A REVIEW OF THE STATE OF MINNESOTA'S FISCAL POLICIES BETWEEN FISCAL YEARS 1975-1987est.

Presented to

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By

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STATE OF MINNESOTA

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INTRODUCTION

The principal issue addressed in this paper is: To what extent can tax reforms be discussed and determined independent from spending policies? If the tendency is for taxes to determine the amount the state spends for public goods and services (that is, the state will spend only what it raises in revenue), then it is not unreasonable to address tax reform as a separate issue from spending, since spending policy would adjust correspondingly to changes made in the tax system. However, if the state's tax effort is influenced primarily by spending demands, then any discussion of tax reform must be conducted in the context of the state's spending policies. For example, under this latter condition, if it is determined that the level of Minnesota taxes is too high to be economically competitive with other states, then, to recommend tax cuts is also to recommend reduction in government spending.

The relationship between Minnesota taxes and spending can be seen by comparing state fiscal policy during the period spanning 1975 and 1979 with the period between 1980 and estimates through 1987.

The earlier period represented a time of relative good "fiscal health." The tax base and rates established in 1975 changed little during the period. Between 1975 and 1979 tax revenue increased, largely as a result of economic factors, at approximately the same rate as spending.

Since 1980, however, the state has experienced major fiscal problems with the General Fund expending over $900 million more than it collected between fiscal years 1980 and 1982, resulting in a fund deficit of $624 million as of June 30, 1982. Although many blame the "revenue shortfall" on the economic recession, it is also very important to be aware that the state, in 1979, indexed its personal income tax, which also suppressed revenue growth. To compound the problem, the state also tried to maintain near double-digit growth in spending during a period when the tax system could only generate revenues at a rate of 3 percent per year or less.

The magnitude of the General Fund's fiscal problems required a complex, comprehensive array of tax increases, revenue/expenditure shifts, and expenditure reductions in order to bring the state's budget back into balance by the end of fiscal year 1983. Although it appears on the surface that these fiscal policies were evenly divided between those affecting revenues and those affecting expenditures, the long-term implications clearly suggest that the solution was to bring revenues in line with spending and not vice versa.

What follows is a brief analysis of the state's fiscal policy during these two periods. Five topics are specifically addressed:

- Important policies characterizing the state's intergovernmental fiscal system.

- Trends in tax revenue controlling for growth due to economic factors as opposed to tax law changes.

- Trends in major spending areas highlighting those programs where the state exhibits its greatest commitment.

- Policy actions taken by the state to balance its 1981 and 1983 budgets.

- Discuss the importance of these policies for maintaining "fiscal stability" through 1987.

I. Minnesota's State and Local Fiscal System, One of Fiscal Interdependency.

Since 1957, Minnesota state and local finances have undergone significant changes. The most profound change is that today the state is the primary collector of tax revenue, while local governments continue to be the primary spenders (see Exhibit 1). In 1957, 49 percent of total state/local taxes in Minnesota were collected by the state and 51 percent by local governments. Local governments, on the other hand, accounted for 73 percent of total state/local spending. By 1982 the local share of taxes had declined to 26 percent while still accounting for over 70 percent of total government spending.

This trend can be attributed to four distinct policy developments during the period:

- The 1967 Tax Reform and Relief Act, which enacted a state general sales tax to finance a local government aid program, the Homestead Credit, and the Circuit Breaker program.

- The Omnibus Tax Bill of 1971 (Minnesota Miracle), which enacted the school foundation aid program, reformed local government assistance, established levy limitation on local governments, and enacted the agricultural credit program. To finance these programs several tax measures were also adopted that increased revenue from statewide non-property sources.

- The state began assuming a greater share of spending for public welfare programs during the mid-1970s. The effect has been to shield the county collected proportion of the property tax from financing the surge in public welfare benefit costs.

- Expansion of direct property tax relief payments in the form of credits and refunds to individuals throughout the 1970s.

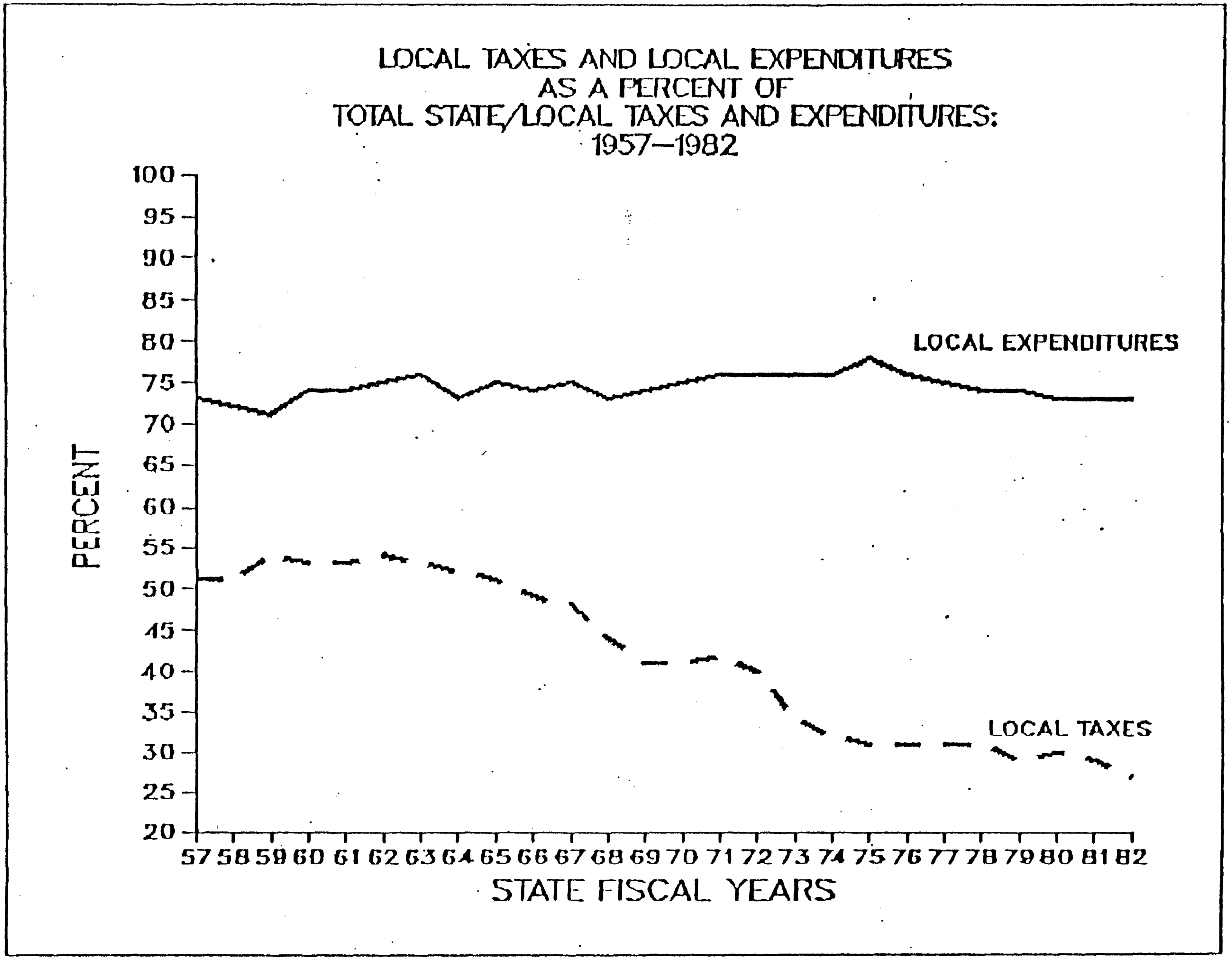
In effect, these policies have worked together towards a common objective -- to reduce the reliance on the property tax by:

- shifting taxing responsibility away from local governments (i.e., the property tax) and substituting these revenues with state aids, income raised primarily from the state income and sales tax sources (see Exhibit 2);

- providing property tax relief directly to individuals; and

- having the state assume the fiscal responsibility of particular local programs.

EXHIBIT 1



Source: Office of the Legislative Auditor, <u>State and Local Government Finances in Minnesota: A Review of Trends in Revenues and Expenditures: 1957-82</u>

The institutionalization of these programs has not only had a profound impact on the state/local fiscal system but also altered the purpose of state government.

As can be seen by examining Exhibit 3, in 1957 state operating expenditures accounted for one-half of all state spending, while intergovernmental transfer payments accounted for only 38 percent. By 1975, 50 percent of state outlays were distributed back to local units of government and only 28 percent of the outlays were spent directly for state operating purposes. If direct property tax relief payments, state paid property tax credits and refunds, are also considered as a type of aid to local governments, then nearly 60 percent of total state outlays provided direct or indirect fiscal assistance to local governments in 1975.

Since 1975, however, the relative growth in state intergovernmental transfer payments declined slightly and in 1982 accounted for only 44 percent of total state outlays. This decline was offset partly by state payments for property tax relief, which increased from 9 percent of total state outlays to over 12 percent during the period.

It is also reasonable to interpret the increase in state welfare benefit expenditures as yet another form of indirect aid to local governments. In 1976, when the state assumed a greater financial role in providing welfare benefits to needy Minnesotans it did so, in part, to relieve local governments of the fiscal burdens in meeting the rapidly increasing costs associated with these programs. As a result, approximately $192 million or 3.5 percent of state outlays in 1982 could also be viewed as another form of fiscal assistance to local governments.[1] Accordingly, in 1982 nearly 60 percent of total state outlays was devoted to direct or indirect fiscal assistance to local governments.[2] This represented a share of the state budget equal to that of 1975.

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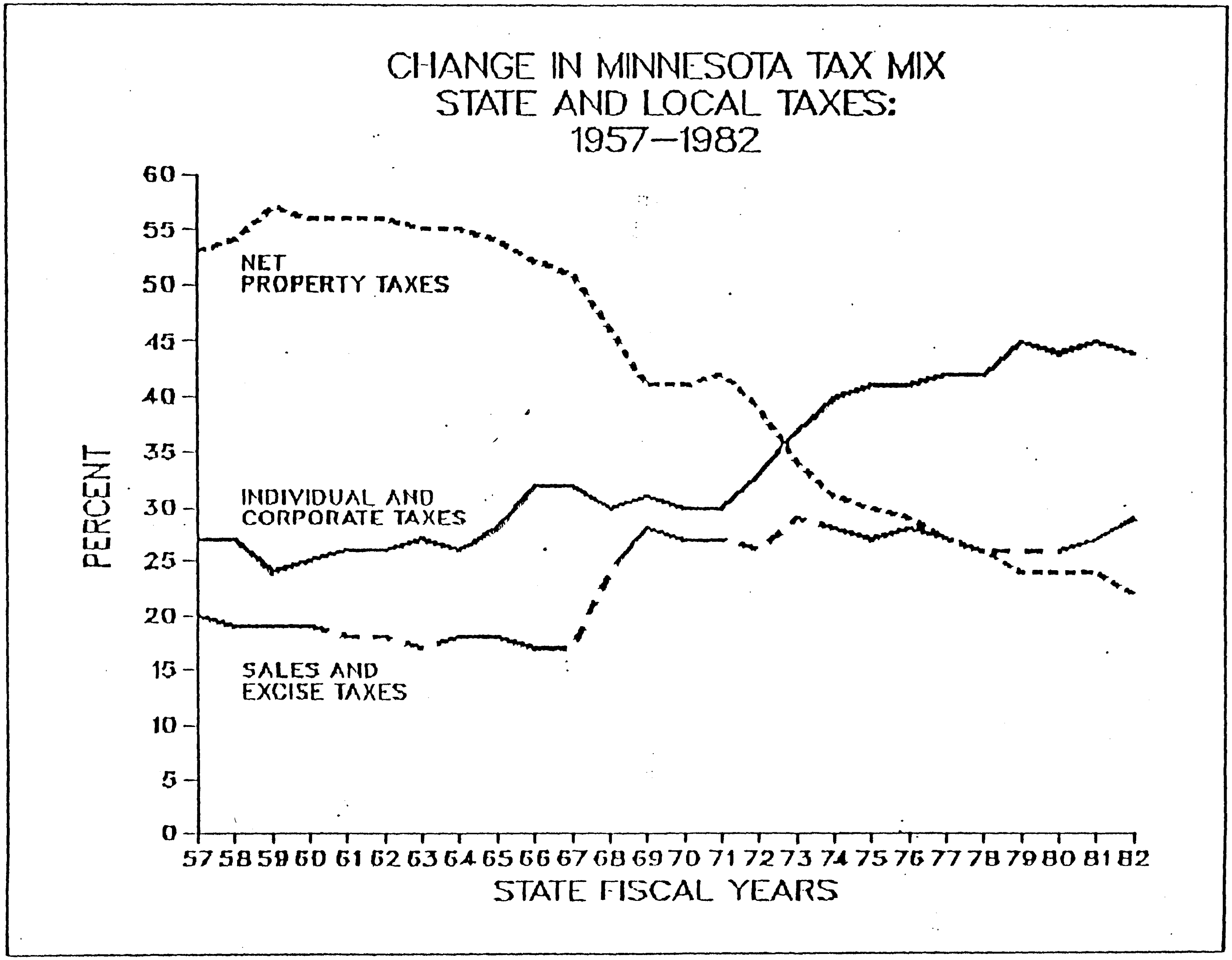
[1]This figure was derived based upon the following assumptions and calculation: If during the period between 1975 and 1982, the responsibility for financing welfare benefits between the state and local governments was left unchanged, then in 1982, the local share would have been 27 percent or $299 million as opposed to its actual share of 10 percent or $107 million. The difference between the hypothetical and actual amounts equals $192 million which represents the amount of fiscal relief the state provided for local governments as a result of policy actions taken in and after 1976. This also assumes that the federal role vis a vis local governments remained unchanged during the period.

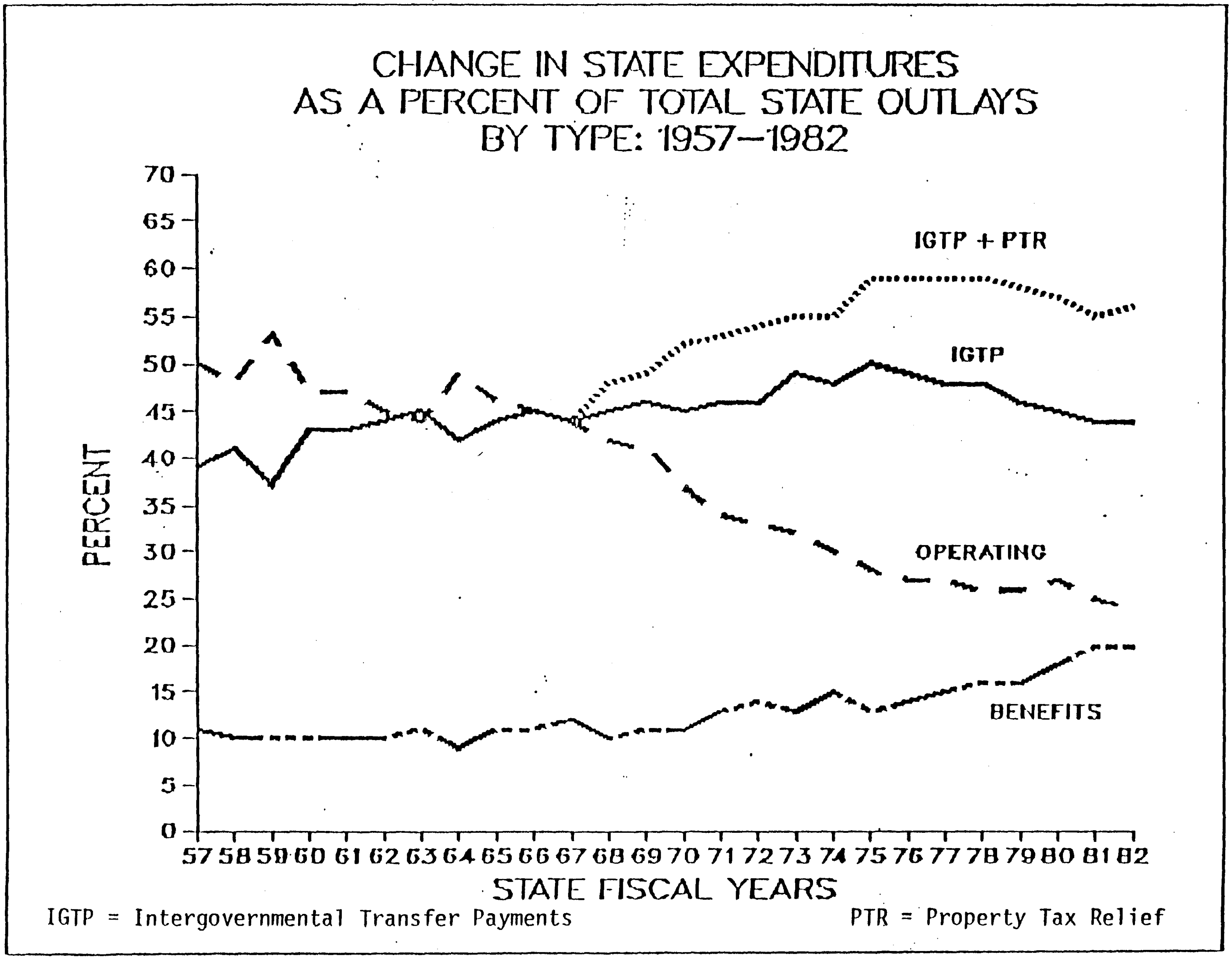
[2]This analysis is based upon expenditures made from all state funds as opposed to the General Fund only. If only expenditures from the General Fund were examined, then nearly 70 percent of state spending is for the purpose of either directly or indirectly assisting local governments.

EXHIBIT 2



Source: Office of the Legislative Auditor, State and Local Government Finances in Minnesota: A Review of Trends in Revenues and Expenditures: 1957-82

EXHIBIT 3

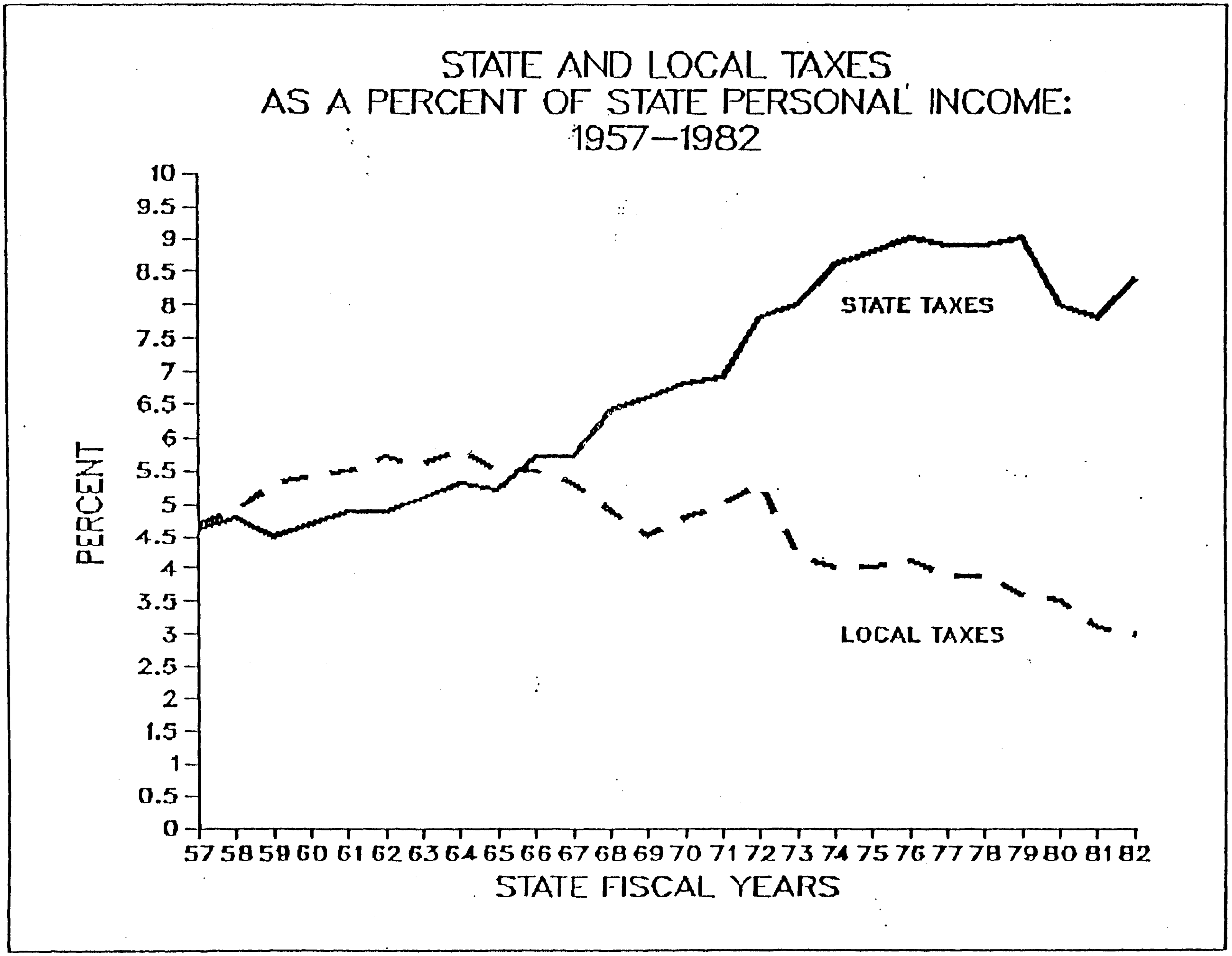


Source: Office of the Legislative Auditor, State and Local Government Finances in Minnesota: A Review of Trends in Revenues and Expenditures: 1957-82

Exhibit 4 shows that as a result of these policies, state tax effort increased significantly from 5.7 percent of total state personal income in 1967 to 9 percent in 1979, while local tax effort declined from 5.3 percent to 3.6 percent during the same period. Between 1979 and 1981, state tax effort also declined sharply as a result of the state's personal income tax being indexed combined with relatively strong growth in personal income during most of the period. However, this decline was short-lived. By 1982, the state's tax effort once again increased to 8.4 percent as a result of the state increasing taxes to offset budget deficits combined with much slower growth in personal income. On the other hand, local tax effort continued to decline throughout the period. By 1982 local taxes represented only 3 percent of the state's personal income. Correspondingly, total state and local tax effort increased only slightly during the entire period, from 11 percent in 1967 to 11.4 percent in 1982.

The implications of these state/local fiscal policies for evaluating tax reform in Minnesota is straightforward. If Minnesota state taxes are judged too high and state tax cuts are recommended, then any corresponding reductions made in state spending may merely shift the financial responsibility to local governments or result in a loss of services which are provided by local governments, not by the state. Depending on which state program expenditures are reduced and how, the net impact on state/local taxes and spending can vary significantly. Table 1 shows examples of how state aid and property tax relief programs impact local property tax effort and interrelate with each other.

EXHIBIT 4



Source: Office of the Legislative Auditor, State and Local Government Finances in Minnesota: A Review of Trends in Revenues and Expenditures: 1957-82

TABLE 1

MINNESOTA LINKAGES AMONG STATE AID PROGRAMS - 1984

PROGRAMS	INTERACTION	RESULT
Automatic Linkages		
1. THC and HC	Both affect taconite households.	Change in HC causes an opposing change in THC.
2. ASC and HC	Both affect agricultural homesteads of greater than one acre.	Change in ASC causes an opposing change in HC.
3. THC, HC, and ASC	All affect taconite agricultural homesteads greater than one acre.	Change in ASC causes an opposing change in both THC and HC; change in HC causes an opposing change in THC.
4. NPC, WC, and ASC, HC	NPC and WC reduce credits on other land.	Change in NP or WC may cause an opposing change in HC; change in ASC may cause an opposing change in NP or WC.
5. HC and CB	HC subtracted from CB calculated.	Change in HC causes an opposing change in CB.
6. TR and other credits	Credits affect net tax; TR is triggered by increases of over 20% in net tax.	Decreases in credits that are large enough can increase TR outlays.
7. LGA and Levy Limits	LGA received is subtracted from allowed levy limit.	Changes in LGA cause opposing changes in levy limits.
Optional Linkages		
1. Levy Limits and Property Tax Relief Programs	Levy limits control local levies; property tax relief programs pay part of local levies.	Changes in levy limits may affect local levies which will change property tax relief outlays.
2. Direct aid to localities unrelated to levy limits (i.e., highway aid, welfare aid) and Property tax relief.	Direct aids fund certain locally-administered programs; property tax relief programs pay part of local levies.	Changes in State aids may affect local levies which will change property tax relief outlays.
3. Foundation aid and Property Tax Relief	Foundation aid and local levies provide revenues for local schools; property tax relief programs pay part of local levies.	Changes in share of school revenues from foundation aid may affect local levies which will change property tax relief outlays.
4. Assessment Ratios and Property Tax Relief	Assessment ratios in part determine local tax base; property tax relief pay part of local levies.	Changes in assessment ratios will affect local tax base and local tax revenues. Changes in tax rates to compensate will change property tax relief outlays.

NOTES:
HC - Homestead Credit
THC - Taconite Homestead Credit
NPC - Native Prairie Credit
TR - Targetted Relief
ASC - Agricultural School Credit
CB - Circuit Breaker
WC - Wetlands Credit
LGA - Local Government Aid

SOURCE: Minnesota Tax Study Commission (May 1984)

II. Growth in State Tax Revenue: 1975-1987 est.

Exhibit 5 summarizes the growth in state tax revenue from major sources for the period between fiscal years 1975 and 1987(estimated).[3] The graph compares the growth in tax revenue due to legislative actions with growth due to inflation and other economic factors. As can be seen, all the growth in tax revenue during the earlier years was a result of the state's tax system benefiting from inflation and an expanding economy. As Table 2 shows, the net impact of tax legislation during the period between 1975 and 1978 actually reduced taxes, suppressing slightly the effects of inflation and economic growth.

Since 1981, however, the impact of tax laws has been significant, accounting for nearly all the growth in tax revenue between 1981 and 1983 and approximately one-half of the projected growth through fiscal year 1987. Between 1980 and 1987, tax revenue from major sources are expected to increase from $2.5 billion to $4.5 billion, an increase of 83 percent. If the state did not enact any major tax legislation since 1980, tax revenues would amount to $3.8 billion in fiscal year 1987, or represent an increase of 53 percent over that collected in fiscal year 1980.

Table 3 shows the estimated revenue impact of major tax laws for fiscal years 1982 through 1987. Much of the new tax revenue has been generated from the general sales tax, where the state increased its rate from 4 percent to 6 percent and expanded its base to include such items as the sale of candy and soft drinks. As a result of this legislation, the state in fiscal year 1983 collected an estimated $322 million in new tax revenue and may collect as much as $594 million in fiscal year 1987.

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[3] It should be noted that this analysis assumes two distinct time periods--the first being fiscal years 1975-1979 and the second being fiscal years 1980-1987 (est.). For the earlier period, the impact of tax laws was assessed with respect to the tax system established in 1974. Legislation enacted in 1975-1978 was reviewed and the revenue impact was estimated based on information provided by the Department of Revenue. As Table 2 shows, the net impact of tax legislation during this period actually reduced taxes. However, because the impact was minor, for purposes of graphic simplicity, the growth in tax revenues between 1975-79 is attributed soley to inflation and other economic factors.

For the second period, it was assumed that legislation enacted in 1979 established fundamental changes to the state's tax system, primarily with the enactment of indexation. Accordingly, it is more meaningful to assess the impact of tax law changes since 1980 with respect to the 1979 tax system, rather than the system established in 1974. Thus, the indexation of the state's personal income tax is treated as part of a tax system intended to operate in the 1980's and not as a law change affecting revenues based on a system in place as of fiscal year 1974.

Tax revenue estimates for fiscal years 1984-87 were provided by the Department of Finance from their May 10, 1984 forecast. The projections represent the department's controlled (trendlong) scenario, which assumes moderate economic growth through the period.

TABLE 2

SUMMARY OF MAJOR TAX LAW CHANGES:1975-78

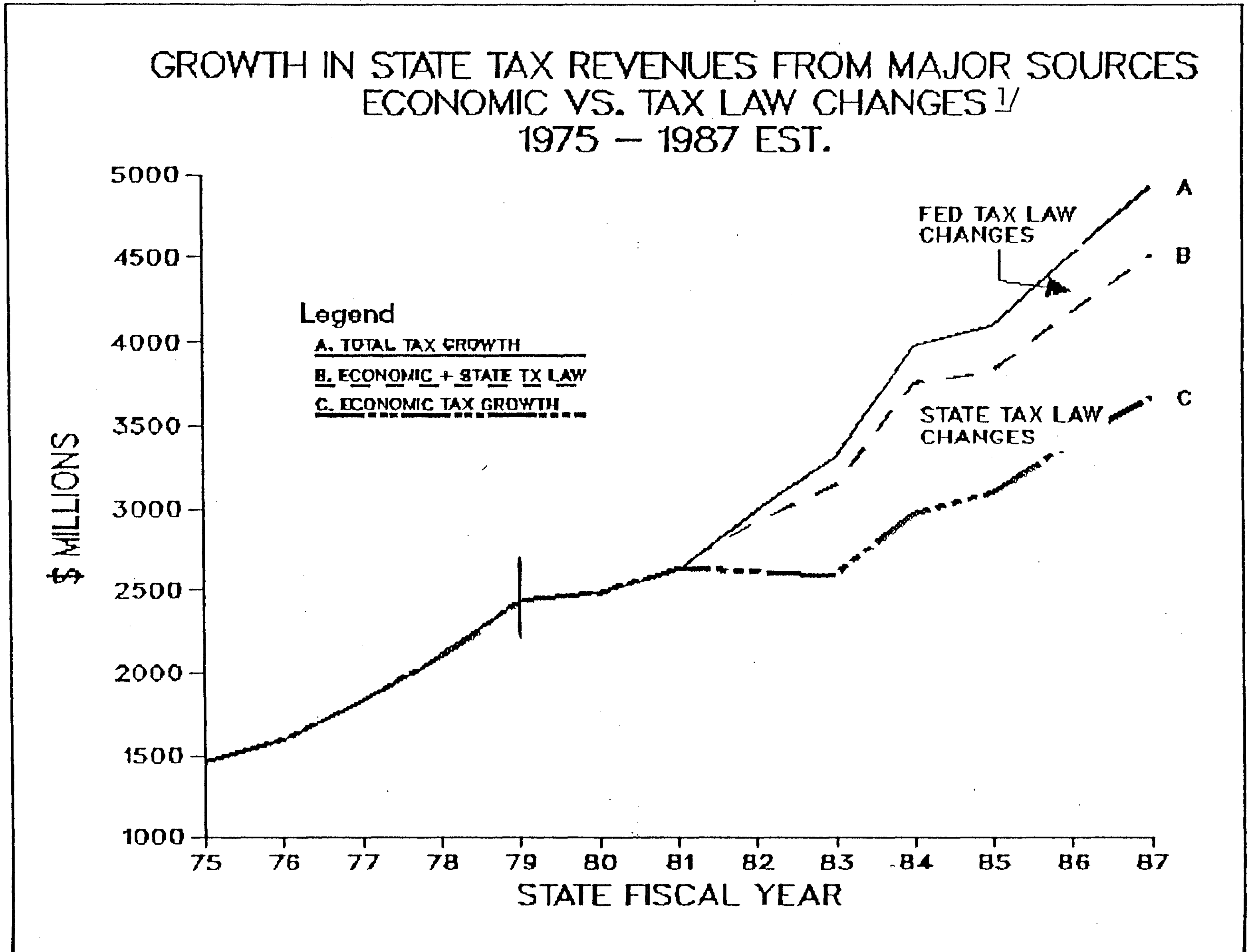
DOLLAR IMPACT
(MILLIONS)

	FY1976	FY1977	FY1978	FY1979
1975 LAWS:				
EXPANSION OF WORKING POOR CDT	($12)	($12)	($9)	($10)
TAX EXCEMPT CONTRIBUTIONS TO KEOGH RET PLANS	($5)	($5)	($5)	($5)
1977 OMINBUS TAX BILL				
UPDATE REFERENCE TO IRC			$2	$2
TAXING OUT OF STATE INC				$3
ELIMINATE MILITARTY EXCL				$9
TAX RATE CHANGE			$5	$11
PERSONAL CREDITS=30$			($14)	($28)
ELIMINAT PRORATING CREDITS				($2)
MINIMUM TAX			$9	$9
VARIOUS TAX DED.ELM.				$3
DEPENDENT CARE CREDIT			($5)	($5)
1978 TAX LAWS:				
SALES TAX-FUEL CREDIT				($23)
PERSONAL CREDIT=$40				($14)
HOMEMAKER CREDIT				($5)
PENSION EXCL.				($7)
TOTAL TAX LAW IMPACT 1/	($17)	($17)	($17)	($62)

Source: Office of the Legislative Auditor, Staff computations based on information provided by the Department of Revenue.

1/ During this period there were federal law changes that also affected state tax revenue collections. However, the dollar impact of these law changes was not readily available.

EXHIBIT 5



Source: OLA staff computations based on data from Tables 2, 3, and Appendix Table 1A.

1/ This analysis assumes two distinct time periods. The first period assesses the impact of tax law changes enacted between 1975 and 1979 using the 1974 tax system as the base. The second period uses the tax system established in 1979 as a base to assess the impact of tax legislation between 1981 and 1984. See Footnote 3, Page 10.

TABLE 3

SUMMARY OF ESTIMATED REVENUE IMPACT OF MAJOR TAX LAW CHANGES:
Fiscal Years 1982 - 1987(est.)
($ Millions)

Major Tax Source	Fiscal Years 1982	1983	1984	1985	1986	1987
Personal Income	$139	$268	$ 263	$ 162	$ 168	$ 186
General Sales	159	322	473	516	548	594
Motor Vehicle	16	25	63	74	79	83
Corporate Income	0	(27)	(11)	(16)	(17)	(17)
Total State Laws	$314	$588	$ 788	$ 736	$ 779	$ 846
Federal Tax Law Changes	$ 59	$149	$ 216	$ 271	$ 338	$ 411
TOTAL IMPACT	$373	$737	$1,004	$1,007	$1,115	$1,257

Source: Office of Legislative Auditor staff computations and estimates provided by the Departments of Revenue and Finance, May 1984. Also see Appendix Table 2A.

Laws affecting the state's personal income tax were also responsible for generating new tax dollars for the state. The most important legislation was the 7 and 10 percent surtax rates, which affected fiscal years 1982-1984. Of the new personal income tax dollars shown in Table 2, we estimate that the surtax provisions generated $63 million in fiscal year 1982, $170 million in fiscal year 1983, and approximately $100 million in fiscal year 1984.[4]

In addition to state tax law changes, federal tax policies have also had a significant impact on state tax revenues. As Table 3 shows, the Department of Revenue estimated that in fiscal year 1983, state revenues may have increased by as much as $149 million as a result of changes in federal tax laws. By fiscal year 1987, the state may benefit by as much as $411 million. Much of this revenue gain from federal tax policies was a result of reductions in federal personal income tax rates. Since the state of Minnesota allows taxpayers to deduct federal tax liability, any reduction in federal taxes results in an increase in Minnesota taxable income. However, the reverse is also true--if federal taxes go up, Minnesotans will pay less in state personal income taxes.

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[4]Although the 10 percent surtax was repealed by the 1984 Legislature effective January 1, 1984, the state collected revenues during the first one-half of fiscal year 1984 (July 1 - December 31, 1983).

III. Growth in State Spending: 1975 - 1987$^{est.}$

Exhibit 6 shows that between 1975 and 1982, state General Fund expenditures increased from $1.9 billion to over $4.1 billion, a rate of growth approximating 12 percent per year. In fiscal year 1983 however, state expenditures from the General Fund declined by nearly 14 percent. The primary reason for this dramatic decline was that the Legislature, in order to balance the fiscal year 1983 budget, shifted approximately $199 million in school aids and $269 million in direct property tax credit/refund payments to fiscal year 1984. Thus, the 14 percent decline is misleading because the expenditure shifts essentially result in non-comparable expenditure bases between fiscal years 1982 and 1983. Perhaps a better indicator of expenditure commitment during the period is to compare fiscal year 1982 expenditures with those estimated for fiscal year 1984. This comparison indicates an approximate 9 percent annual rate of growth in expenditures for the period. The Department of Finance then estimates that General Fund expenditures will increase at a 6.4 percent average annual rate to nearly $5.8 billion by the end of fiscal year 1987.[5] If this rate of increase is realized for this latter period, then it will represent a growth rate approximately two-thirds of that experienced between 1979 and 1982 when state General Fund expenditures grew at 9 percent per year.

Approximately 80 percent of state General Fund expenditures can be associated with seven major program categories (the Department of Finance refers to these as the "Big Seven." See Appendix Table 1A.*). Examination of Exhibit 7 shows that in 1975, aids to school districts amounted to $636 million which accounted for 34 percent of total state General Fund expenditures. Although aids to school districts remains the most important expenditure category through 1987, its relative proportion of General Fund expenditures declined to 29 percent in fiscal year 1982 and is estimated to account for only 23 percent in fiscal year 1987.[6]

The reason for this trend is twofold. First, despite experiencing a rate of growth of nearly 10 percent per year between 1975 and 1982, state expenditures for property tax relief, medical assistance and general assistance for medical care (MA/GAMC), and general support to local governments, combined, increased at an average annual rate exceeding 15 percent during the same period. Total expenditures for these three programs amounted to $512 million in 1975, accounting for 27 percent of state General Fund expenditures. By fiscal year 1982, expenditures for these programs increased to nearly $1.4 billion and represented over 34 percent of General Fund expenditures.[7]

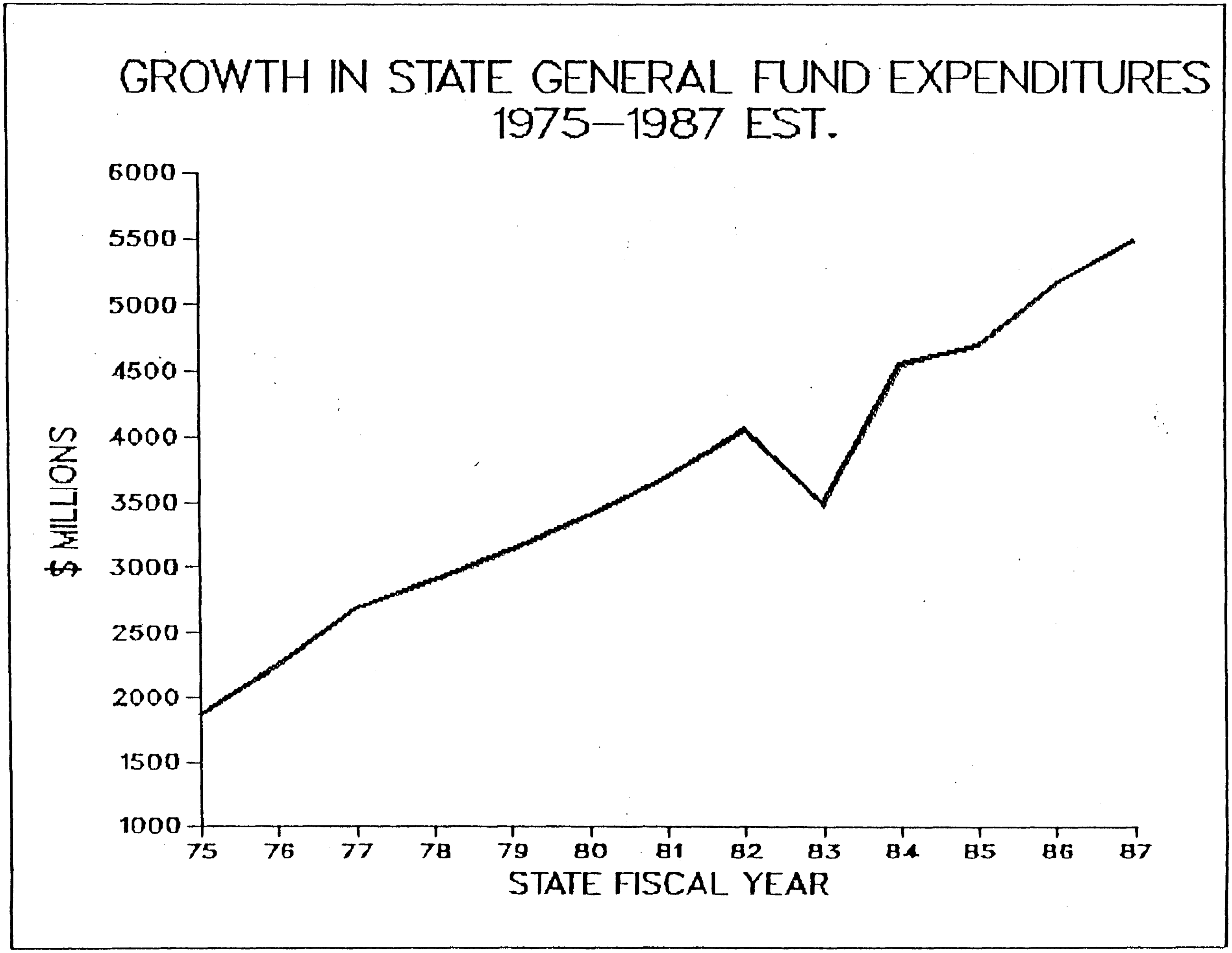
(*Aid to schools, post-secondary education, property tax relief, medical assistance and general assistance for medical care, local government aid program and other general support aids, debt service, and income maintenance.)

[5]OLA staff computations based on data from Appendix Table 1A. See Footnote 4 of Table 1A.

[6]Ibid.

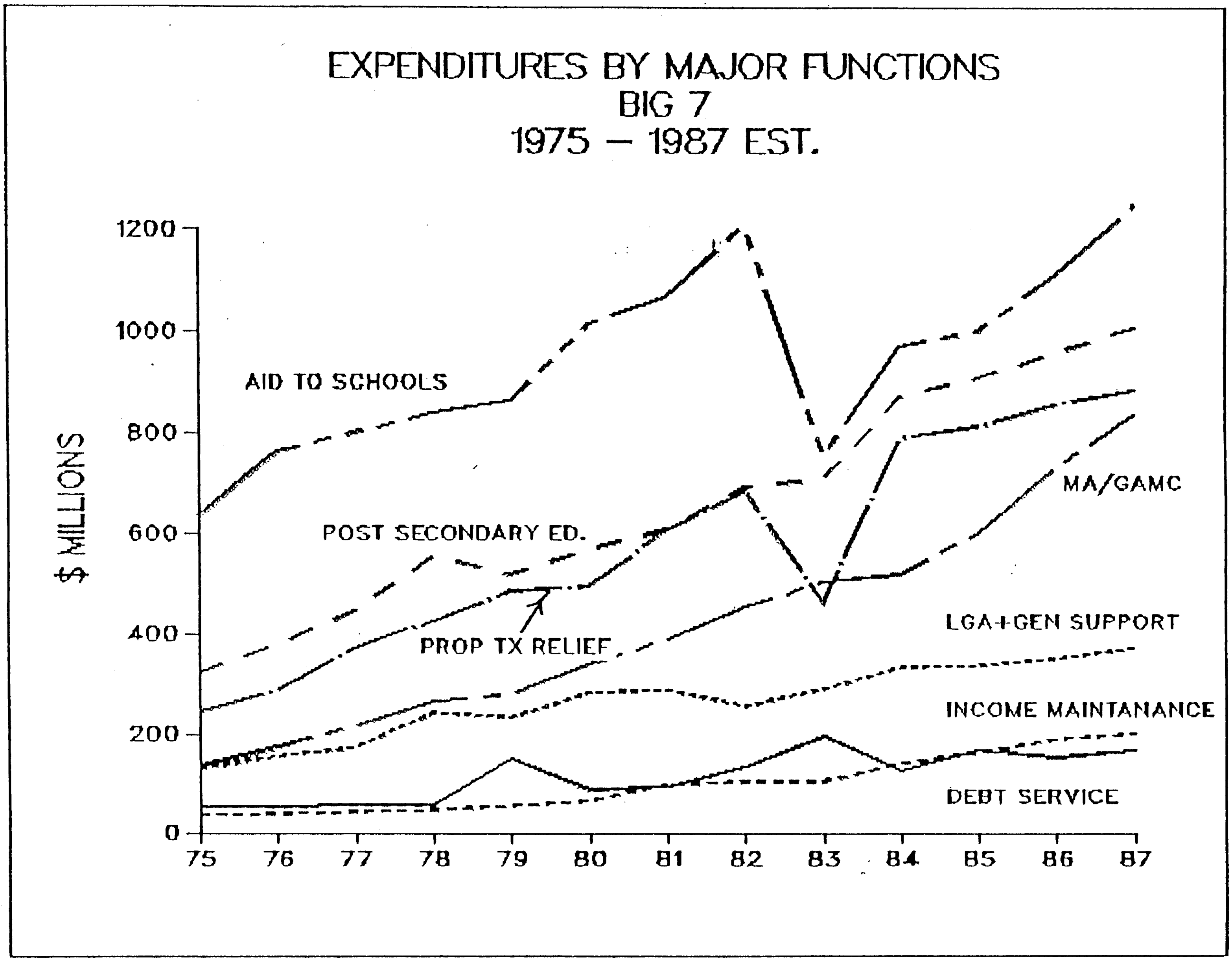
[7]Ibid.

EXHIBIT 6



Source: Appendix Table 1A.

EXHIBIT 7



Source: Appendix Table 1A.

The second reason is that in 1981 and 1982, the Legislature took action that significantly reduced aids to school districts. Included in this legislation for example, was a reduction in foundation aids of an estimated $68 million for fiscal year 1983 due to lowering the level of state foundation support from $1,416 to $1,346 per pupil and increasing the local mill requirement to 24 mills.[8] Aids were also reduced because the Legislature required school districts to make early recognition of their property tax and as a result, the state saved an additional estimated $239 million in fiscal year 1983.[9] School transportation aids were also reduced in fiscal year 1983 by an estimated $35 million as a result of increasing the transportation required mill rate from 1 to 2 mills.[10]

As indicated earlier, the Department of Finance estimates that General Fund expenditures are anticipated to increase at a relatively slower rate of 6.4 percent per year between fiscal years 1984 and 1987. This is largely a product of anticipated slower growth in general support aids to local governments and expenditures for direct property tax relief. According to projections, aids to local governments are expected to increase by only 5 percent in fiscal years 1986 and 1987. This is significantly slower than the rate of growth experienced in the late 1970's when these expenditures increased by more than 24 percent per year.[11]

State paid direct property tax relief payments are also anticipated to slow significantly. Projections for the 1986-87 biennium show expenditures for these programs increasing by only 6 percent in fiscal year 1986 and by only 3 percent in fiscal year 1987. This can be compared to a 16 percent annual rate realized between fiscal years 1975 and 1982.[12]

On the other hand, of the "Big Seven" program areas, the most significant growth, by far, is expected to occur in MA/GAMC, increasing by a projected 17 percent per year between fiscal years 1984 and 1987. If these estimates are realized, MA/GAMC expenditures will amount to over $836 million by the end of fiscal year 1987 representing, alone, nearly 15 percent of total state General Fund expenditures. In addition, state expenditures for income maintenance programs are expected to increase by 12 percent per year during the same period. Combining these expenditures with those for MA/GAMC programs means that by 1987 nearly 20 percent of state General Fund expenditures may be used for funding welfare benefit programs. In 1975, these programs, combined, accounted for only 11 percent of total General Fund expenditures.[13]

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[8] See Minn. Laws, 1981 Special Session III, Chapter 2, Art. IV.

[9] Office of the Legislative Auditor staff computations.

[10] See Minn. Laws, 1981 Special Session III, Chapter 2, Art. IV.

[11] OLA staff computations based on data from Appendix Table 1A.

[12] Ibid.

[13] Ibid.

IV. Growth in Taxes and Spending At a Single Glance: A Period of Fiscal Stability vs. A Period of Fiscal Woes

The period between 1975 and 1979 represented a time of relative good fiscal health. During this period, there were few major tax law changes and what actions were taken resulted in tax savings to Minnesotans. Table 4 shows that tax revenue from major sources increased at a rate of 13.6 percent per year, however, tax revenue would have increased slightly faster (14.3 percent per year) if no law changes were enacted. In effect, the tax system, without legislative stimulus, produced the needed revenues (and then some) to commensurate with growth in state spending, which increased at a rate of 13.9 percent per year during the same period. A strong argument could be made that, between 1975 and 1979, the tax system, which benefited greatly from the high rate of inflation during that period, generated revenues at such a fast rate that it actually stimulated state spending. The system produced the revenues, so, the dollars were spent.

TABLE 4

GROWTH IN MAJOR STATE TAX REVENUES AND GENERAL FUND EXPENDITURES: 1975 - 1982

	Average Annual Percentage Change 1975-1979	Average Annual Percentage Change 1979-1982
Tax Revenue from Major Sources:		
Total Growth	13.6%	7.1%
Growth Excluding Impact of Law Changes	14.3%	3.1%
General Fund Expenditures	13.9%	9.0%

Source: OLA staff computations based on data from Tables 2 and 3, and Appendix Table 1A.

Between 1979 and 1982 the fiscal pattern changed. During this period, tax revenue from major sources increased 7.1 percent per year, while General Fund expenditures increased at 9.0 percent per year. Much of the growth in tax revenue realized during this period occurred in fiscal year 1982 when tax revenues from major sources increased by nearly 14 percent.[14] However, over 85 percent of that increase was a result of state legislative action that increased taxes by $314 million. If that legislation did not occur, revenues from major tax sources would have increased by only 2 percent in fiscal year 1982, resulting in an average annual rate of growth of 3.1 percent for the period. This gap between the growth in state taxes and spending began with tax and spending policies adopted during the 1979 legislative session. Actions were taken to slow the growth in tax revenue while at the same time increasing spending for major programs.

[14] Ibid.

A. The 1979 Legislative Session: Tax and Spending Policies Provided the Impetus for Fiscal Divergency

In 1979, lawmakers decided that the revenue generating capacity of the tax system may have exceeded spending demands and was overburdening the taxpayer. As a result, several policies were adopted that either cut tax revenue or were designed to diminish the system's revenue elasticity during periods of rapid inflation. Major legislation included:

- All personal credits equalized, increased to $55 in 1979, to $60 in 1980, and indexed thereafter.
- Standard deduction increased to 10 percent up to a maximum of $2,000, indexed as of 1981.
- Low income credit increased and indexed as of 1981.
- Income tax brackets indexed by 85 percent of percentage change in the (Minneapolis-St. Paul) Consumer Price Index.
- Top income tax rate reduced from 17 to 16 percent.
- Pension exclusions increased, non-resident pensions not taxed.

Also, in 1979 the Legislature took action that either allowed or provided for major spending increases to occur over the 1981 biennium. Most notable were increases of 40 percent in MA/GAMC, 24 percent in school aids, and 25 percent in major property tax relief programs. In effect, largely as a result of legislation that occurred in 1979, state tax revenue from major sources increased by only 7 percent during the 1981 biennium, while spending for major programs increased by over 23 percent.[15] Clearly, this policy mix was not very conducive for fiscal stability.

The fiscal impact of this divergency in tax and spending policy can be best illustrated by examining two policy decisions--the indexation of the personal income tax, and increased homestead credit benefits. The state began the 1980-81 biennium with a $281 million fund balance. As Table 5 shows, the indexation of tax brackets, credits, and deductions reduced state tax revenue by $302 million for the biennium, while legislative increases to the homestead credit increased the state's liability for property tax relief by $124 million. The combined fiscal impact of these two policies totaled nearly $426 million, exceeding the fund balance by $145 million.

By the end of fiscal year 1982, these two policies had a fiscal impact of $723 million, representing over 115 percent of the total General Fund deficit of $624 million realized on June 30, 1982.

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[15] Ibid.

TABLE 5

FISCAL IMPACT OF INDEXING THE PERSONAL INCOME TAX AND INCREASING THE BENEFITS OF THE HOMESTEAD CREDIT PROGRAM: Fiscal Years 1980-82 ($ Millions)

	FY 1980	FY 1981	Total	FY 1982	Total 1980-82
Indexation of Personal Income Tax (lost revenue)[a]	$119.7	$182.5	$302.2	$221.9	$524.1
Homestead Credit (increased expenditure)[b]	8.0	116.0	124.0	75.0	199.0
TOTAL	$127.7	$298.5	$426.2	$296.9	$723.1

Source: Minnesota Department of Revenue provided estimates for the impact of indexation (December 2, 1983) and the Office of the Legislative Auditor calculated the cost of the Homestead Credit.

[a]For tax years 1979 and 1980, income tax brackets were increased by 85 percent of the increase in the Consumer Price Index (CPI) for the Minneapolis-St. Paul metropolitan area. In 1979, the adjustment was 10.1 percent and in 1980, 8.6 percent. For tax years 1981 and 1982, brackets were increased either by 100 percent of the increase in CPI or by 100 percent of the increase in Minnesota gross income, whichever was less. In 1981 the adjustment was 9.2 percent and in 1982 was 2.1 percent. Beginning in tax year 1981, credits and standard deductions were also adjusted for inflation using the same methods (Minn. Stat. 290.06). In 1983, the Legislature amended the law such that the indexation provision could be suspended if the state-projected surplus was less than $250 million (Minnesota Session Laws, Ch. 342, Section 6, Subd. 2f).

[b]Benefits for the Homestead Credit Program increased from 45 percent--$325 maximum in 1979 to 50 percent--$550 maximum in 1980, to 58 percent--$650 maximum in 1981.

B. Analysis of the General Fund, Budget-Balancing Actions 1982-83 Biennium

After enjoying several years of relatively stable finances, the General Fund began experiencing fiscal problems in August 1980. The sources of these difficulties are complex, but most agree that a national recession coupled with certain modifications to the tax system, primarily indexing the individual income tax, had stalled the General Fund's revenue growth. In addition, while various factors contributed to slowing the rate of growth in tax revenue, the state continued to pursue a relatively fast rate of growth in spending. The combination of divergent tax and spending policies, compounded by an economic recession, quickly resulted in fiscal instability.

The problems experienced during the 1980-81 biennium were certainly painful, but they were solved primarily through restructuring the cash flow of a few major revenue and expenditure programs. Individual income tax collections were accelerated and an additional $60 million was received during the biennium. School aid payments totalling $241 million were deferred into the 1982-83 biennium. In all, $300 million of adjustments were required, but relatively few programs were affected.

By contrast, revenue shortfalls repeatedly plagued the General Fund throughout the 1982-83 biennium. Six Special Legislative Sessions were called so that the finances could be adjusted and nearly $2 billion of financial modifications became necessary during the biennium. The time lag required to institute many of the fiancial changes resulted in a $624 million General Fund deficit at June 30, 1982, the mid-point of the biennium. Accordingly, the brunt of fiscal recovery was necessitated during fiscal year 1983 so that the biennium would end without a fund deficit. Table 6 illustrates how dramatically General Fund finances had to change during fiscal year 1983 so that a balanced budget could be realized.

TABLE 6

STATE GENERAL FUND

SUMMARY OF ANNUAL FINANCES
Fiscal Years 1980 to 1983
($ thousand)

	Fiscal Year			
	1980	1981	1982	1983
Revenues	$3,228,934	$3,320,587	$3,687,965	$4,117,122
Expenditures	3,401,030	3,690,495	4,051,036	3,487,310
Net Annual Increases/ (Decreases) to Fund Balance	$ (172,096)	$ (369,908)	$ (363,071)	$ 629,812
ENDING GENERAL FUND BALANCE	$ 108,511	$ (261,397)	$ (624,468)	$ 5,344

Source: Office of the Legislative Auditor, staff computations.

Comparing the fiscal year 1983 operating results to those for fiscal year 1982, shows an improvement of almost $1 billion. The change was accomplished by increasing revenues by 12 percent and reducing expenditures by 14 percent. Such large changes are, however, potentially misleading and do not provide a fair indicator of future trends. Indeed, the magnitude of the General Fund's fiscal problems required a complex, comprehensive array of tax increases, revenue/expenditure shifts, and expenditure cuts.

Table 7 illustrates the fiscal impact of the budget-balancing acts that were implemented during the 1982-83 biennium. On the surface, it appears the actions were evenly divided between those affecting revenues and those affecting expenditures. However, a closer examination reveals that of the total $1.8 billion fiscal adjustment, 37 percent was generated with new and now permanent taxes. The 19 percent expenditure reduction, as discussed later, was basically a temporary decline and was offset somewhat by local tax increases.

TABLE 7

STATE GENERAL FUND

FISCAL IMPACT OF BUDGET-BALANCING ACTIONS
1982-83 BIENNIUM
($ Million)

	Biennium 1982	Biennium 1983	1982-83 Biennium Totals	Percent of Total Adjustment
Revenue Enhancements:				
Temporary Taxes (income surtax)	$ 63	$ 170	$ 233	13.0%
New Taxes	251	418	669	37.2
Subtotal: Revenues	$314	$ 588	$ 902	50.2%
Expenditure Actions:				
Cuts[a]	$ 17	$ 331	$ 348	19.4%
Shifts	68	480	548	30.5
Subtotal Expenditures	$ 85	$ 811	$ 896	49.8%
TOTAL FISCAL IMPACT	$399	$1,399	$1,798	100%

Source: Office of the Legislative Auditor, staff computations.

[a]Expenditure cuts do not include amounts eliminated from state department appropriations for salary, supplies, and equipment.

More specifically, Table 7 shows that nearly $900 million of state budget savings were achieved during the 1982-83 biennium through actions decreasing expenditures. However, only a small amount of these expenditure reductions were ultimately translated into service cuts trimming back programs. Five hundred forty-eight million dollars represents a restructuring of payment schedules or shifts from one biennium to the next. These actions result in a temporary remedy that affords only a one-time budget savings. The impact of these expenditure shifts also accounts for much of the perceived decline in expenditures as illustrated in Table 8. Adjusting for these shifts shows that state General Fund expenditures declined by only 3.7 percent in fiscal year 1983 as opposed to the nearly 14 percent decline as officially reported. A critical question arises, however, as to whether the state's expenditure reduction of 3.7 percent during fiscal year 1983 translated into long-term expenditure savings and reduced tax burdens.

TABLE 8

STATE GENERAL FUND

EXPENDITURE CHANGES ADJUSTED FOR SHIFTS
Fiscal Years 1981 to 1983
($ Millions)

	Amounts FY 1981	Amounts FY 1982	Percent Change 1981 to 1982	Amounts FY 1983	Percent Change 1982 to 1983
Expenditures as Reported	$3,690	$4,051	+ 9.8%	$3,487	-13.9%
Add Back: Shifts	--	68		479	
Adjusted Expenditure Levels	$3,690	$4,119	+11.6%	$3,967	- 3.7%

Source: Office of the Legislative Auditor, staff computations.

For the most part, the answer is "no." Of the $331 million cut from expenditures during fiscal year 1983, $262 million may have increased local tax efforts. Because of the extensive intergovernmental fiscal relationships between the state and its local governmental units, most reductions in state spending could simply result in shifting the tax burden from the state to a local government jurisdiction. Approximately $101 million of the expenditures reduced in fiscal year 1983 directly resulted in an increase of locally collected property taxes. This amount results from mandated increases in the local property tax levies for certain school aid programs, e.g., foundation and transportation aids, and reducing state paid property tax credits for the homestead credit program. It was not possible to precisely determine whether the remaining $161 million which could potentially result in local property tax increases, indeed resulted in such increases. Such increases could have been preempted by levy limits or otherwise avoided by local governments if they assumed the effects to be temporary and were fortunate enough to have adequate cash reserves. Inevitably, local governments were obligated to translate some of this $161 million state aid reductions into local property tax increases.

The remaining $69 million of expenditure reductions could not have resulted in increased local taxes. However, they mostly appear to be temporary declines in state financing and often resulted in shifting financial obligations to a non-tax revenue source. For example, $28 million of this amount represents a reduction in state payments to the Teachers Retirement Fund (TRA). This reduction to TRA was partially recovered through mandated temporary increases in employee retirement contributions. However, because of the financial difficulties of TRA, the impact of the reduced state payments was very temporary. In fact, recent legislative actions will result in repaying employees for their added contributions, plus a sizable increase in state payments to TRA in an attempt to resolve its financial difficulties. The next largest area of these state expenditure reductions was an approximately $20 million decrease in aids paid to the University of Minnesota. Again, recent legislative actions provided a sizable increase in state aids to the university.

In sum, the impact of the 1982-83 cuts was either translated into increased local property taxes, later increases in state spending, or at best a temporary reprieve in tax burdens. Because of the complexity of state/local fiscal relationships in Minnesota, perhaps a better indicator of how state expenditures were impacted during fiscal year 1983 by the financial difficulties would be revealed by analyzing state operating expenditures, e.g., salaries, supplies, and expense. Despite reducing appropriations of state departments and decreasing state paid contributions to state employee retirement funds, state operating expenditures increased by 7.5 percent during fiscal year 1983. Although this increase is lower than that of previous fiscal years, it demonstrates the real difficulties of implementing long-term declines in state expenditure commitments and consequently, the level of taxation.

C. Summary of General Fund Finances: 1978-1987$^{est.}$

To illustrate the significance of these fiscal policies, a series of exhibits are presented in order to show the relationship between General Fund revenues and expenditures beginning in 1978 and projected through the 1987 biennium.[16]

Exhibit 8 plots annual revenues and expenditures of each fiscal year. The difference between revenues and expenditures in any given year represents the annual change to fund balance.

The crossing pattern illustrated in fiscal years 1978 to 1980 is perhaps the normal pattern to expect for a healthy General Fund. This reflects the uncertainty associated with revenue estimates and the need to continually adjust fund balance so it is retained at an acceptable level. However, as can be seen, revenues did not recover to the level of expenditures in either fiscal year 1981 or 1982. Whereas a reduction in fund balance was affordable in 1980 (because of a beginning fund balance), continued reductions in 1981 and 1982 resulted in the sizeable fund deficit at the end of 1982. The response to the problem, as indicated earlier, required an array of tax increases, revenue/expenditure shifts, and expenditure reductions to balance the budget at the end of fiscal year 1983.

Exhibit 8 also shows projections of revenues and expenditures, assuming moderate economic growth through fiscal year 1987. As can be seen, revenues are expected to exceed spending throughout the period, keeping the state budget well in the black. However, as Exhibit 9 illustrates, the state's projected level of spending through 1987 is only affordable if the new and temporary state taxes enacted since 1980 remain in place (the only exception being the personal income surtax which under this projection was repealed January 1, 1984). The graph clearly shows that if these new tax laws were not enacted, the level of revenues (line C) would not have been able to sustain the level of General Fund expenditures as currently projected.

Finally, it is important to emphasize that these projections of revenues and expenditures assume moderate economic growth for the state through fiscal year 1987. Exhibit 10 illustrates what happens to the state's fiscal condition if another recession befalls the state in 1985. As can be seen, the Department of Finance projects under its "Trouble 85" scenario, that the state will be faced with another deficit situation by the end of fiscal year 1987. This, despite the fiscal actions taken since 1980, a relatively large fund balance currently being enjoyed, and a projected rate of growth in state General Fund expenditures which is slower than what has been experienced over the last 10 years.

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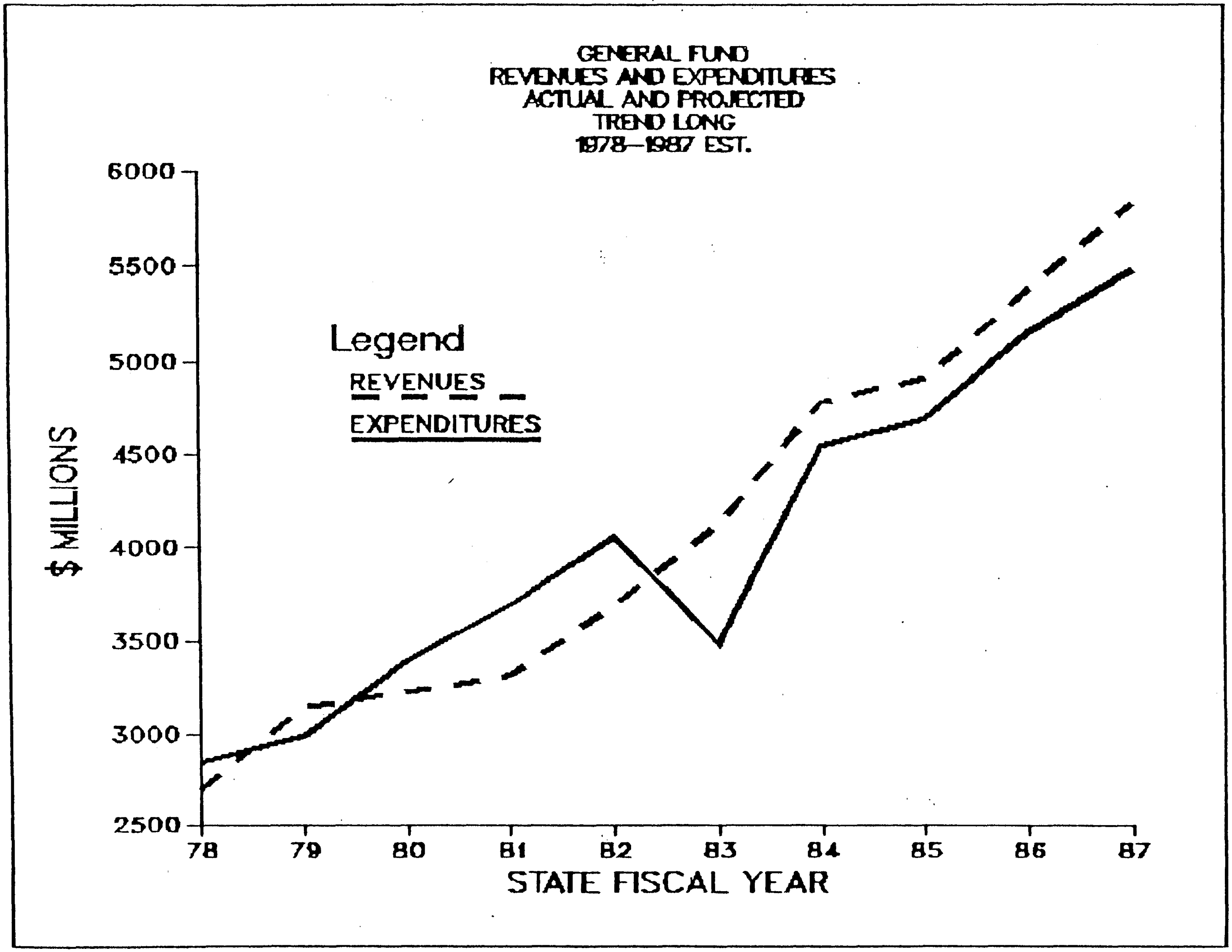
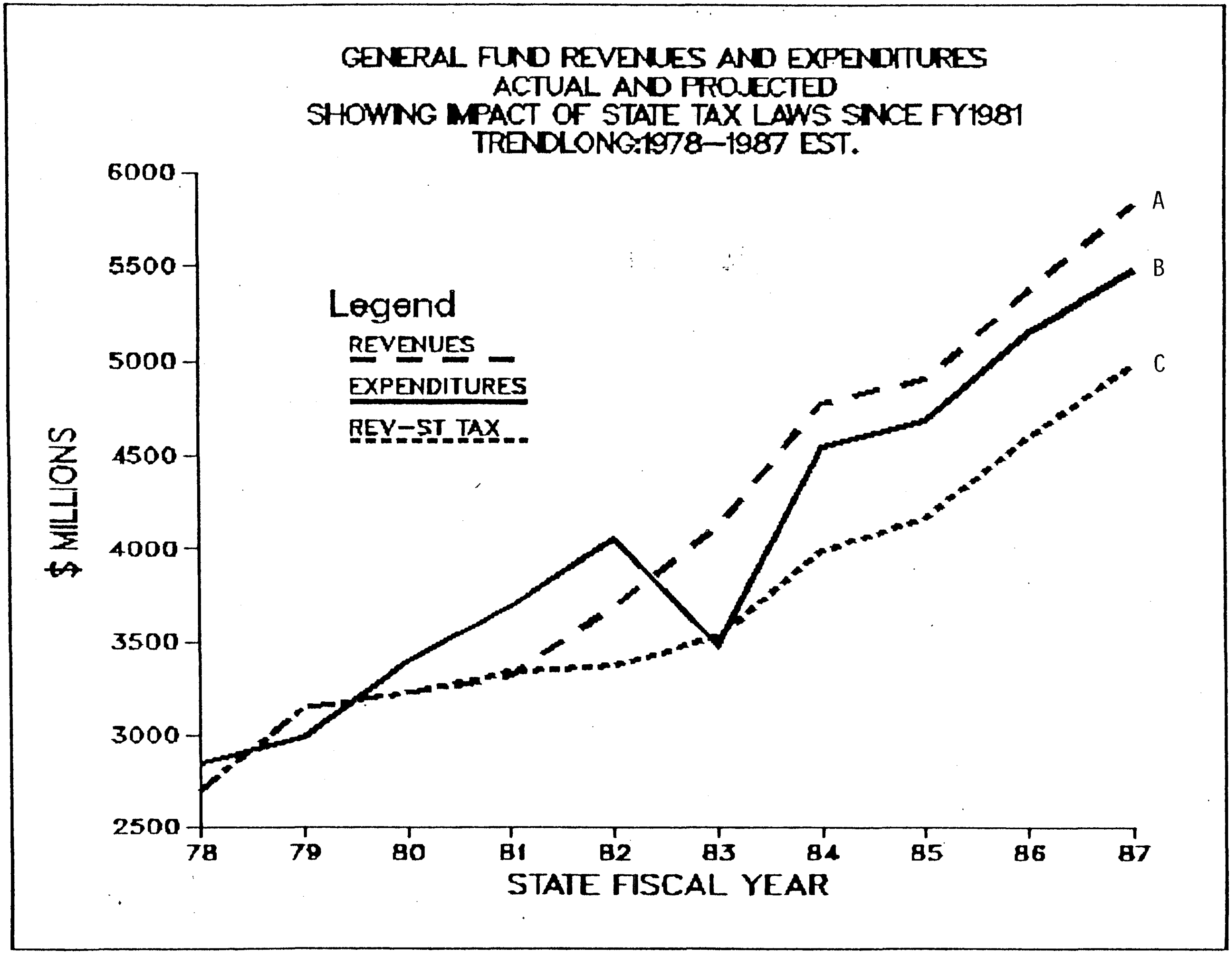
[16]Total General Fund revenue and expenditure amounts are based upon data from the Office of the Legislative Auditor (FY 1978 - FY 1983) and from the Department of Finance's projections of May 10, 1984. It should be noted that the figures from the Department of Finance have been adjusted in order to reconcile differences between their budgetary reporting basis and the generally accepted accounting principles reporting method utilized by the OLA. Although total revenues and expenditures differ between the two accounting methods, we believe that the year-to-year changes under both are comparable.

EXHIBIT 8



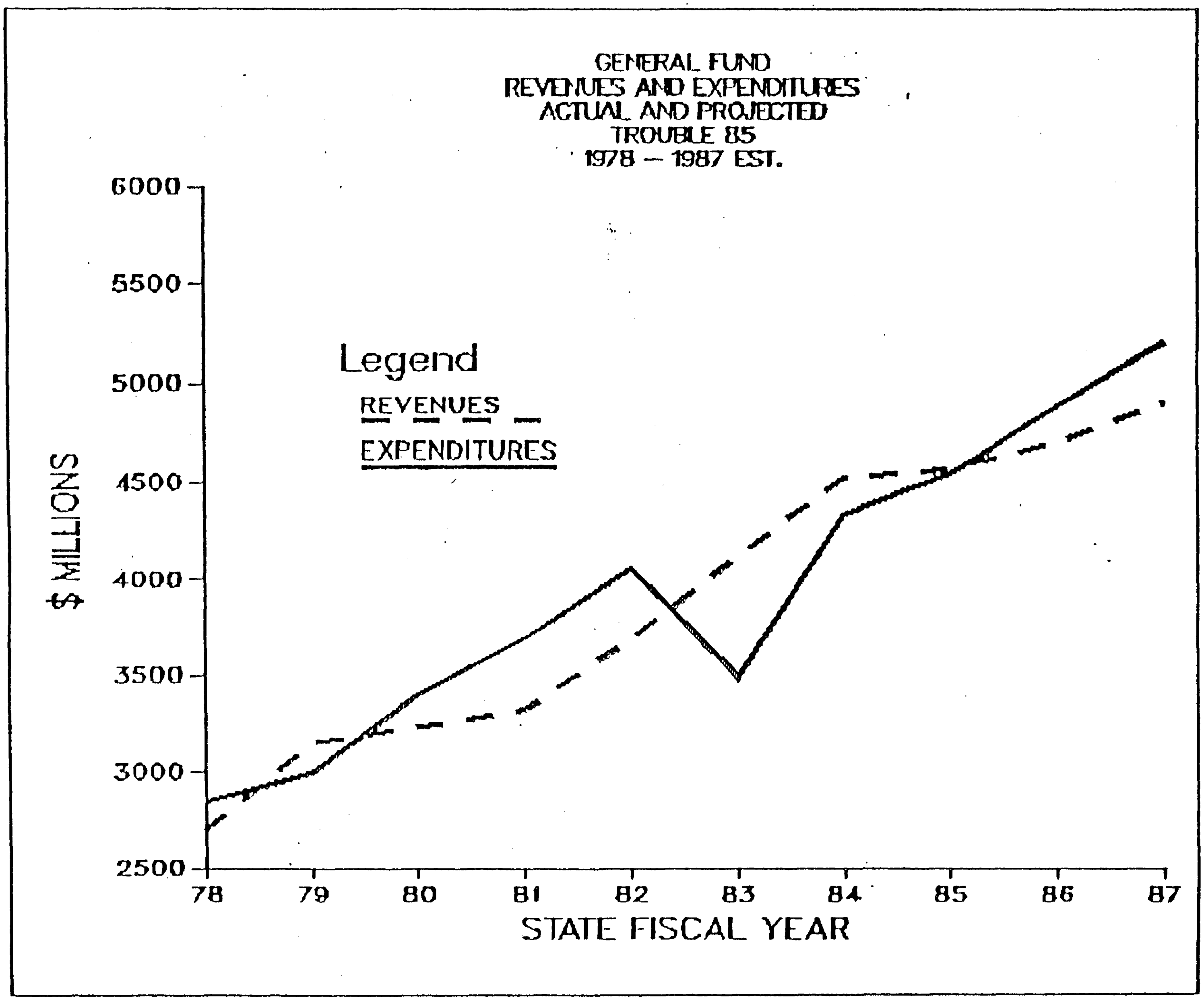
Source: OLA staff computations (FY 1978-FY 1983). Projections based on data provided by the Department of Finance May 10, 1984 and adjusted to reconcile the differences between GAAP and Budgetary Reporting Basis. See Footnote 16, Page 25.

EXHIBIT 9



Source: OLA computations (FY 1978-FY 1983). Projections based on data provided by the Department of Finance May 10, 1984 and adjusted to reconcile the differences between GAAP and Budgetary Reporting Basis. See Footnote 16, Page 25.

EXHIBIT 10



Source: OLA staff computations (FY 1978-FY 1983). Projections based on data provided by the Department of Finance, April 17, 1984 and adjusted to reconcile the differences between GAAP and Budgetary Reporting Basis. See Footnote 16, Page 25.

V. Conclusion

Based on the evidence presented, a strong argument could be made that since 1980 the state's tax policy has been influenced primarily by spending demands. The legislative response to the recent budget crises has been to increase taxes and alter its cash flow in order to bring revenues back in line with spending. Although it could be argued that such policies are necessary because it is difficult to adjust expenditures in the short run to commensurate with revenues, the state has chosen to maintain nearly all the new and "temporary" taxes enacted since 1980 (the income surtax appears to be the only major temporary tax that will be repealed).

In effect, it is not enough to simply compare Minnesota tax effort to that of other states and conclude from that comparison that since we rank high we must reform and lower our taxes to make our state more competitive. Because we are required by law, if nothing else, to balance our budget every two years, tax policy, by definition, must be linked directly to current and anticipated spending demands. If this fact is ignored or its relevancy minimized, the long-term stability of any tax reform measure adopted will be in jeopardy.

Despite the relatively slower rate of growth anticipated in General Fund expenditures through the 1987 biennium, the state faces increasing spending demands. For example, state expenditures for Medical Assistance (MA) and other welfare benefit programs are expected to increase significantly over the next several years. Although much of the spending pressure is a direct result of increased medical costs and larger caseloads, federal actions have also (and threaten to continue) shifted more financial responsibility for these programs to the state. At present, the Department of Finance includes in their MA expenditure projections, a continuation of a lower federal participation rate which translates into higher costs for the state.

The state will also be facing increased pressure to use General Fund revenues for its infrastructure, specifically for the maintenance and repair of its roads and bridges. The 1984 Legislature has already responded by requiring 25 percent of the revenues raised by the motor vehicle excise tax to be taken from the General Fund and placed in the Trunk Highway Fund. Between fiscal year 1985 and fiscal year 1987, this amounts to an estimated $50 to $60 million per fiscal year, an amount which some say is only a fraction of what is needed.

Given the recent reductions in school aids amounting to over $212 million, coupled with the current national debate on education quality, the state, in all likelihood, will be pressured not only to restore education aids, but to increase them. The education debate, in many ways, is very similar to that occurring over taxes. Both focus, at some point, on how our state ranks to others. Those in the education field are quick to inform lawmakers that our once relatively high ranking in per pupil state expenditures has declined in recent years, becoming another argument often used to justify increased state spending for education.

It is also important to realize that much of the slower rate of growth that is anticipated in the state's General Fund is a result of slower growth in expenditures which directly or indirectly provide property tax relief. As a result, these policies could eventually result in higher property taxes, which in turn could lead to increased pressure on state lawmakers to once again provide property tax relief in one form or another.

In conclusion, the reality is that the tax debate by implication is also a spending level debate. If the two sides of the budget are not reconciled, then there is a real danger that the budget actions taken during the last two bienniums will become the rule rather than the exception. Furthermore, because the majority of state spending is for the purpose of subsidizing the local property tax, any substantial reduction in state level taxes (spending) would, most likely, either shift the taxing responsibility back to the local governments or result in a loss of services which are provided by local governments, not by the state. Thus, depending on the extent to which state taxes are to be reduced and which state spending programs are affected, the net impact on state/local taxes and spending can vary significantly.

APPENDICES

APPENDIX TABLE 1A

SUMMARY OF GENERAL FUND FINANCES
TRENDS IN MAJOR TAX REVENUE AND EXPENDITURE CATIGORIES:FY1975-1987est.
(Includes Governor's recommendations as of April 17,1984)
(THOUSANDS OF DOLLARS)

	FY1975	FY1976	FY1977	FY1978	FY1979	FY1980	FY1981	FY1982	FY1983	EST. FY1984	EST. FY1985	EST. FY1986	EST. FY1987
MAJOR TAX SOURCES													
PERSONAL INC	846445	926697	1050419	1203924	1401224	1397563	1558819	1699195	1976522	2258500	2164900	2450700	2667050
GENERAL SALES	384391	430842	468543	539387	610473	650902	688895	876078	1009206	1249793	1376364	1489350	1628050
CORPORATE INC	180381	176202	237523	268973	324126	345709	282080	302149	221582	292800	355200	360200	398150
MOTOR VEHICLE	52171	62709	74280	85335	97947	89660	88095	104219	123808	174200	203800	217733	231867
TOTAL MAJOR TAX REV.	1463388	1596450	1830765	2097619	2433770	2483834	2617889	2981641	3331118	3975293	4100264	4517983	4925117
EXPENDITURES "BIG 7"													
AID TO SCHOOLS [1]	635511	763506	800255	837610	862999	1013429	1069199	1205014	753772	970565	999984	1142725	1245965
POST-SEC ED [2]	322620	378775	447452	551814	518420	565824	608141	691303	706517	871643	908015	957718	1007330
PROPERTY TAX RLF	244837	285988	374436	425739	484612	494104	604845	682065	462606	789977	811243	855888	884573
MA/GAMC	137311	173895	215400	266181	277766	339367	388845	453265	502853	517671	599519	731370	836238
LGA+GEN SUP.	130078	155903	172925	243132	234097	282028	286562	255785	288870	333532	338225	355866	375274
DEBT SERVICE	52028	53205	58471	58510	150924	88173	93996	135302	194002	127922	167094	154623	167582
INCOME MAINTANCE	36518	39519	43153	47524	55479	64611	98023	105147	104592	142539	162814	188656	201478
TOTAL "BIG 7" EXP.	1558903	1850791	2112092	2430510	2584297	2847536	3149611	3527881	3013212	3753849	3986894	4386946	4718440
TOTAL G/F EXP. WITH YEARS 1977 - 87 ADJUSTED TO GAAP [3]	1867714	2256263	2684009	2903327	3129745	3401030	3690495	4051036	3487310	4546809 [4]	4731002 [4]	5152111 [4]	5478373 [4]

Source: The Department of Finance provided data for years 1984 through 1987. Their estimates include 1984 law changes and are based on their controlled (trendlong) scenario. The Office of the Legislative Auditor compiled comparable data for years 1975-1983.

APPENDIX TABLE 1A (Cont'd.)
FOOTNOTES

1/ Amounts for 1984-1987 differ slightly from what the Department of Finance projects because we made an adjustment to exclude vocational aids for AVTIs only. Other vocational aids are included as aids to secondary schools.

2/ Correspondingly, amounts for post-secondary education for 1984-1987 also differ slightly from Department of Finance figures. Our figures include vocational aids for AVTIs only.

3/ GAAP refers to Generally Accepted Accounting principles. Fiscal years 1975 and 1976 are based on a budgetary basis because a GAAP adjustment was not readily available for those years. Because the GAAP adjusted totals exclude the U. of M. to compute either the total "Big 7" or the post-secondary education expenditures as a percent of total General Fund expenditures is somewhat misleading. In order to make these calculations more meaningful it would be necessary to either use total General Fund expenditures as reported on a Budgetary basis or exclude the U. of M. expenditures from the post-secondary category and therefore from the "Big 7" total.

4/ Department of Finance projects total General Fund expenditures, using a budgetary basis, to equal $4,821,051,000 in FY 1984, $5,017,009,000 in FY 1985, $5,458,076,000 in FY 1986, and $5,803,278,000 in FY 1987. See Appendix Table 3A for method used to convert these projections to GAAP estimates.

APPENDIX TABLE 2A

STATE GENERAL FUND

ESTIMATED IMPACT OF MAJOR TAX LAW CHANGES
FISCAL YEARS 1982 TO 1987est.
($ MILLIONS)

MAJOR TAX LAW CHANGES:1981-84	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	SOURCE SEE TABLE NOTES	COMMENTS
PERSONAL INCOME TAXES(TOTAL)	$1,699	$1,976	$2,258	$2,164	$2,451	$2,667	1	
FEDERAL CONFORMITY								
FED.ACCRUAL TAX DED.	$52	($15)	($15)	($15)	($15)	($15)	2	Mn. LAWS 1981,1ST SS,CH3
MEDICAL EXPENSES		$75	$96	$97	$102	$107	3	Mn. LAWS 1981,1ST SS,CH2;LAWS 1983,CH242.ART.I,SEC16
STRADDLES	$7	$7	$4	$4	$4	$5	4	Mn. LAWS 1981,3RD SS,CH2
INTEREST & DIVIDENDS		$10	$11	$11	$12	$13	5	Mn. LAWS 1981,3RD SS,CH2
GAS TAX DED.			$21	$24	$25	$26	6	Mn. LAWS 1983,CH342,ART.I,SEC10
CAPITAL GAINS			($14)	($14)	($14)	($14)	4	Mn. LAWS 1981,3RD SS,CH2(EFFECTIVE FY '84)
MINIMUM TAX			$5	$6	$6	$6	4	Mn. LAWS 1983,CH342,ART.I,SEC16
INDV.DEPRECIATION BASE ADJ			$2	$4	$6	$7	4	Mn. LAWS 1983,CH342,ART.I,SEC16
SUBTOTAL FED CONFRM. CHANGE	$59	$77	$110	$117	$126	$135		
ELIMINATE INVEST.TAX CREDIT			$28	$26	$29	$32	6	Mn. LAWS 1983,CH342,ART.I,SEC4
ACRS			($8)	($21)	($34)	($36)	4	Mn. LAWS 1983,CH342,ART.I,SEC5
SURTAX 7%	$63	$70					7	Mn. LAWS 1981,3RD SS,CH2
SURTAX 10%		$100	$101				8	Mn. LAWS 1982,3RD SS,CH1;LAWS 1983,CH342,ART.I,SEC7
TNIAF(PART OF INDEX.CHANGE)	$17	$21	$32	$40	$47	$55	9	Mn. LAWS 1981,1ST SS,CH1
TOTAL: INCOME TAX CHANGE	$139	$268	$263	$162	$168	$186		
SALES TAXES								
GENERAL (TOTAL)	$876	$1,009	$1,250	$1,376	$1,489	$1,628	1	
INCREASE FROM 4 TO 5%	$159	$101					7	Mn. LAWS 1981,1ST SS,CH1
INCREASE FROM 4 TO 6%		$143	$381	$420	$454	$497	10	Mn. LAWS 1982,3RD SS,CH1;LAWS 1983,CH342,ART.6,SEC4
INCLUSION OF CANDY,POP,ETC.								
5% 1ST 7 MONTHS OF FY83		$42					7	Mn. LAWS 1981,3RD SS,CH1
6% LAST 5 MONTHS OF FY83		$36	$92	$100	$105	$110	11	Mn. LAWS 1982,CH641;LAWS 1983,CH342 ART.6,SEC4
TAX REDUCTION CAP EQUIP (4%)				($4)	($11)	($13)	12	Mn. LAWS 1984,OMINBUS TAX BILL
SUBTOTAL:GEN.SALES TAX CHANGE	$159	$322	$473	$516	$548	$594		
MOTOR VEHICLE EXCISE (TOTAL)	$104	$123	$174	$204	$218	$232	1	
INCREASE FROM 4 TO 5%	$16	$25	$35	$41	$44	$46	13	Mn. LAWS 1981,1ST SS,CH1
INCREASE FROM 5 TO 6%			$28	$33	$35	$37	14	Mn. LAWS 1983,CH342,ART.6,SEC10
TOTAL: SALES TAXES CHANGE	$175	$347	$536	$589	$627	$677		
CORPORATE INCOME (TOTAL)	$302	$221	$293	$355	$360	$398	1	
SMALL BUSINESS(INC.BRACKETS) PLUS R & D CREDITS		($31)	($29)	($37)	($41)	($41)	15	Mn. LAWS 1981,3RD SS,CH2
TEFRA-FED CONFORMITY		$4	$12	$14	$16	$16	4	Mn. LAWS 1982,3RD SS,CH2

APPENDIX TABLE 2A (Cont'd.)

STATE GENERAL FUND

ESTIMATED IMPACT OF MAJOR TAX LAW CHANGES
FISCAL YEARS 1982 TO 1987est.
($ MILLIONS)

MAJOR TAX LAW CHANGES:1981-84	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	SOURCE SEE TABLE NOTES	COMMENTS
EQUITY INVEST. CREDIT			($2)	($2)	($2)	($2)	16	Mn. LAWS 1983,CH342,ART.8,SEC13
REPEAL DED. FOR OTHER STATE TAXES			$8	$10	$10	$11	17	Mn. LAWS 1983,CH342,ART.8,SEC14
TOTAL CORP. INC.TAX CHANGE	$0	($27)	($11)	($16)	($17)	($17)		
TOTAL IMPACT OF STATE LAW CHANGES	$314	$588	$788	$736	$777	$846		
FEDERAL TAX LAW CHANGES								
EC. RECOVERY ACT 81								FEDERAL LAWS,ECONOMIC RECOVERY ACT OF 1981 *
PERSONAL INC.RATE CUTS	$46	$121	$191	$230	$261	$297	9	
NET OTHER	$13	$30	$29	$45	$85	$123	9	
TEFRA RECOVERY ACT 1982		($2)	($9)	($5)	($6)	($6)	4	FEDERAL LAWS, TAX EQUITY & FISCAL RESPONIBILITY ACT OF 1982 **
'83 LAWS (SOC.SEC.BILL)			$5	$1	($2)	($3)	4	
TOTAL: FEDERAL IMPACT	$59	$149	$216	$271	$338	$411		
TOTAL TAX LAW IMPACT	$373	$737	$1,004	$1,007	$1,115	$1,257		

TABLE NOTES:
1. FY82-83 FROM SWA;FY84-87est FROM DEPT OF FIN 5/10/84
2. OLA COMPUTATIONS FY82,FY83: DEPT OF REVENUE 4/84
3. DEPT OF REV FY83 5/11/82:DEPT OF REV FY84,85 (6/83):PROJ.5%/YR FY86,87
4. DEPT OF REVENUE 4/84
5. DEPT OF FINANCE 12/22/82
6. BASED ON $55 EST FOR 83-85 BIENIUM:FY86,87 = .012 OF PERS.INC.TAXES
7. OLA COMPUTATIONS
8. OLA COMPUTATIONS FY82,83:DEPT. OF FIN FY84. 1/1/84 REPEAL
9. DEPT OF REVENUE 4/19/84
10. OLA COMPUTATIONS FY83:FY84-87 EQUALS .305 OF TOTAL GEN SALES TAXES
11. FY84-87 BASED ON 5% GROWTH RATE
12. 1984 LAWS.DEPT OF REV EST.: ALSO INCLUDES SPEC.TOOL TAX RED.
13. OLA COMPUTATIONS FY82,83:PROJECTED AT .20 OF TOTAL MOTOR VEHICLE
14. BASED ON $59 EST FOR 83-85 BIENIUM:FY86,87 = .16 OF TOTAL MOTOR VEH.
15. OLA COMPUTATIONS FY83:FY84-87 DEPT OF FINANCE
16. BASED ON $4 EST FOR 83-85 BIENIUM:FY86,87 = .006 OF TOTAL CORP INC TX
17. BASED ON $19 FOR 83-85 BIENIUM:FY86,87=.027 OF TOTAL CORP INC TAXES

* MAJOR PROVISIONS INCLUDE:
- -INDIVIDUAL RATE REDUCTIONS
- -MARRIED COUPLE DEDUCTION
- -CHANGES IN RETIREMENT PROVISIONS
- -CHANGES IN SAVING PROVISIONS

** MAJOR PROVISIONS INCLUDE CHANGES IN:
- -MINIMUN TAX DEFINITION
- -CASUALTY LOSS DEDUCTION
- -MEDICAL & DENTAL EXPENSES
- -PENSION LIMITS
- -DIVIDEND & INTEREST WITHHOLDING

Source: Office of the Legislative Auditor staff computations, Departments of Revenue and Finance.