

Minnesota Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in Minnesota pay a far higher share of their income in state and local taxes than do the richest families in Minnesota, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Minnesota has a very unfair tax system.”

Minnesota’s Tax Code: Tax the Poor and Middle Class, Spare the Wealthy

When all Minnesota taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Minnesota families—with average incomes of \$1.0 million—is 9.3% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a mere 6.4%.
- The average tax rate on families in the middle of the income distribution—those earning between \$32,000 and \$50,000—is 10.4% before the federal offset and 9.9% after, more than one and a half times the effective rate the richest pay.
- But the tax rate on the poorest Minnesota families—those earning less than \$19,000—is the highest of all. At 10.5% it is also more than one and a half times the rate on the very wealthy.

“Minnesota’s reliance on sales and excise taxes undermines overall progressivity, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Minnesota.”

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Tax Regressivity Has Worsened Since 1989

The study also examined the impact of changes in the regressivity of Minnesota taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens fell sharply for the best-off fifth of Minnesota families, while they stayed about the same for the rest of the population.
- Adoption of an earned-income tax credit helped low-earning Minnesota taxpayers, but the benefits were wiped out by higher consumption and property taxes.

"Minnesota's constructive measures for low- and middle-income taxpayers were undone by regressive sales tax hikes over the decade," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

Two pages of tables detailing the Minnesota findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

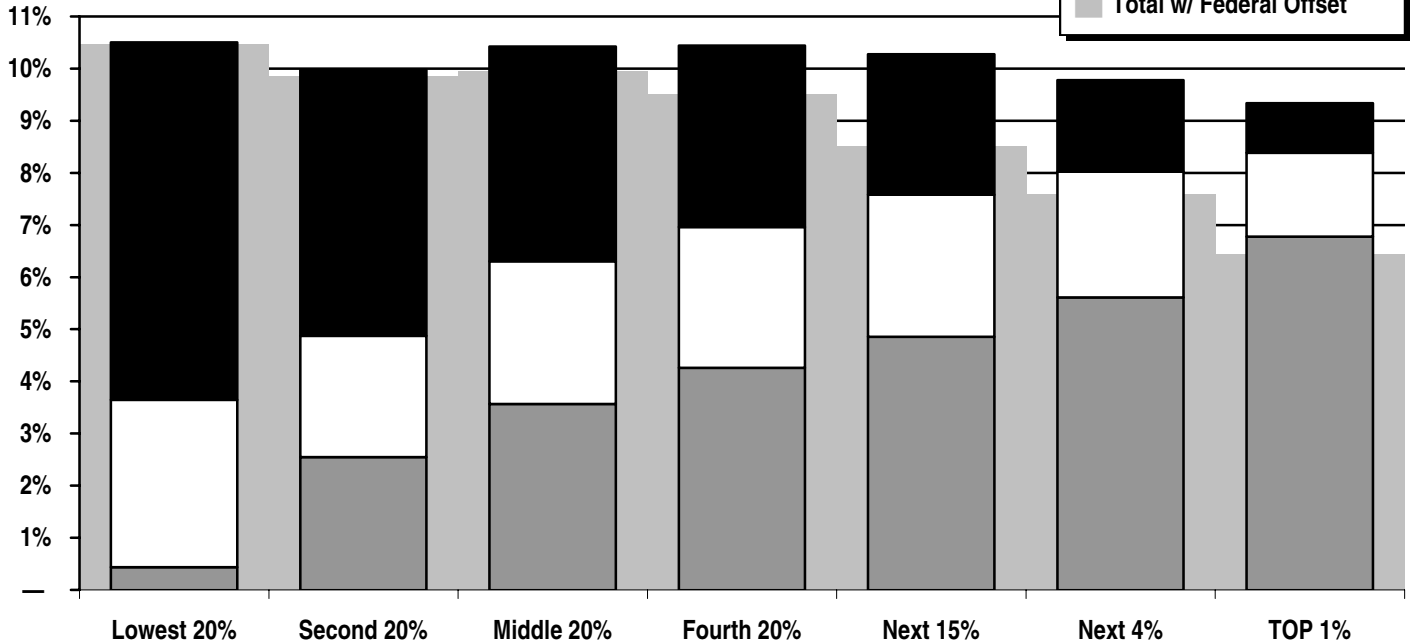
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Minnesota

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$19,000	\$19,000 – \$32,000	\$32,000 – \$50,000	\$50,000 – \$76,000	\$76,000 – \$147,000	\$147,000 – \$556,000	\$556,000 or more
Average Income in Group	\$11,000	\$25,200	\$40,700	\$62,800	\$100,000	\$205,000	\$1,002,000
Sales & Excise Taxes	6.9%	5.1%	4.1%	3.5%	2.7%	1.8%	1.0%
General Sales—Individuals	3.3%	2.6%	2.2%	2.0%	1.5%	1.0%	0.6%
Other Sales & Excise—Ind.	1.4%	0.9%	0.6%	0.5%	0.4%	0.2%	0.1%
Sales & Excise on Business	2.2%	1.6%	1.2%	1.0%	0.8%	0.5%	0.3%
Property Taxes	3.2%	2.3%	2.7%	2.7%	2.7%	2.4%	1.6%
Property Taxes on Families	2.9%	2.1%	2.5%	2.5%	2.4%	2.0%	0.9%
Other Property Taxes	0.3%	0.2%	0.2%	0.2%	0.3%	0.4%	0.7%
Income Taxes	0.4%	2.5%	3.6%	4.3%	4.9%	5.6%	6.8%
Personal Income Tax	0.4%	2.5%	3.5%	4.2%	4.8%	5.5%	6.5%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
TOTAL TAXES	10.5%	10.0%	10.4%	10.4%	10.3%	9.8%	9.3%
Federal Deduction Offset	-0.0%	-0.1%	-0.5%	-0.9%	-1.8%	-2.2%	-2.9%
TOTAL AFTER OFFSET	10.5%	9.8%	9.9%	9.5%	8.5%	7.6%	6.4%

Note: Table shows 2002 tax law at 2000 income levels.

Minnesota Tax Trends

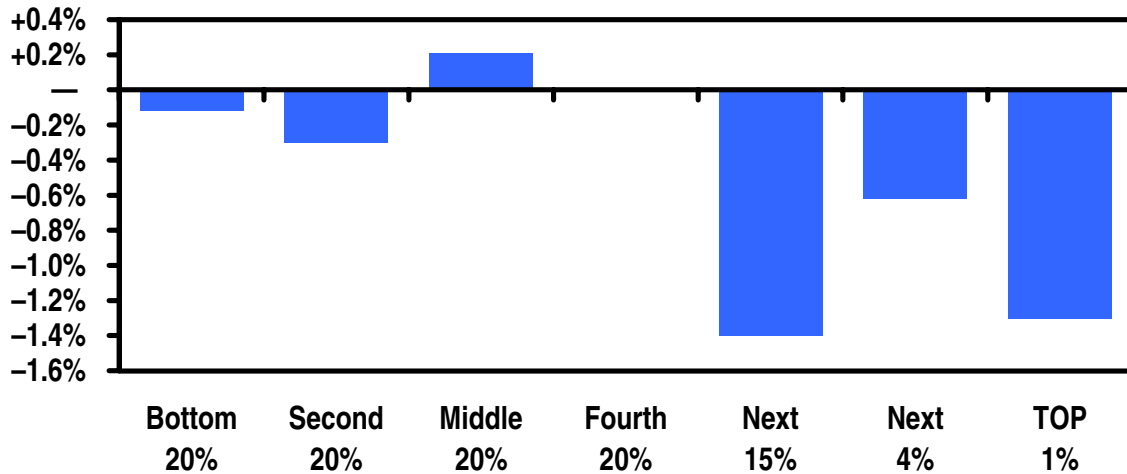
Progressive Features

- ✓ Refundable EITC and dependent care credit
- ✓ Low income property tax circuit breaker
- ✓ Tax brackets, exemptions and standard deduction indexed

Regressive Features

- ✗ Relatively high sales tax rate

Changes in Taxes as Shares of Income, 1989 – 2002

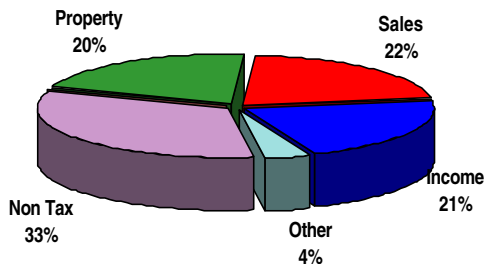


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.2%	+0.1%	+0.1%	+0.1%	+0.1%	+0.1%	+0.0%
Property	+0.5%	-0.1%	+0.3%	+0.1%	-1.0%	-0.5%	-0.7%
Income	-0.8%	-0.2%	-0.1%	+0.1%	-0.1%	+0.1%	+0.2%
Federal Offset	-0.0%	-0.1%	-0.1%	-0.3%	-0.4%	-0.3%	-0.8%
Overall Change	-0.1%	-0.3%	+0.2%	-0.0%	-1.4%	-0.6%	-1.3%

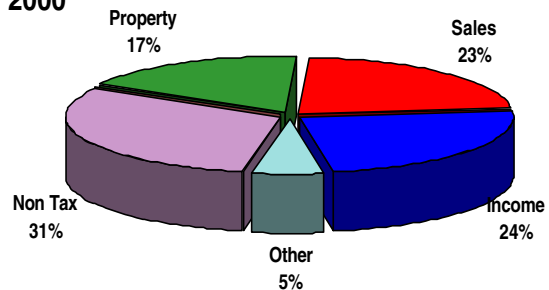
The adoption and expansion of a refundable EITC greatly assisted the poorest Minnesotans while high-income taxpayers saw the benefit from income tax rate reductions offset by the phase-out of the exemptions and itemized deductions. Sales taxes were hiked one half percent.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census