

## Minnesota's Tax Rankings: How Do We Measure Up?

We often hear Minnesota described as a high tax state, with tax rankings mentioned as proof. However, if we look closer at how Minnesota compares to other states, we find the picture is more complex. Among our findings:

- Minnesota ranks among the 10 highest states in total state and local taxes, income taxes, corporate income taxes, and commercial and apartment property taxes.
- Minnesota ranks lower in excise taxes and overall property taxes, although still in the top 20.
- Minnesota ranks in the bottom half for sales taxes, gasoline taxes, income taxes on low-income families, and property taxes on low value homes.
- Rankings must be approached with caution, as they are usually based on averages that do not allow us to see how the tax affects individual taxpayers. Although our income tax is 5<sup>th</sup> highest in the country on married couples with high incomes, it is the lowest on low-income families. Similarly, although Minnesota ranks 1<sup>st</sup> on property taxes on high value commercial and industrial property, we are 18<sup>th</sup> on low value industrial and 27<sup>th</sup> on low-value homes.

Our high rankings on some taxes reflect the fact that our state's tax system is less regressive than is seen in other states. Minnesota is unusual in the degree to which it relies on the income tax as a revenue source — in most states, the largest source of revenue is the sales or property tax. Minnesota's relatively high personal income taxes allow the state to keep other taxes relatively low. Our progressive income tax offsets the regressive sales and property taxes.

It is important to note that there are some taxes that are not collected in Minnesota. These include local income taxes, gross earnings taxes on businesses (e.g. utility companies), taxes on personal property (e.g. household goods), and intangibles taxes on assets, stocks, and bonds (which are used by states that do not have an income tax).

Up-to-date rankings are hard to find, and most states, including Minnesota, have made changes to their tax systems over the last several years. Minnesota is ranked #1 for the amount of tax reductions in 1998; it remains to be seen how exactly this 18% tax reduction will affect our rankings.

Where possible, we have measured taxes as a share of personal income. This measure was seen as most appropriate, as it takes into account the taxpayer's ability to pay.

| TYPE OF TAX   | RANK |
|---|------|
| <b>Total State &amp; Local Taxes</b>  |      |
| • Total state and local taxes as a percentage of personal income (1996)*                                    | 5    |
| <b>Amount of tax reductions in 1998</b> (among 44 states) <sup>!</sup>                                      | 1    |
| <b>Income tax</b> (among 42 states)   |      |
| • Percentage of income (1996)*  | 5    |
| • By type of filer (example is a family with \$35,000 income) (1994) <sup>^</sup>                           |      |
| - Married two-earner  | 13   |
| - Married one-earner  | 17   |
| - Head of Household   | 12   |
| - Single  | 8    |
| • By income (example is a married one-earner family) <sup>^</sup> (1994)                                    |      |
| - \$200,000   | 5    |
| - \$50,000  | 13   |
| - \$25,000  | 24   |
| - \$10,000  | 40   |
| • For a two-parent families of four at poverty line income (1998) <sup>@</sup>                              | 42   |
| <b>Property Tax</b>   |      |
| • Percent of personal income (1996)*  | 18   |
| • Homestead (1995) <sup>§</sup>   |      |
| - Low value   | 27   |
| - High value  | 14   |
| • Commercial (1995) <sup>§</sup>  |      |
| - Low value   | 9    |
| - High value  | 1    |
| • Industrial (1995) <sup>§</sup>  |      |
| - Low value   | 18   |
| - High value  | 1    |
| • Apartments (1995) <sup>§</sup>  | 2    |
| <b>Corporate Income Taxes</b> (among 46 states)   |      |
| • Percentage of personal income (1996)*   | 10   |
| <b>State and Local Sales Taxes</b>  |      |
| • Per \$1,000 of income (1996) <sup>+</sup>   | 26   |
| • General and selective sales taxes (gas, cigarettes, utilities) (1996)*                                    | 23   |
| <b>Excise taxes</b> (includes cigarette, alcohol, beverage, etc.) <sup>+</sup>                              |      |
| • Per \$1,000 of income (1997)  | 15   |
| <b>State gasoline taxes</b> (1996)*   | 26   |
| <b>State cigarette taxes</b> (1996)*  | 19   |
| <b>Other taxes</b> (all those besides property, sales, corporate income, and personal income taxes) (1996)* | 22   |

**Sources:**

\* Maryland Budget and Tax Policy Institute, *Chartbook of Taxes in Maryland*, 1999.

§ Minnesota Taxpayer's Association data, presented to A Special Fiscal Seminar For Newly Elected State and Local Public Officials, 1998.

<sup>^</sup> Department of Revenue, *Comparison of 1994 Individual Income Tax Burdens by State*, 1995.

<sup>@</sup> Center on Budget and Policy Priorities, *State Income Tax Burden on Low Income Families in 1998: Assessing the Burden and Opportunities for Relief*, 1999.

<sup>+</sup> Minnesota Taxpayer's Association, *How Does Minnesota Compare?*, 1999.

<sup>!</sup> National Conference of State Legislatures, *State Budget and Tax Actions 1999: Preliminary Report*, 1999.