



News Release

For Embargoed Release: 12:01 a.m., March 15, 2000

Contact: Nan Madden, Minnesota Budget Project Director
(651) 642-1904 x30 / (612) 539-8742

Minnesota's Income Tax System Praised; Legislature Shouldn't Lose Sight of the Big Picture

Minnesota has consistently been a leader in ensuring that the state does not tax struggling families further into poverty. A new report by the Center on Budget and Policy Priorities shows that, among 42 states with income taxes, Minnesota has the lowest or second-lowest income tax burden on families in poverty, families with minimum-wage earnings, and families with incomes at 125% of the poverty line. Through a progressive income tax system and refundable credits to offset other state taxes, Minnesota ensures it does not make things worse for struggling families.

"Minnesota should be proud of our rankings," said Nan Madden, Minnesota Budget Project Director. "However, only looking at the income tax can miss other important features of our tax system. It's important to look at the big picture to understand why there's still more to be done."

A low income tax burden does not mean that low-income families are not paying their fair share. Minnesotans at all income levels pay about the same percentage of income in total state and local taxes. In Minnesota, a progressive income tax balances regressive sales and property taxes, which take a higher percentage of income from low-income families than from upper-income households. 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.

Because our current income tax does not place a heavy burden on low-income families, proposals that focus on cutting income taxes leave out many struggling families. "For example, the House Republican proposal to cut income tax rates to 5%, 6.5%, and 7.5% would give tax cuts of \$10 or less to 41% of head of household filers and 7% of married filing joint filers. Middle- and upper-class families would see significant tax cuts yet moderate-income families' taxes would stay about the same. It seems unreasonable in a time of record surpluses that the state would make our tax system more regressive," said Madden.

"Because the way we pay our taxes varies with income, the legislature must put together a tax bill that combines a variety of approaches so that all Minnesotans receive their fair share of tax relief," said Madden. One promising approach is to combine income tax reductions with an increase in the Working Family Credit. The Working Family Credit is a refundable credit for low-income families, based on earned income and family size. It is the state's version of the federal Earned Income Credit, which has been shown to be the most successful government program in lifting families out of poverty. Last year's omnibus tax bill increased the Working Family Credit so that all families would receive tax relief. The Minnesota Budget Project has asked the legislature again this year to include an increase in the Working Family Credit as part of their total tax relief package.