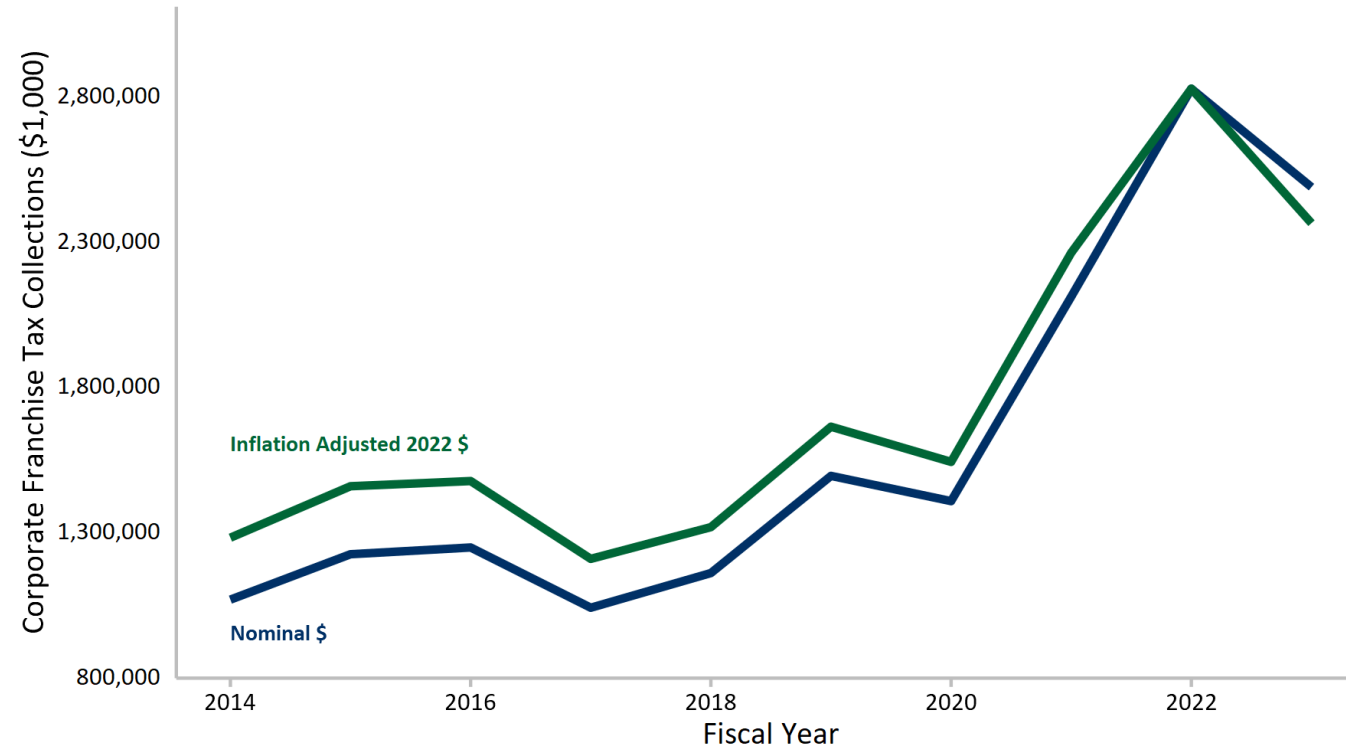
# Corporate Franchise Tax

---

# Recent Corporate Franchise Tax Collections

## FY 23 Forecast: \$2.4 billion

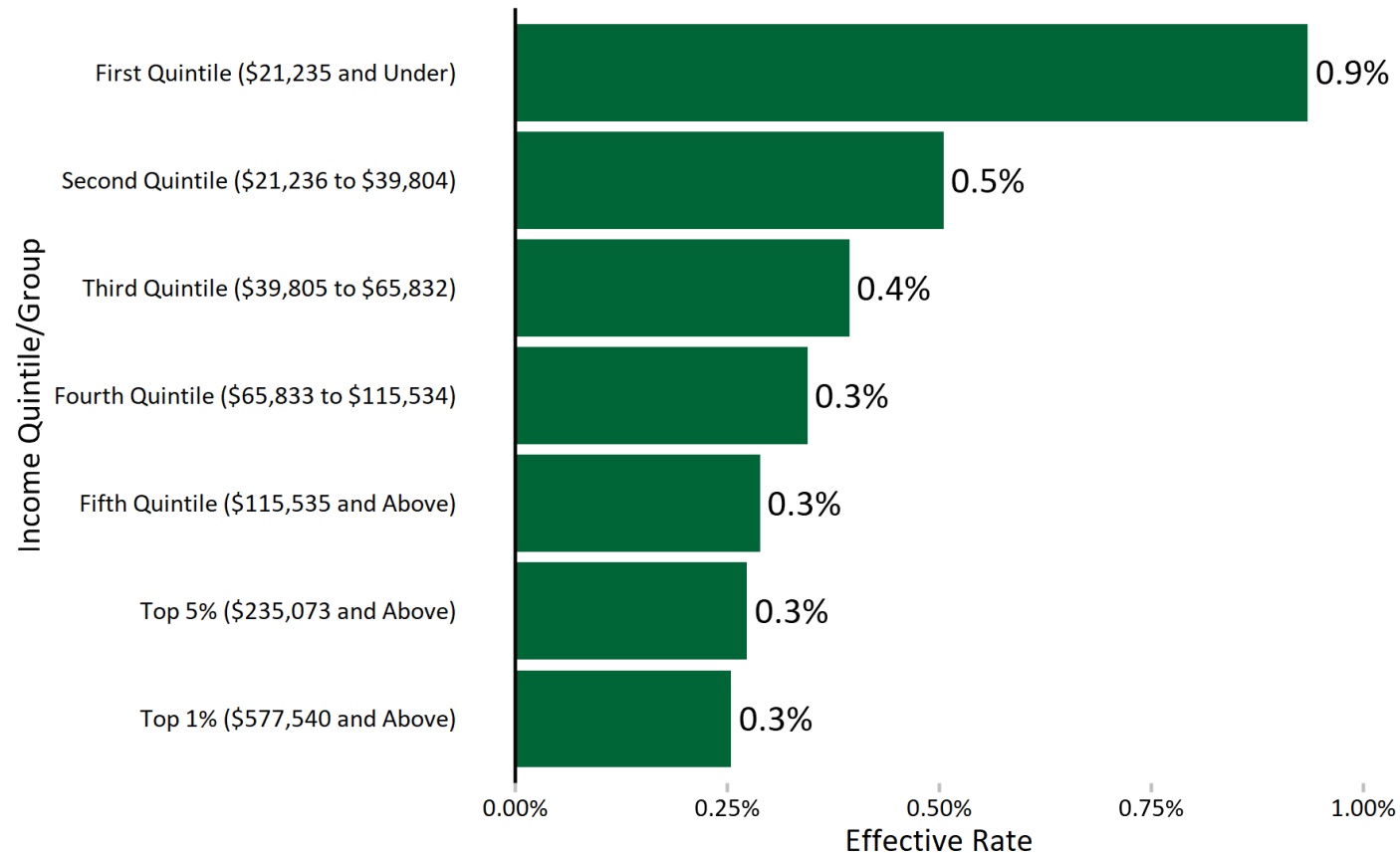
Corporate Franchise Tax Collections, FY 2014-2023



Data from Minnesota Management and Budget. Consolidated Fund Statements (Feb. 2012 - Nov. 2022).  
Amounts adjusted using the Consumer Price Index For All Urban Consumers (CPI-U). FY 21 Amounts are MMB Projections.  
Graphic by MN House Research.

# Corporate Franchise Tax is Regressive

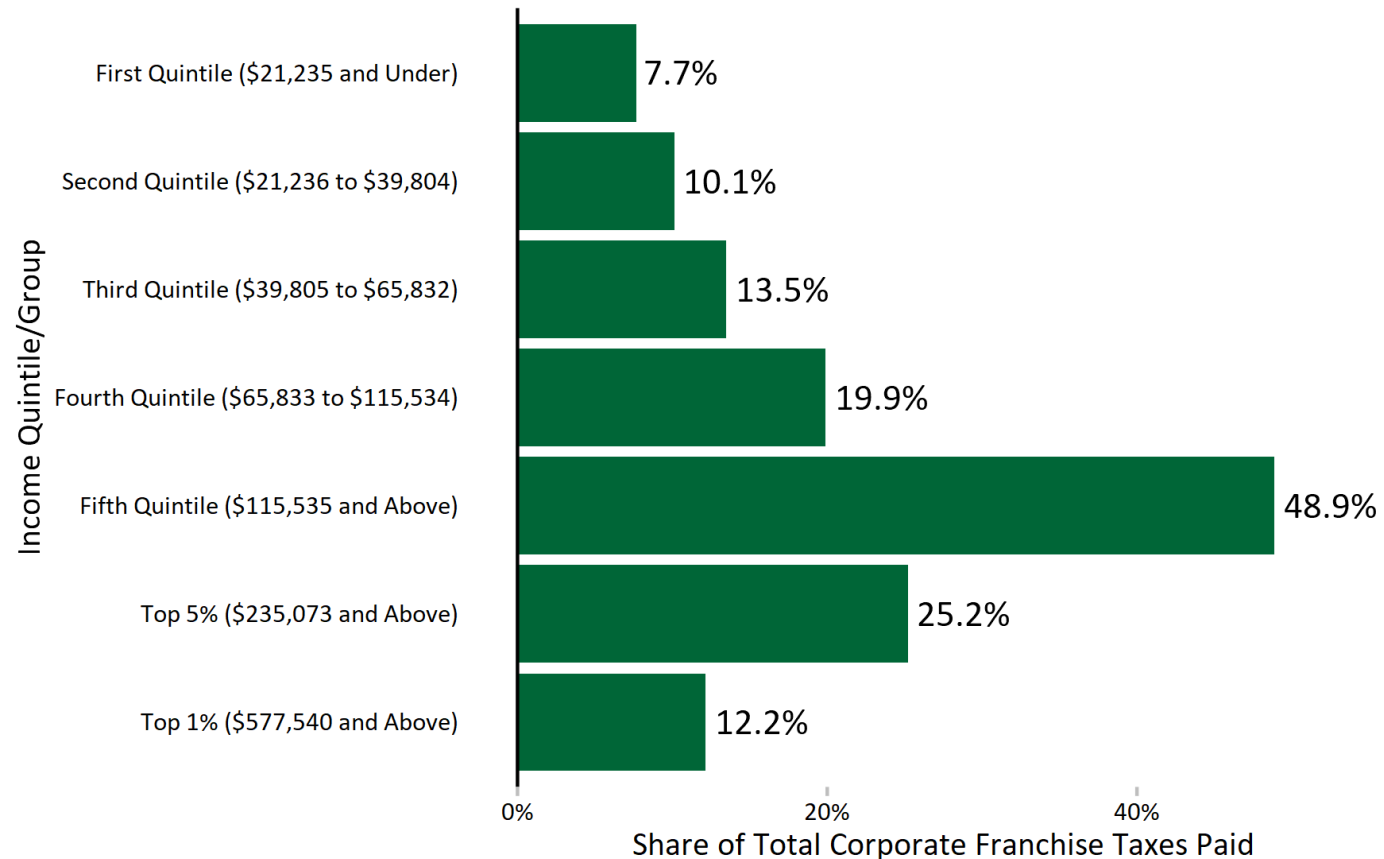
Effective Corporate Franchise Tax Rate by Population Quintile (2018)



Source: Department of Revenue 2021 Tax Incidence Study.  
Graphic by MN House Research/Fiscal.

# Corporate Franchise Tax is Regressive

Share of Corporate Franchise Tax Paid by Population Quintile (2018)



Source: Department of Revenue 2021 Tax Incidence Study.  
Graphic by MN House Research/Fiscal.

# Corporate Franchise Tax

---

## Tax Rate

- 9.8%

## Tax Base

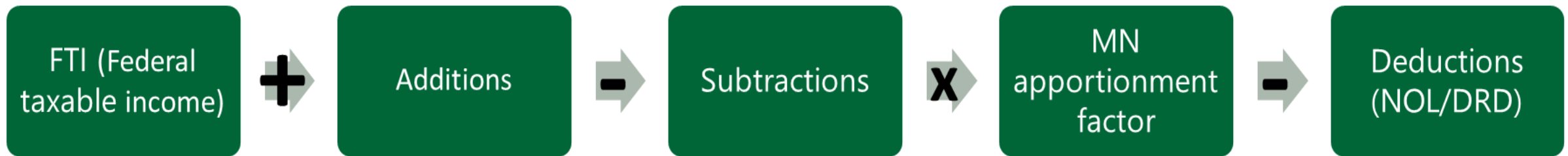
- C-corporation income

## Tax Incidence

- Paid by C-corporations
- Regressive tax

# Minnesota Taxable Income (Corporations)

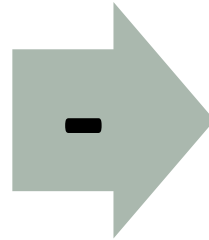
---



# Final Tax

---

MN Taxable  
Income



Credits

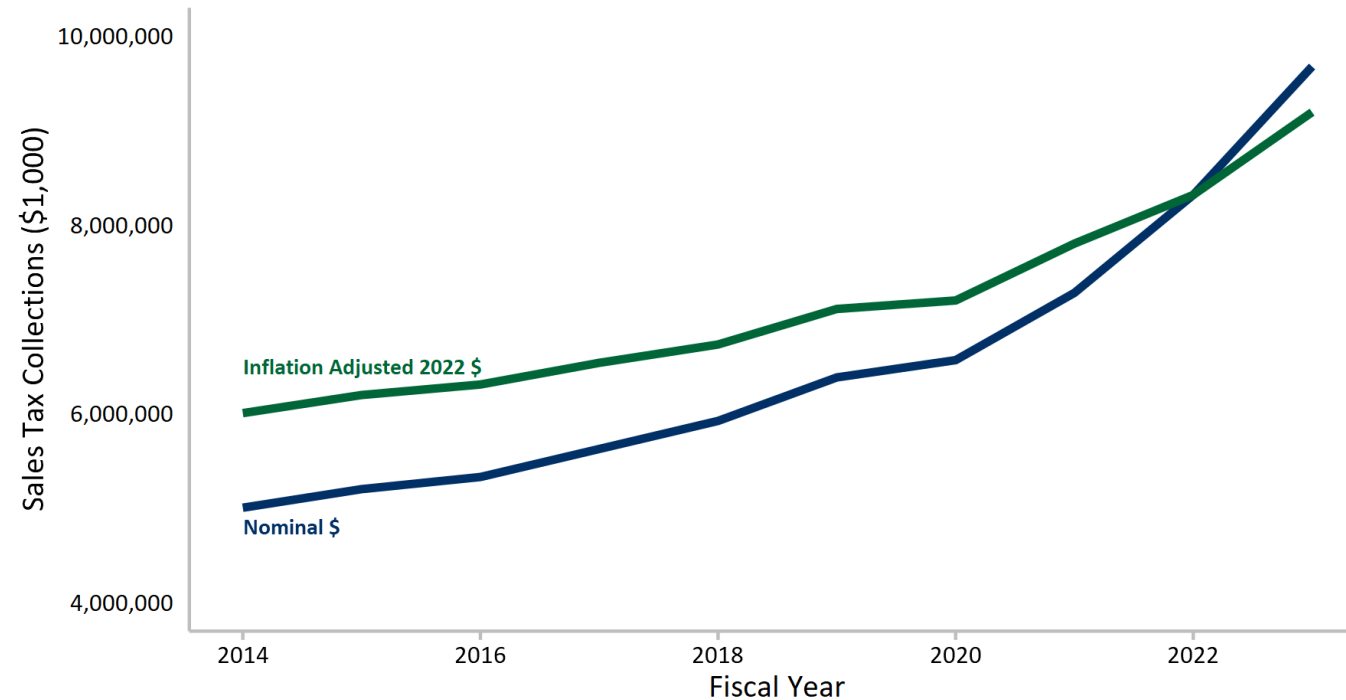
# Sales and Use Tax

---

# Recent Sales Tax Collections

## FY 23 Forecast: \$9.2 billion

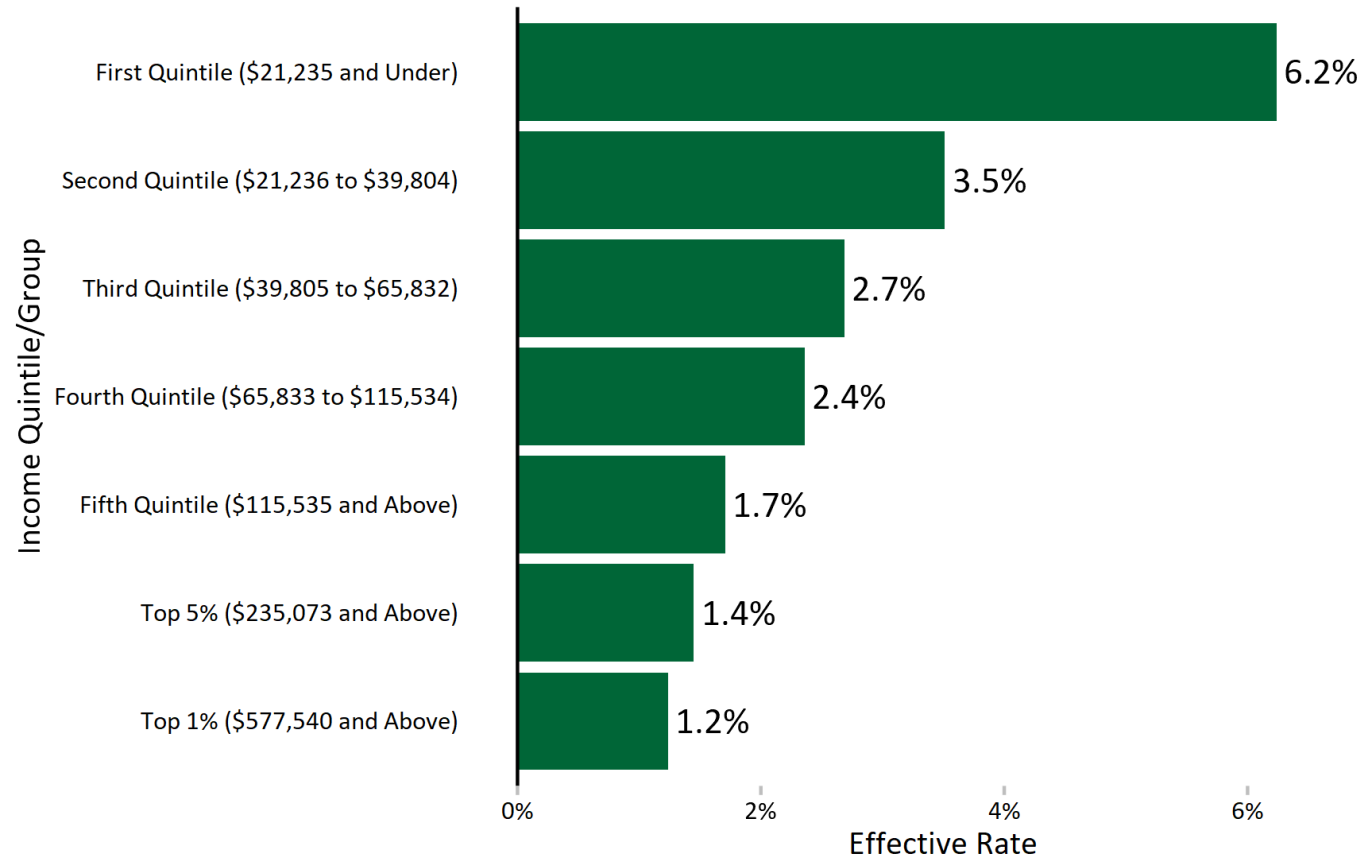
Sales and Use Tax Collections, FY 2014-2023  
All funds, including motor vehicle sales taxes.



Data from Minnesota Management and Budget. Consolidated Fund Statements (Feb. 2012 - Nov. 2022).  
Amounts adjusted using the Consumer Price Index For All Urban Consumers (CPI-U). FY 21 Amounts are MMB Projections.  
Graphic by MN House Research.

# Sales Tax is Regressive

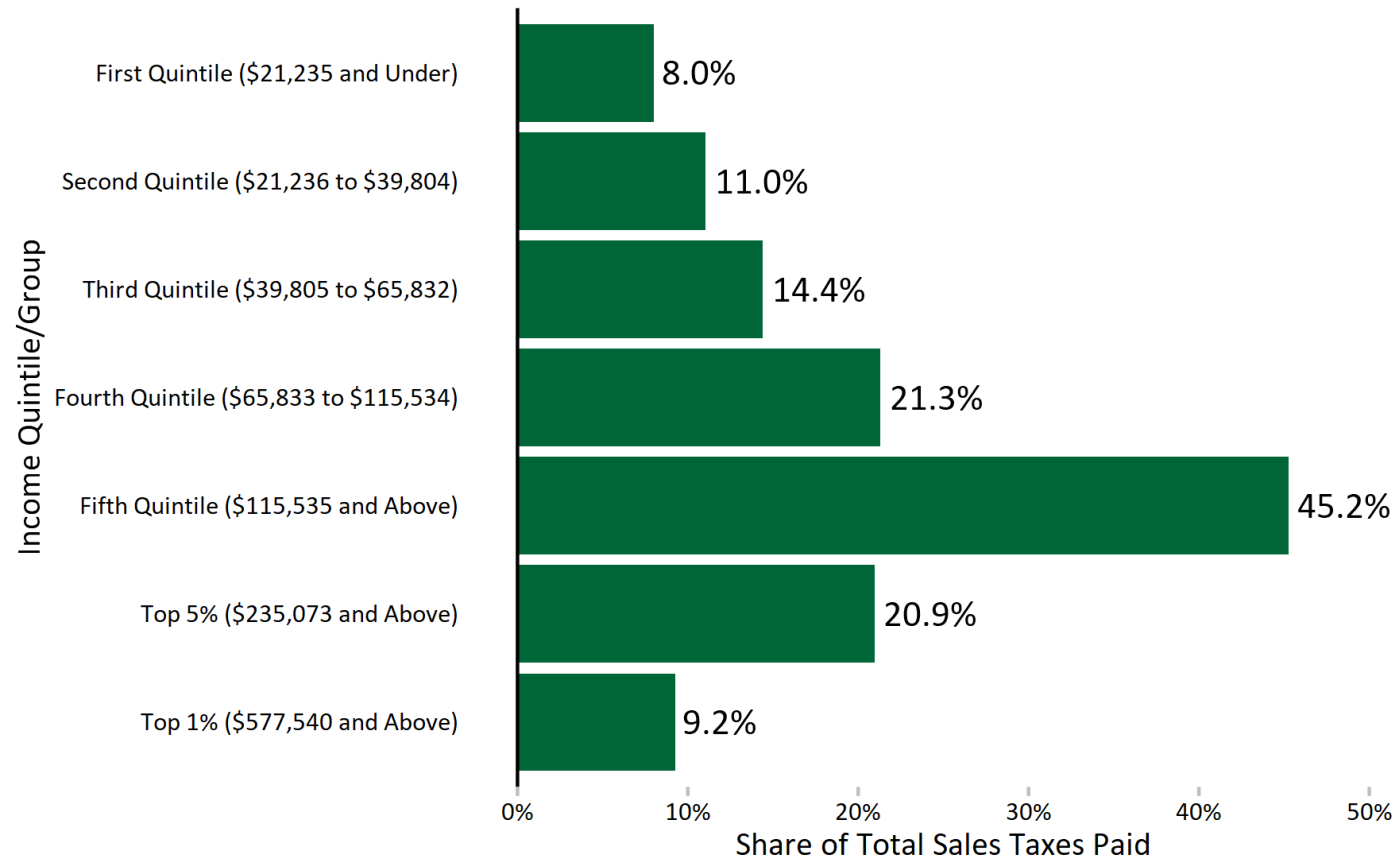
Effective Sales Tax Rate by Population Quintile (2018)



Source: Department of Revenue 2021 Tax Incidence Study.  
Graphic by MN House Research/Fiscal.

# Sales Tax is Regressive

Share of Sales Tax Paid by Population Quintile (2018)



Source: Department of Revenue 2021 Tax Incidence Study.  
Graphic by MN House Research/Fiscal.

# Sales and Use Tax

---

## Tax Rate

- **6.875%**
  - 6.5% general rate
  - 0.375% legacy amendment

## Tax Base

- Goods (tangible personal property)
- Some services

## Tax Incidence

- Paid by retailers (passed onto consumers)
- Regressive tax

# Major Exemptions

---

## For Individuals

- Food
- Clothing
- Home heating fuels
- Drugs for human consumption
- Newspaper & magazine subscriptions
- Cigarettes (in lieu sales tax)

## For Businesses/Entities

- Capital equipment
- Farm machinery
- Certain direct inputs to agricultural and industrial production
- Certain purchases by data centers

## Others

- Most sales to federal and local governments
- Many sales to nonprofit charitable, religious, educational, and youth organizations
- Certain sales by nonprofits

# Sales Tax and Remote Sales

---

- *South Dakota v. Wayfair* (2018) allows states to require remote sellers to collect sales taxes if economic nexus is established
  - No physical presence required
  - Economic nexus – 200 transactions or \$100,000 in sales in a year
- Minnesota is a member of the SSUTA
  - Provides facilitation of tax collection
  - Restricts certain legislative actions

# Local Sales Taxes

## Local Option Sales Taxes (LOST)

- Projects with regional significance
- Resolution and proposals due to committee leads by Jan. 31
- Legislative approval
- Voter approval


## County Transportation Sales Taxes

- 0.25% - 0.50%
- Used for transportation projects
- Voter approval not required

## Special Local Taxes

- Lodging taxes
- Food and beverage taxes
- Entertainment taxes

# Example Receipt

	Beanie with Pom - Heathered Charcoal	1	\$21
	Toddler		
	\$21		
	***Ava Top + Bottoms***	1	\$22
	6-12 Month		
	\$22		

# Example Receipt

---

Subtotal	\$43
Discount (SCRATCHOFF)	-\$0
Shipping (Standard Shipping under 1lb (5-10 days once shipped))	\$3.69
Tax (Minnesota State Tax 6.875%)	\$0.25
Tax (Ramsey County Tax 0.5%)	\$0.02
Tax (St. Paul City Tax 0.5%)	\$0.02
TOTAL	\$ 4 6 . 9 8

# Estate Tax

---

# Estate Tax

---

## Tax Rate

- 13% - 16%

## Tax Base

- Market value of estate MINUS
  - Charitable bequests
  - Transfers to surviving spouse

## Tax Incidence

- Paid by decedent's estate
- Progressive tax

# Minnesota Estate Tax

---



# State General Property Tax

---

# State General Property Tax

---

- Levy is \$758.7 million for CY 2023
  - \$717 million applies to commercial-industrial (C/I)
  - \$42 million applies to season-recreational
- 2021 Tax Bill
  - Exempted first \$150,000 C/I value
  - Reduced C/I portion of levy by \$20.1 million
- 2019 Tax Bill
  - Reduced overall levy by \$50 million
- 2017 Tax Bill
  - Eliminated annual inflationary increase
  - Exempted first \$100,000 C/I value

# Other State Taxes

---

# Other State Taxes

Cigarettes and Small Cigars	Tobacco Products	Alcoholic Beverages	Lawful Gambling
<ul style="list-style-type: none"><li>• \$3.04/pack +</li><li>• \$0.63 in lieu sales tax</li></ul>	<ul style="list-style-type: none"><li>• 95% wholesale price</li></ul>	<ul style="list-style-type: none"><li>• \$5.03/gallon distilled spirits</li><li>• \$0.30/gallon wine</li><li>• \$0.15/gallon beer</li><li>• \$0.08/gallon 3.2 beer</li><li>• 2.5% gross receipts tax</li></ul>	<ul style="list-style-type: none"><li>• 8.5% net receipts of bingo, raffles, and paddlewheels</li><li>• 9% - 36% net receipts of pull tabs, tipboards, and e-bingo</li></ul>

# Other State Taxes

---

## Mortgage Registry Tax

- 0.23% of principal debt

## Deed Transfer Tax

- 0.33% of consideration

## MinnesotaCare Taxes

- 1.8% gross revenue of health care providers

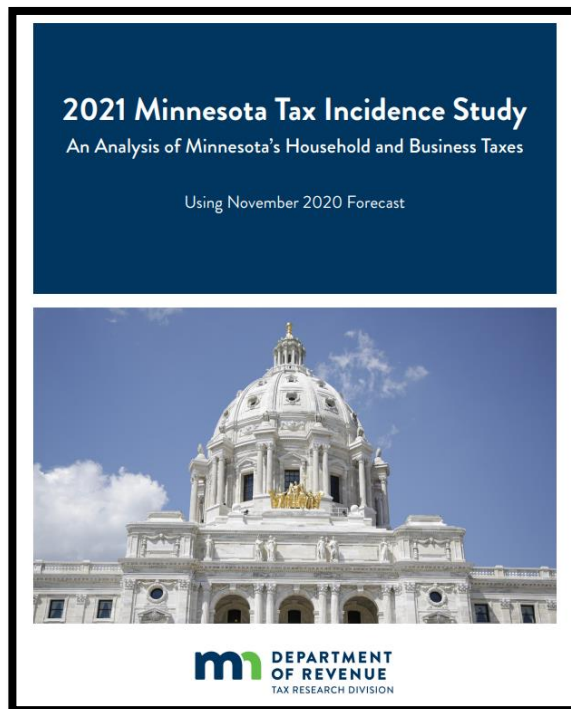
## Insurance Premium Tax

- 2% of gross premiums
- 1.5% for life insurance
- 1% for HMOs

# Reports and Studies

## Tax Incidence Study (1995-2021)

- <https://www.revenue.state.mn.us/tax-incidence-studies>



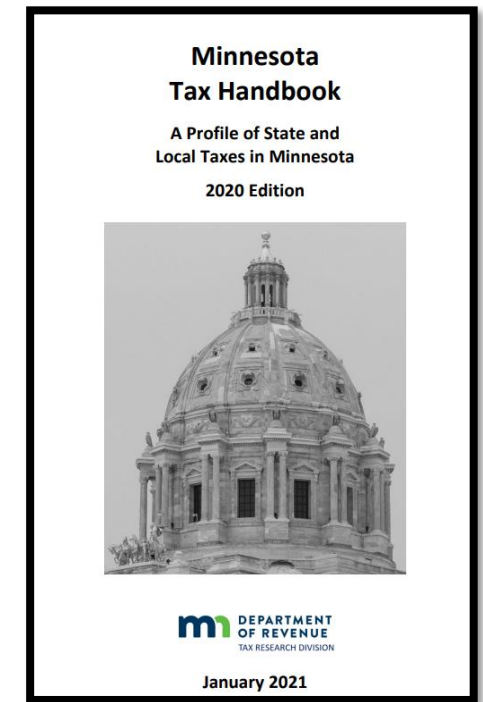
## Tax Expenditure Review (2004-2022)

- <https://www.revenue.state.mn.us/tax-expenditure-reports>



## Minnesota Tax Handbook (2000-2022)

- <https://www.revenue.state.mn.us/minnesota-tax-handbooks>



# Questions?

---



Minnesota House Research Department provides nonpartisan legislative, legal, and information services to the Minnesota House of Representatives.

[www.house.mn/hrd](http://www.house.mn/hrd) | 651-296-6753 | State Office Building | St. Paul, MN 55155