

Suits Index Calculation of Governor Dayton's Tax Reform Recommendations for FY2014-15

Summary

The Governor's package of tax proposals is progressive. The Suits Index for the full package of tax changes will be close to +0.10. If enacted, the package would make the overall tax structure less regressive.

The Suits Index – Based on the 2011 Tax Incidence Study

The Suits Index – a summary measure of regressivity or progressivity – has a value between -1 and +1.

- A positive Suits Index means the tax system is progressive – the tax burden as a share of household income generally increases with income.
- A Suits Index of zero means the tax system is proportional -- the tax burden as a share of a household income is the same for high income households as for low income households.
- A negative Suits Index means the tax system is regressive – the tax burden as a share of household income generally falls with income.

The current law 2011 Tax Incidence Study estimated that for all Minnesota state and local taxes combined, the Suits Index was negative (-0.060 in 2008). Low- and middle-income Minnesotans paid a higher share of their income in Minnesota state and local taxes than high-income Minnesotans paid.

Impact of the Governor's Proposal*

The Governor's proposal should be considered as a package and its net impact is progressive.

The Suits Index for the full package of tax changes will be close to +0.10. The Governor's proposal would raise the overall Suits Index for the entire tax system toward zero by as much as +0.01, reflecting a less regressive overall tax system.

The bottom line is that the fourth tier tax increase and the homeowner property tax rebates are both very progressive and large enough to more than offset the impact of the more regressive portions of the full proposal.

A brief summary of individual components

1. *New fourth tier rate.* If enacted for 2008, the Suits Index for this part of the Governor's proposal would have been +0.874. The tax increase – on the top 2% of Minnesota households – is highly progressive. It also accounts for a large proportion of the net tax increase.
2. *Property tax rebates.* If enacted in 2008, the Suits Index for this proposal would have been +0.348. Taken alone, it would have cut the total tax burden by 5.2% for the first 8 deciles

combined, by 3.6% for the 9th decile, and by 1.6% for the top decile. The proposed rebate is not only very progressive but also large, at over \$700 million per year.

3. *Other property tax reductions.* The reduced state levy and increases in LGA and county aids will reduce property tax burdens. The business and homeowner property taxes that would be eliminated are estimated to have a Suits Index of -0.167. By cutting a regressive tax, the proposal would make the overall system less regressive.
4. *State Sales Tax.* In combination, the rate cut (down 20%) and expanded tax base yield a tax increase of nearly \$1.5 billion per year. Modeling the components as best we can at this time yields a Suits Index of -0.192. The net impact of the sales tax changes are regressive, as expected.
5. *Local Sales Taxes.* Base expansion will increase local sales tax revenue, as will the proposed 0.25% transit tax in the 7-county metro area – an increase of roughly \$300 million. The Suits Index for the increase in local sales taxes is -0.215.
6. *Cigarette and tobacco tax.* The \$150 million increase would have a Suits Index similar to that estimated in previous study, at -0.582 in 2008.

2013 Tax Incidence Study

The Department of Revenue will conduct a full incidence analysis of the Governor's tax proposal once the *2013 Tax Incidence Study* is complete this spring.

Web

View current and past Tax Incidence Studies here:

http://www.revenue.state.mn.us/research_stats/Pages/Tax_Incidence_Studies.aspx

* The estimates of distributional impact are based on the *2011 Tax Incidence Study*, and are limited to the Suits Index.