

When talking about taxes, who pays how much is a central issue. To answer this question, the Minnesota Department of Revenue releases a comprehensive tax incidence study every two years. The main findings of the 1999 Tax Incidence Study are:

- All Minnesotans pay around the same percentage of their incomes in total state and local taxes.
- Different kinds of taxes vary in their impact. Lower-income Minnesotans pay more of their tax burden as sales and excise taxes, middle- and upper-income people pay more of their tax burden as income taxes.
- Although the highest income Minnesotans pay a large portion of the state's taxes, their share of state taxes is equal to their share of the state's income.

Determining "tax incidence" means identifying where the tax burden really falls, regardless of who is legally required to pay the tax. For example, although the owner of an apartment building is required to pay the property tax on it, a portion of the tax is shifted onto renters in the form of higher rents. Likewise, taxes on businesses may be shifted onto workers as lower wages or onto consumers as higher prices.

The tax incidence study divides the population into ten groups (called deciles) by income. For example, the bottom decile contains the 10% of Minnesotans with the lowest incomes. The study looks at actual taxes paid and calculates what percentage of income each decile spends on taxes. The 1999 Tax Incidence Study covers 1996 taxes and estimates 1998 taxes. It finds that all Minnesotans pay around the same percentage of their incomes in total state and local taxes. In 1996, Minnesotans paid between 12% and 13.1% of their incomes in state and local taxes. Taxes for 1998 are estimated to drop to 11.3% to 12.7% of income (10.5% to 12.2% if the property tax rebate is included). The distribution of these taxes is shown in Chart 1. In Minnesota, a progressive income tax balances the regressivity of the other taxes. Minnesota is unusual in the degree to which it relies on the income tax, but this is also what makes our state's overall tax system less regressive than is seen in other states.

Although all Minnesotans pay about the same when taxes as a whole is considered, this does not hold true for all kinds of taxes. Table 1 shows what percentage of income is spent on each tax type for an example family at three income levels (representing the bottom third, middle, and top third of the population). As income grows, sales and excise taxes become a smaller part of the tax burden and income taxes become larger. This difference is important to keep in mind when decisions are made to cut a certain tax. The benefits will not be evenly distributed across the board, but will depend on how much that tax contributes to a family's total tax burden.

Another aspect of tax fairness is how much each group pays in relation to its share of total income. This information is presented in Table 2. Although the upper deciles pay a larger share of taxes in relation to their share of population, all deciles pay taxes in proportion to their share of the state's total income. For example, the wealthiest 10% of Minnesotans pay 37.6% of state and local taxes, but they also receive 38.9% of total income.

Chart 1: 1998 Projected Tax Rates

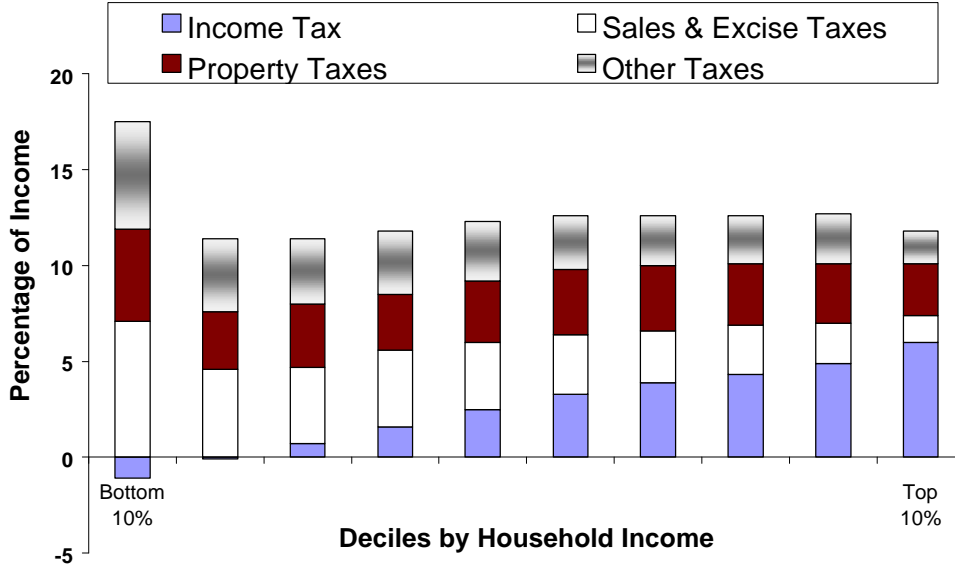


Table 1: Tax Burden by Type on a Single-Parent Family (1996)

Tax Type	\$9,491 income	\$18,969 income	\$31,508 income
Residential property tax	2.04%	1.78%	2.22%
State income tax	-2.94%	0.7%	4.04%
Consumer sales tax	3.48%	2.72%	2.01%
Consumer excise tax	1.71%	1.28%	0.58%
Other individual taxes	1.42%	1.37%	1.14%
Business taxes	4.76%	3.44%	2.75%
Total:	10.47%	11.29%	12.74%

Table 2: Percentage of Income and Percentage of Taxes Paid (1996)

Decile	Income	Percentage of Income	Percentage of Taxes Paid
1	\$6,817 and under	1%	1.7%
2	\$6,817 – 11,166	2.1%	2%
3	\$11,166 – 15,828	3.2%	3%
4	\$15,828 - 21,634	4.4%	4.4%
5	\$21,634 - 27,866	5.8%	5.9%
6	\$27,866 - 35,486	7.4%	7.6%
7	\$35,486 - 45,144	9.4%	9.7%
8	\$45,144 – 57,697	12%	12.3%
9	\$57,697 – 78,618	15.8%	16.1%
10	\$78,618 and over	38.9%	37.6%

A note of precaution: A commonly recognized issue with the tax incidence study regards the lowest deciles. People in the lowest deciles tend not to file taxes, and information about them must come from other sources. Persons in the bottom deciles may have other unreported sources of income (such as savings, self-employment income, student loans, or financial assistance from family members.) For this reason, results for the first decile are often disregarded when making conclusions about the tax system, as was done in this paper.