

2024 Minnesota Tax Incidence Study

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- Overview of the Study
- Summary of Results for 2021
- Comparisons to Previous Study
- Impacts of 2023 Law Changes
- Comparison with other states

Overview of the Study

1. Includes all Minnesota state and local taxes

All Minnesota state and local taxes

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

But not all taxes Minnesotans pay

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

Business Taxes

Taxes on Business	\$ Millions	Percent
Business Property Taxes (includes rental property)	5,717	43%
Sales Tax & Motor Vehicle Sales Tax	3,989	30%
Corporate Franchise Tax	2,637	20%
Motor Fuels Tax	291	2%
Local Gross Earnings Taxes	186	1%
Vehicle Registration Tax	155	1%
Mortgage & Deed Taxes	117	1%
Insurance Premiums Tax	113	1%
Solid Waste Taxes	55	<1%
Total Business Taxes	13,260	

Taxes on Individuals

Taxes on Individuals	\$ Millions	Percent
Individual Income Tax	15,488	54%
Homeowner and Cabin Property Taxes	4,945	17%
Sales Tax & Motor Vehicle Sales Tax	4,618	16%
Vehicle Registration Tax	684	2%
MNCare Provider Taxes	657	2%
Cigarette & Tobacco Taxes	623	2%
Insurance Premiums Tax	482	2%
Motor Fuels Tax	583	2%
Estate Tax	212	1%
Other Taxes (see Table 2-1)	426	1%
Total Individual Taxes	28,718	

Business tax incidence (see pp. 86-96)

Estimate how much of each tax is:

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

Varies by type of business

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

Exported tax burden

Estimates that 15% percent of Minnesota state and local taxes are “exported” to non-residents.

2. Not limited to income tax filers

- 12.8% of households do not file income tax returns. (10.5% file neither PTR nor income tax)
 - Many non-filers are (low-income) seniors
- Sample includes detailed income and tax information for each of 138,970 households in 2021. **(See pp. 76-79)**
 - Data on household income, income tax, homeowner property tax, PTR, and motor vehicle registration tax (“hard match”)
 - Estimated burdens for each of the other taxes

- Sample of 138,970 households is weighted to represent 2.94 million households in 2021
- Divided into 10 groups (“deciles”) each with 293,739 households
 - Lowest-income 293,739 in 1st decile
 - Incomes less than \$15,544
 - Highest-income 293,739 in 10th decile
 - Incomes \$183,476 or more
- Warning: Definition of “household” differs from Census (**see p.82**)

4. Uses a broad measure of income

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

(See pp. 80-82)

- Federal Gross Income (**may be negative!**)
- Nontaxable Social Security and pension income
- Nontaxable interest income
- Workers' compensation cash payments
- Cash MFIP payments
- Voluntary contributions to deferred compensation
- Federal Economic Impact Payments made in 2021

- However ... income does not include:

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

Results for 2021

Effective Tax Rate (ETR) by Decile for 2021

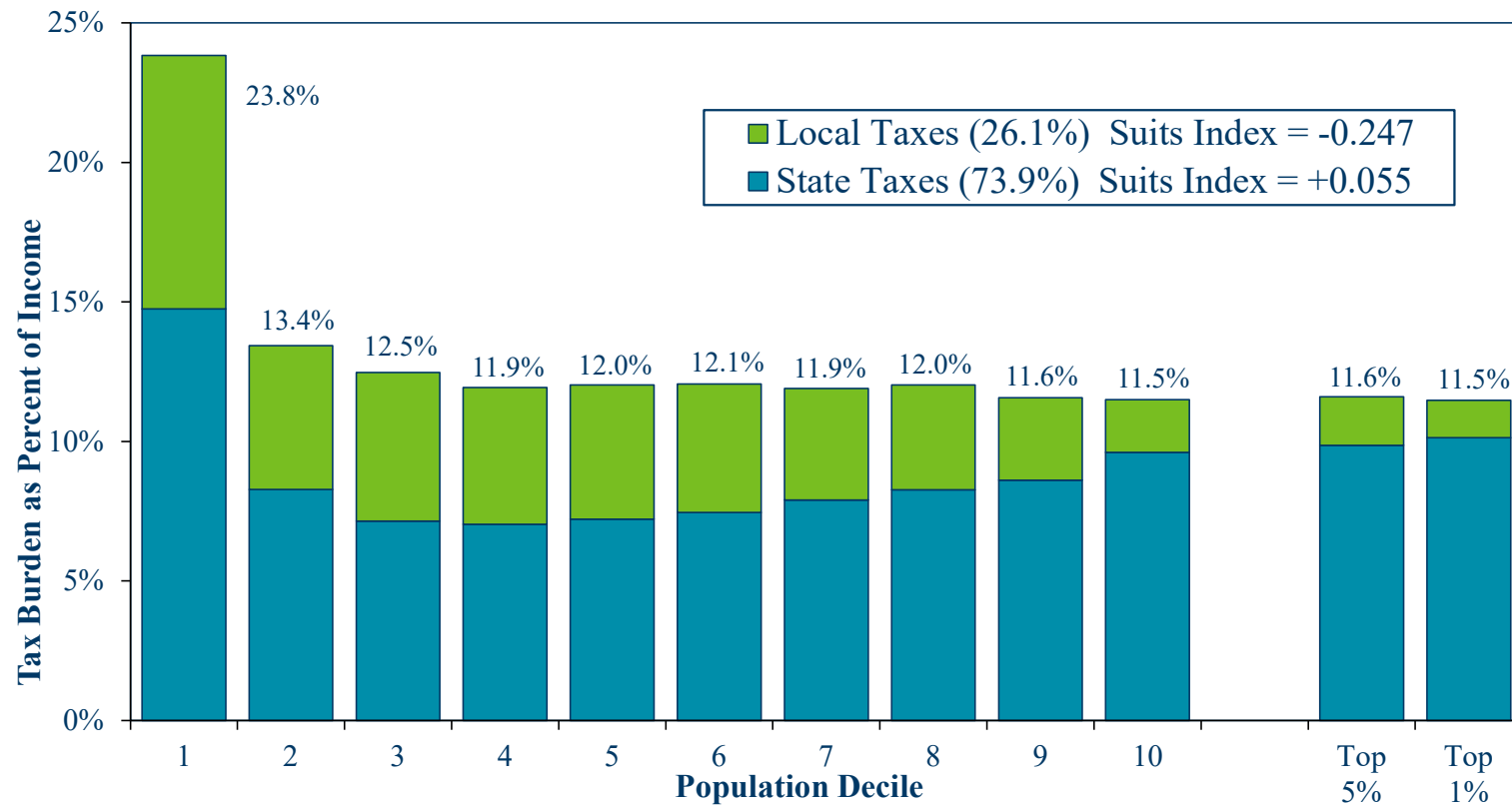


Figure 2-2
Page 26

First Decile Caution

- ETR = 23.8%, far higher than other deciles (See p. 26)
- Tax burden over-estimated for several reasons
 - Some temporarily low income (e.g., business losses)
 - 6,944 households with negative incomes averaging -\$149,000
 - If these households are removed, first decile ETR would drop from 23.8% to 20.1%
 - Income understated in sample as well as in the Consumer Expenditure Survey (used to estimate burden of consumer taxes)
 - In-kind income excluded

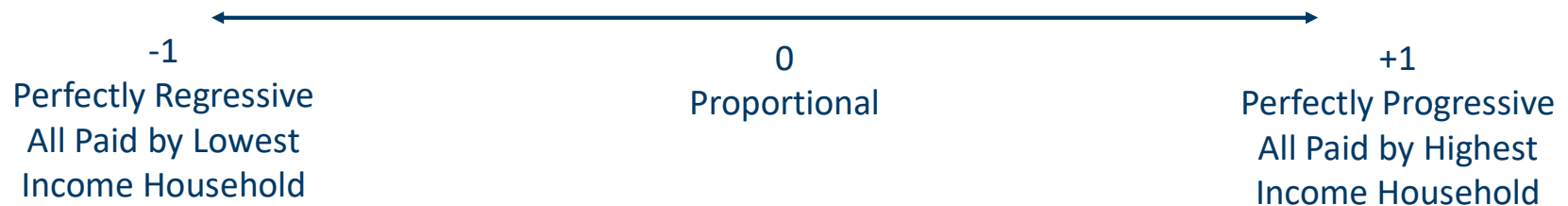
Progressive or Regressive?

Progressive – ETR rises with income

Regressive – ETR falls with income

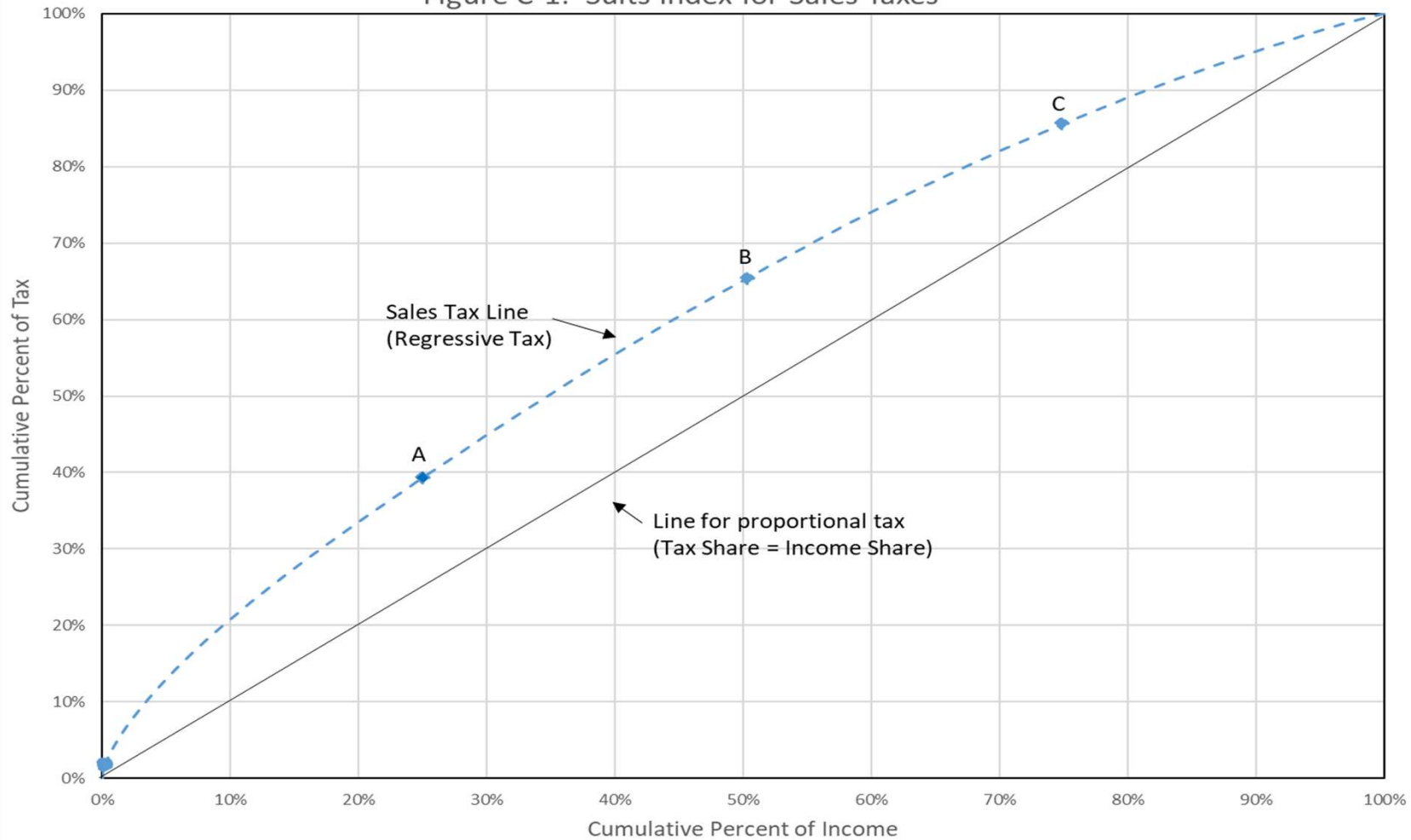
Proportional – ETR same at all incomes

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

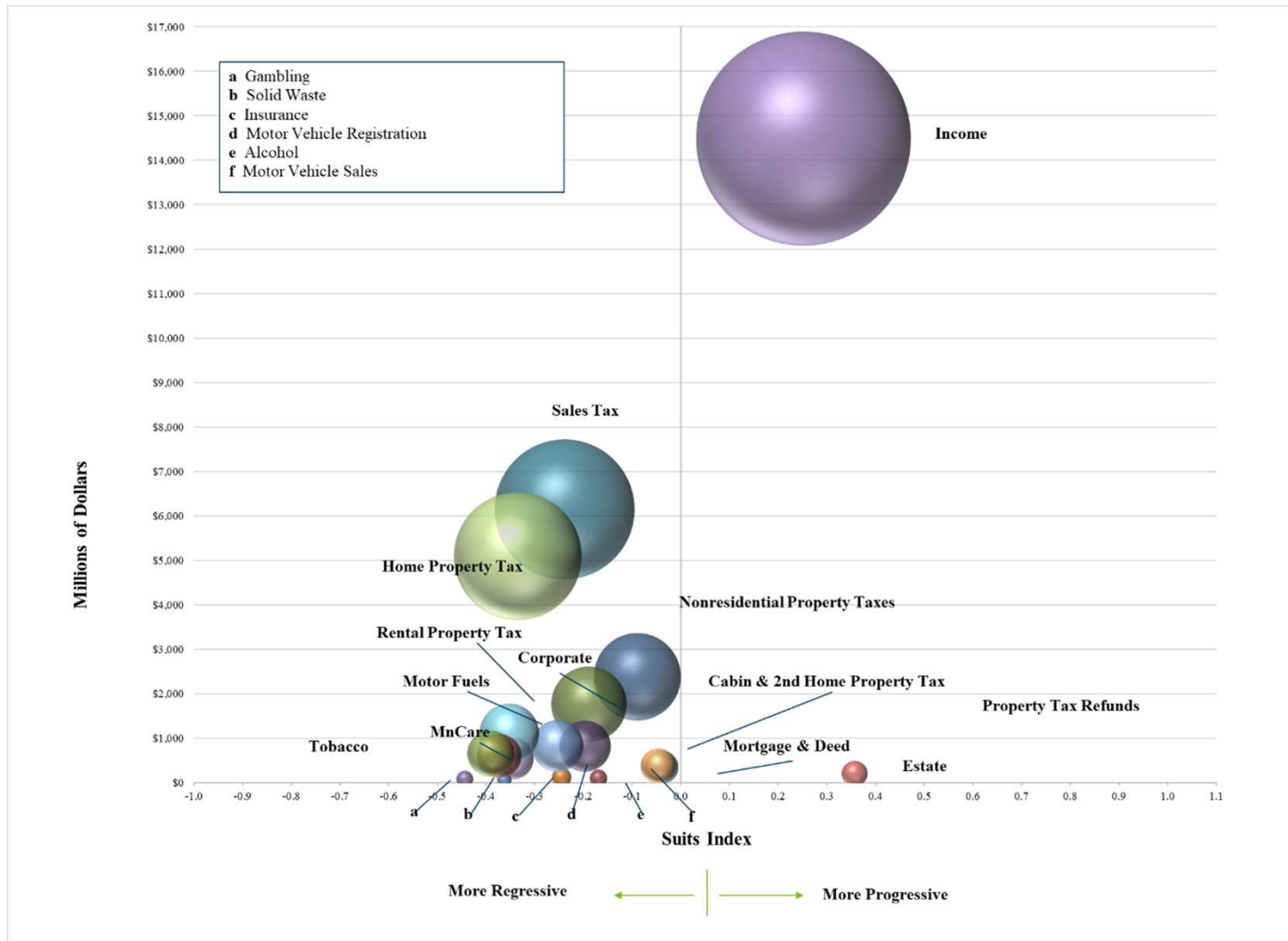


2021 All Taxes Suits Index = - 0.024 (moderately regressive)

Figure C-1. Suits Index for Sales Taxes

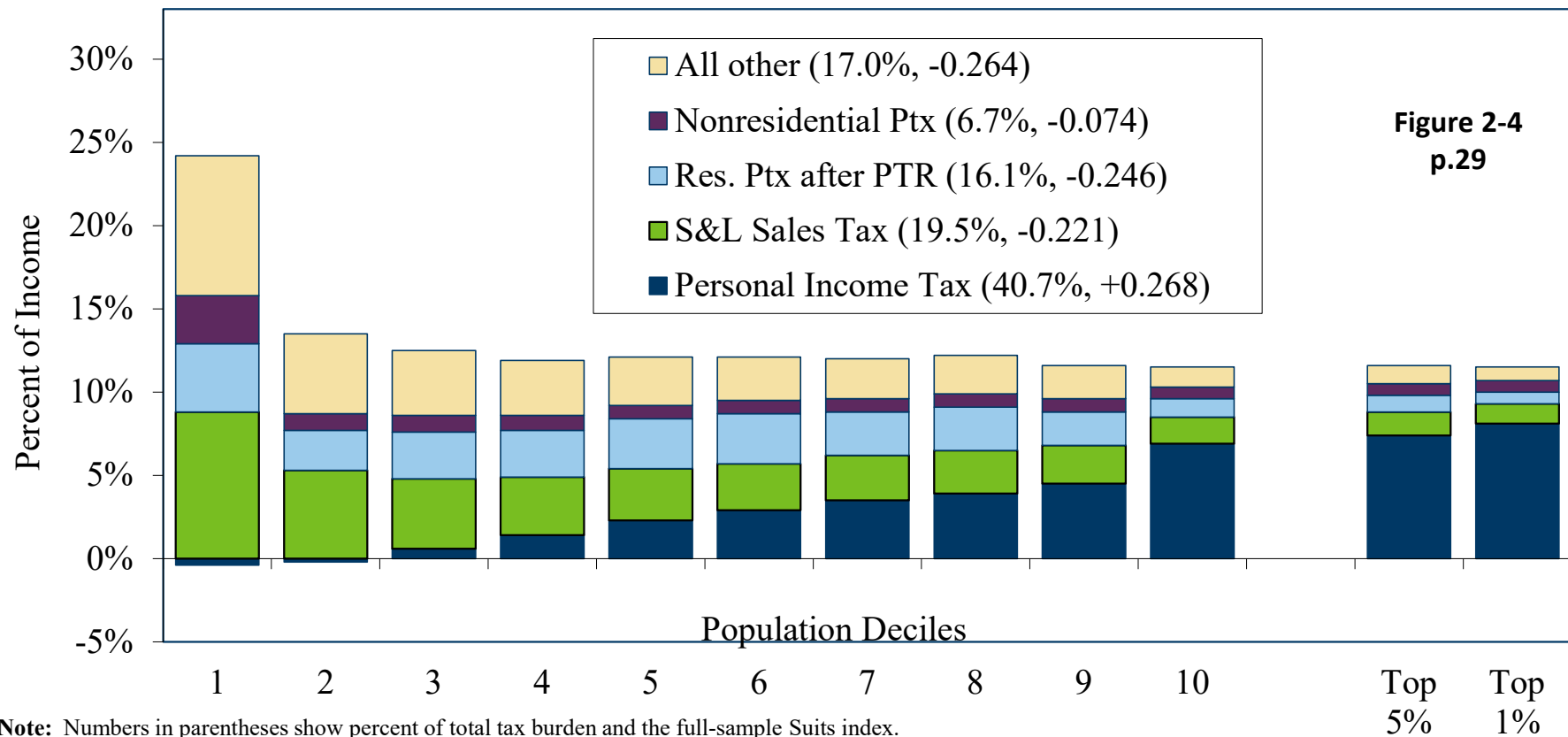


Appendix C
pp. 98-99



**Figure
2-5 p.35**

2021 Tax Burdens by Tax Type



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

Effective Tax Rates, All Minnesota Taxes

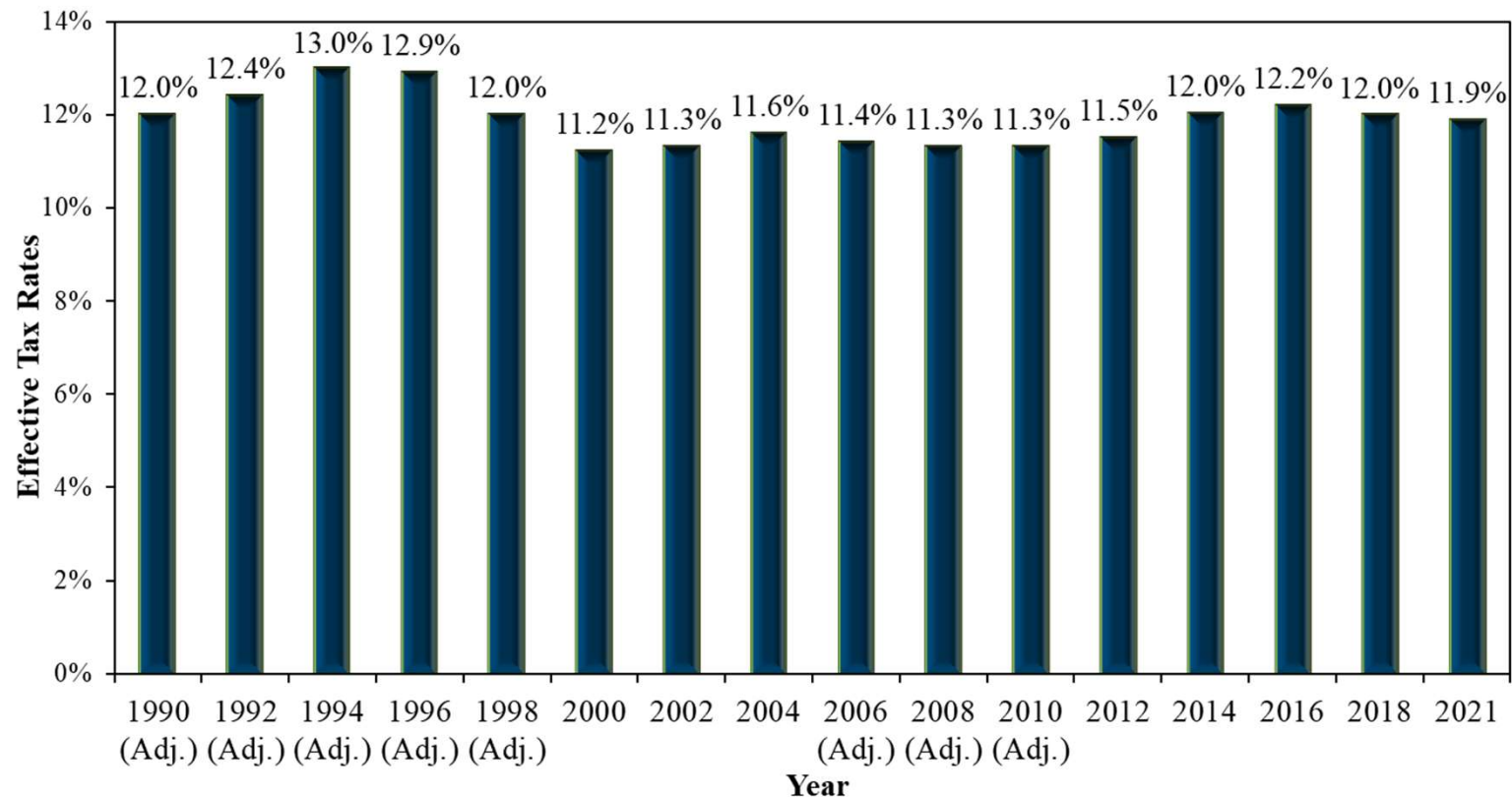


Figure 1-7
p. 15

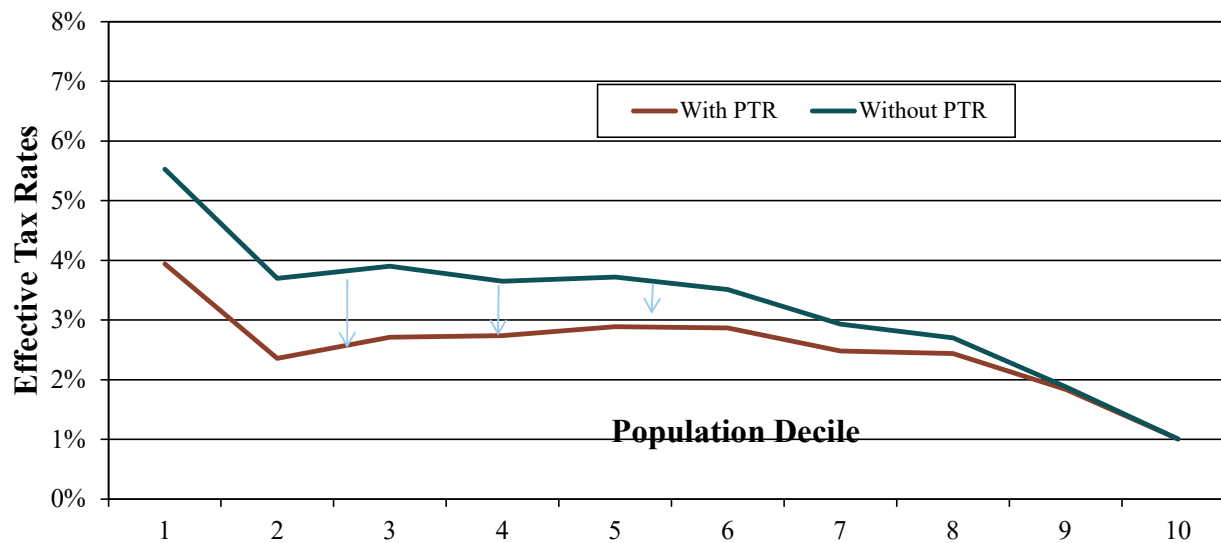
Impact of Refundable Income Tax Credits

Population Decile	Household Income	Effective Tax Rates (Income Tax)		
		With Credits	Change If No Credits	Without Credits
First	\$15,544 & Under	-0.4%	+0.8%	0.4%
Second	\$15,545 - \$24,961	-0.2%	+0.7%	0.5%
Third	\$24,962 - \$35,168	0.6%	+0.7%	1.3%
Fourth	\$35,169 - \$45,808	1.4%	+0.6%	2.0%
Fifth	\$45,809 - \$58,014	2.3%	+0.3%	2.5%
Sixth	\$58,015 - \$73,668	2.9%	+0.1%	3.0%
Seventh	\$73,669 - \$95,360	3.5%	+0.0%	3.5%
Eighth	\$95,361 - \$127,780	3.9%	+0.0%	3.9%
Ninth	\$127,781 - \$183,475	4.5%	+0.0%	4.5%
Tenth	\$183,476 & Over	6.9%	+0.0%	6.9%
Total		4.8%	+0.1%	4.9%

Table 4-6
p. 53

Impact of Property Tax Refund

Figure 4-4
p. 54



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

Alternative Presentation: Income Deciles

Population Deciles		
Decile	Percent of Households	Percent of Income
1	10%	1%
2	10%	2%
3	10%	3%
4	10%	4%
5	10%	5%
6	10%	6%
7	10%	8%
8	10%	11%
9	10%	15%
10	10%	45%

Top 5%	5%	34%
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More detail at lower incomes

Income Deciles		
Decile	Percent of Households	Percent of Income
1	42%	10%
2	18%	10%
3	12%	10%
4	9%	10%
5	7%	10%
6	5%	10%
7	4%	10%
8	2%	10%
9	1%	10%
10	0%	10%

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

See
pages
45-48

Income Deciles Effective Tax Rates

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth	TOTALS	Top 5%
Population Deciles	23.8%	13.4%	12.5%	11.9%	12.0%	12.1%	11.9%	12.0%	11.6%	11.5%	11.9%	11.6%
Income Deciles	13.6%	12.1%	11.9%	12.0%	11.7%	11.2%	11.3%	11.9%	11.9%	11.1%	11.9%	10.2%

Demographic Variations

See pp.
63-75

Household Type	Median Income	Effective Tax Rate	Suits Index
Married with Children	\$140,437	11.6%	-0.003
Married Couples w/o Children	\$123,489	11.6%	-0.032
Married Seniors	\$94,981	12.0%	-0.039
Single Parents	\$43,946	11.3%	+0.036
Single, non-senior	\$38,588	12.2%	-0.034
Single, senior	\$36,587	12.9%	-0.043

Comparing 2018 to 2021

Significant Pandemic Impacts to Economy in 2021

Income:

- Wage, business and investment income growth heavily weighted to top deciles
- EIP payments, unemployment income only partially offset
- Most concentrated distribution since we started the study

Consumption: Pandemic consumption patterns mean less exporting of sales and excise taxes

Tax changes: other states' changes make Minnesota corporate tax more regressive

Shares of Household Income 1992 to 2021

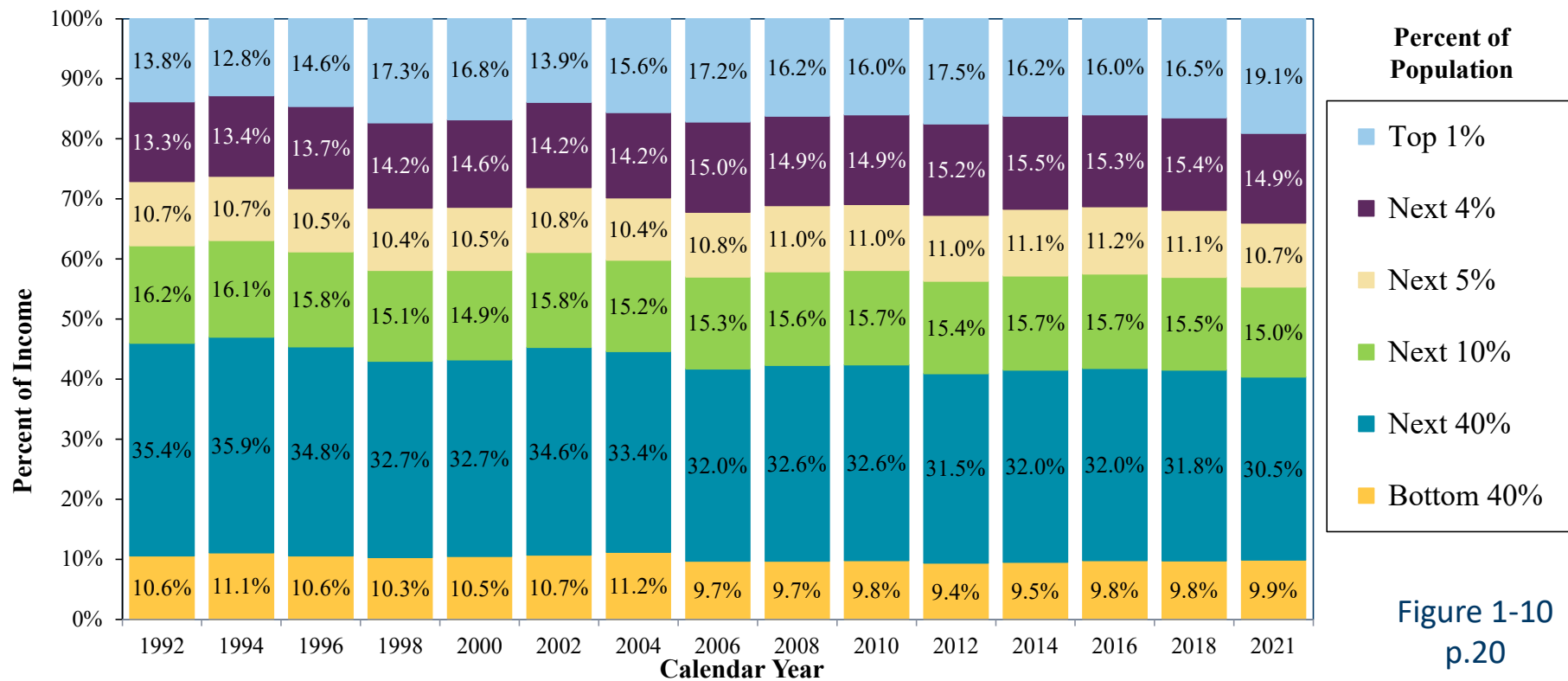


Figure 1-10
p.20

Income Changes 2018 to 2021

	2018 (\$millions)	2021 (\$millions)	3-year Change
Wages	146,385	164,147	+12%
Retirement Income	47,650	46,461	-2%
Business Income	20,001	26,441	+32%
Capital Gains and Investment	19,202	36,617	+91%
Unemployment	597	4,594	+670%
Economic Impact Payments		8,843	
Total Income	242,478	299,136	+23%

Tax Changes 2018 to 2021

	2018 (\$millions)	2021 (\$millions)	3-year Change
Individual Income Tax	12,094	15,488	+28%
Homeowner and Cabin Property Taxes	4,073	4,945	+21%
Sales Tax & Motor Vehicle Sales Tax	3,974	4,618	+16%
Other Taxes on Individuals	3,481	3,667	+5%
Business Property Taxes (incl. rental)	5,332	5,717	+7%
Sales Tax & Motor Vehicle Sales Tax	3,599	3,989	+11%
Corporate Franchise Tax	1,504	2,637	+75%
Other Taxes on Businesses	992	917	-8%
Total Taxes	35,049	41,978	20%

All Taxes Effective Tax Rate 2018 and 2021

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth	TOTALS	Top 5%	Top 1%
2018	28.9%	12.5%	11.5%	11.1%	11.5%	11.9%	12.0%	12.0%	12.0%	11.8%	12.0%	11.8%	11.5%
2021	23.8%	13.4%	12.5%	11.9%	12.0%	12.1%	11.9%	12.0%	11.6%	11.5%	11.9%	11.6%	11.5%
Change	-5.1%	+0.9%	+1.0%	+0.8%	+0.5%	+0.2%	-0.1%	0.0%	-0.4%	-0.3%	-0.1%	-0.2%	0.0%

Suits Index

- Overall Suits Index drops from -0.013 in 2018 to **-0.024** in 2021, meaning tax system is slightly more regressive in 2021
- Without the Federal Economic Impact Payments, the suits index in 2021 would have been -0.039
- Income and consumption changes from pandemic had bigger impact on suits index than any Minnesota policy changes. The suits index for state consumption taxes changed from -0.258 to -0.279.
- Corporate tax reductions in other states increased regressivity of Minnesota corporate tax, with suits index going from -0.142 in 2018 to -0.175 in 2021

Suits Indexes, All Minnesota Taxes

Figure 8
Suits Indexes, All Minnesota Taxes 1994-2021¹²

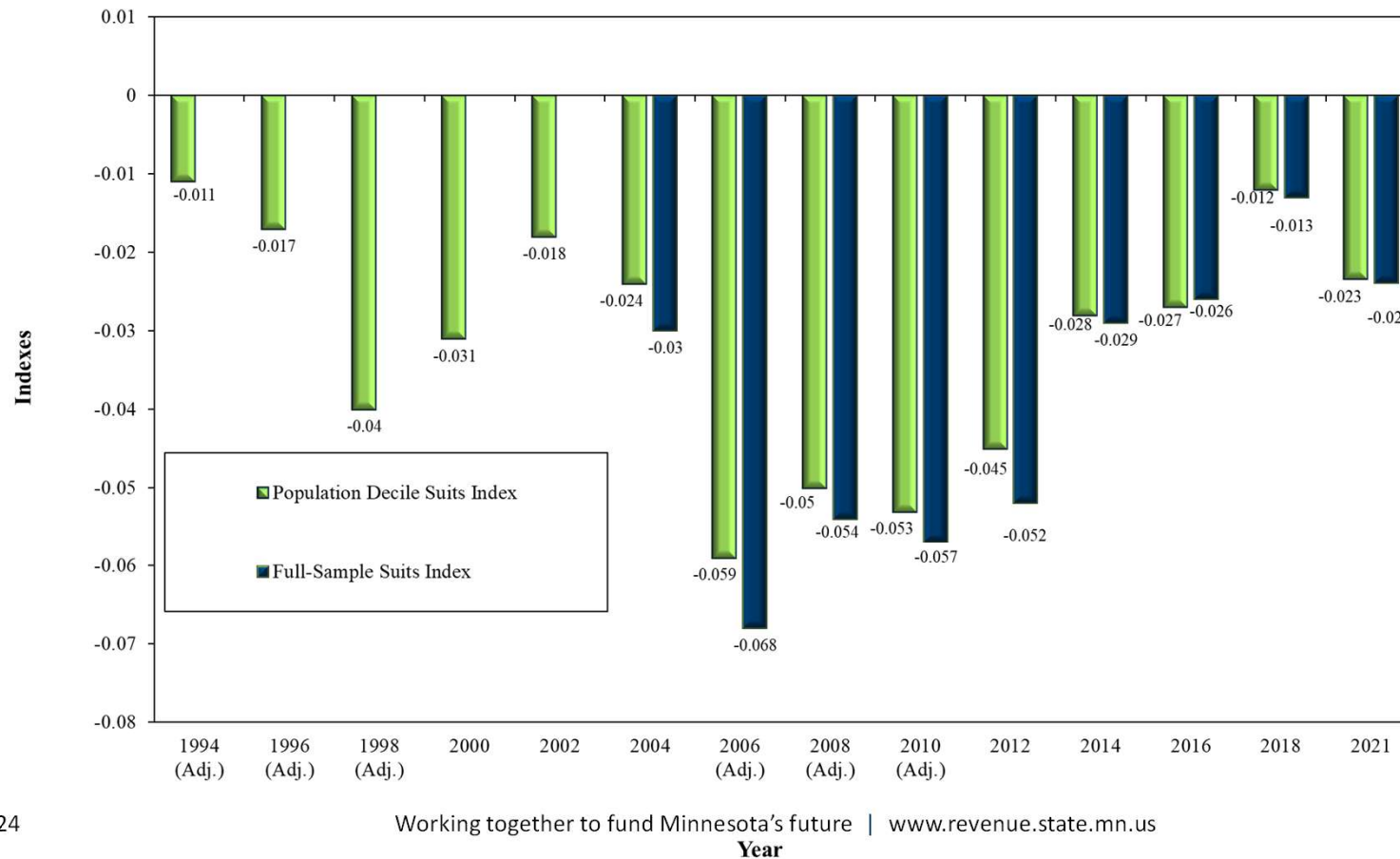


Figure 1-8
p. 17

2023 Tax Changes

2023 Tax Changes

Progressive Income Tax Changes:

- Large Child Tax Credit with low income phase out
- 1% tax on investment income over \$1 million
- Faster income phaseout of standard and itemized deductions

Regressive Corporate and Consumption Tax Changes

- Corporate tax applied to Global Intangible Income (GILTI)
- Gas Tax Indexing and Motor Vehicle Registration Tax increases
- Many new local sales taxes including 1% metro-wide sales tax

Impact of 2023 Law Changes

- Permanent tax policy changes increased state and local taxes borne by Minnesotans by \$426 million, or 1.1%
- Overall changes made system more progressive
- No projection year in this report due to unusual 2021 income distribution and consumption patterns.
- The law changes can't be projected to a 'reasonable' 2026 projection

Change in Effective Tax Rates 2018 to 2021

	First	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Tenth	TOTALS	Top 5%	Top 1%
2018	28.9%	12.5%	11.5%	11.1%	11.5%	11.9%	12.0%	12.0%	12.0%	11.8%	12.0%	11.8%	11.5%
2021	23.8%	13.4%	12.5%	11.9%	12.0%	12.1%	11.9%	12.0%	11.6%	11.5%	11.9%	11.6%	11.5%
Est. impact of 2023 tax changes	-2.7%	-1.4%	-0.8%	-0.2%	-0.0%	0.1%	0.0%	0.1%	0.3%	0.3%	0.1%	0.3%	0.4%

Comparison to Other States

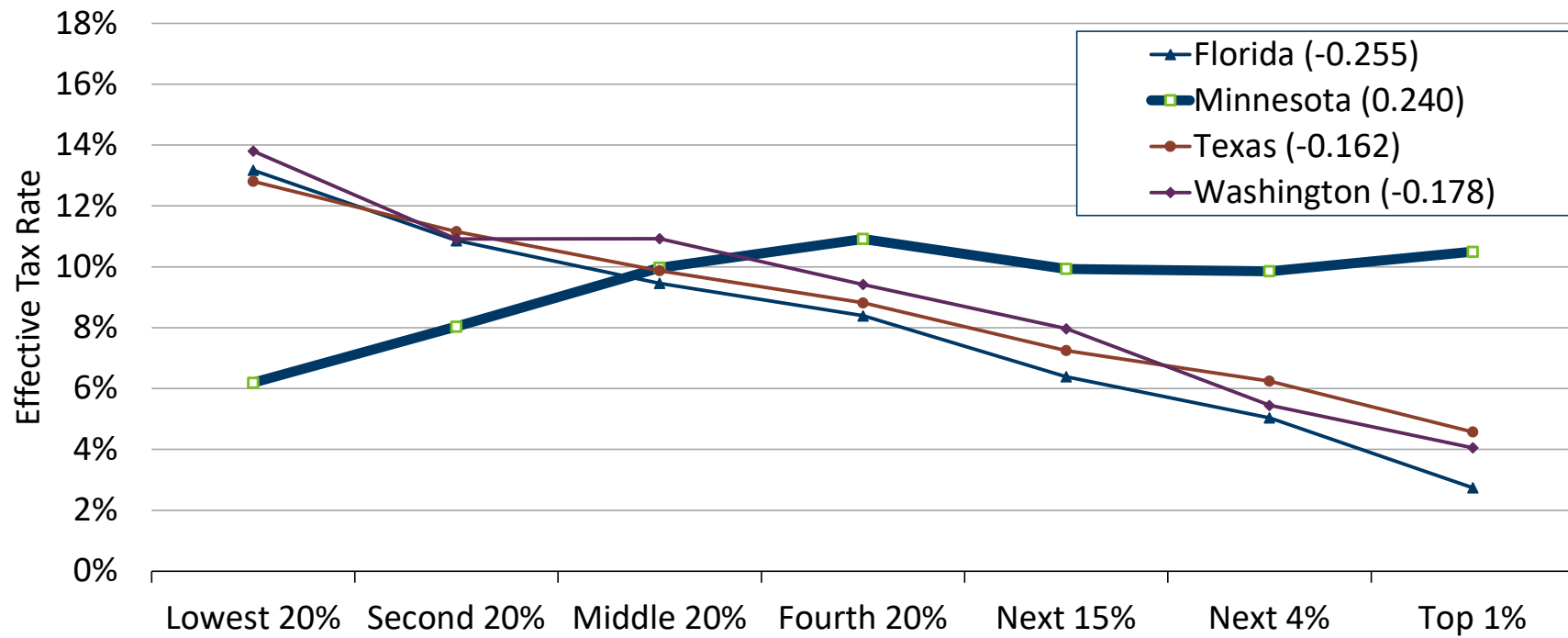
Comparison to Other States

- We compare the progressivity of Minnesota's tax system to other states
- Based on data from 2024 ITEP* Study of All 50 States
 - Methodology similar to our report, but based on more limited data
 - Limited to non-senior households
 - Does not use deciles or Suits indexes
 - Estimates ETRs for each of 7 groups in each state
- We calculate and report a "7-Point Suits Index" for each state based on their data
- Minnesota has second highest suits index after Vermont

**See pp.
58-62**

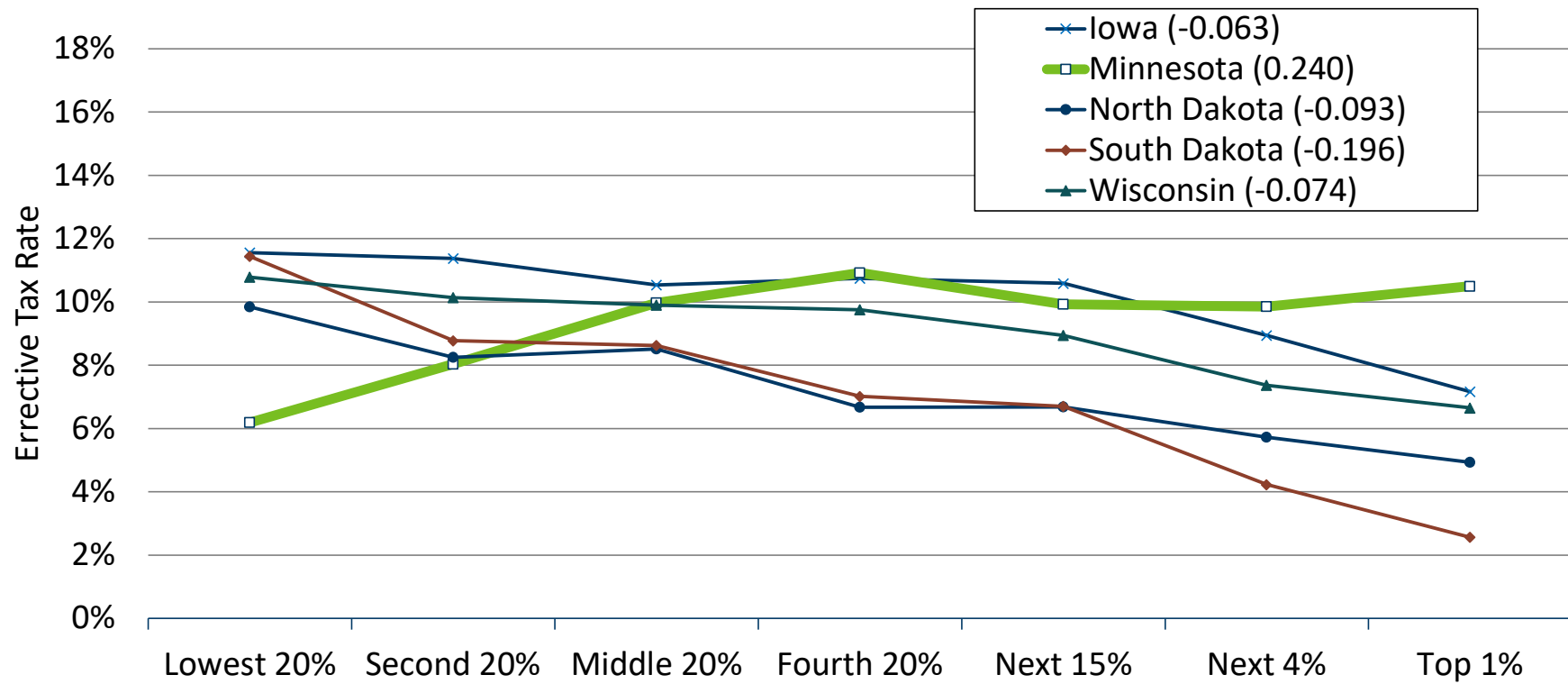
*Institute on Taxation and Economic Policy

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



Minnesota Compared to Neighboring States

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



Thank You!

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