

How Many Minnesotans Pay No State Income Tax?

This memo is an update of a 2011 memo on the number of Minnesotans who pay no state income tax. The estimates are based on the *Tax Incidence Study* database for Tax Year 2018. This database includes “non-filers” – those who filed no income tax return, and households that filed a return but did not owe tax. The analysis is limited to full-year Minnesota residents; it excludes part-year residents as well as nonresidents.

Summary of Results

The share of Minnesotans who paid no tax (after refundable credits) in 2018 is estimated to be **29 percent of tax units** and **25 percent of non-dependent adults**. In 2023, 28 percent of tax units and 25 percent of non-dependent adults are expected to pay no tax, based on projections using the incidence database.

The share of tax units who paid no tax varied greatly by type of household, from highs of 52 percent for single seniors and 51 percent for single parents to a low of 12 percent for married couples with dependents. The share fell with income, dropping from 95 percent for tax units below the poverty level to 12 percent for non-senior tax units between 200 and 250 percent of poverty (and 1 percent for non-seniors over 400 percent of poverty). The results for seniors were much different. For any given percent of poverty, the no-tax share for seniors was much higher.

The share of tax units who paid no Minnesota tax is less than the share of all U.S. residents who paid no federal income tax the same year. (The Brookings Institution Tax Policy Center estimates that 44.4 percent of tax units had no tax liability in tax year 2018). The higher federal percentage is partly due to differences in the Federal and state income tax codes and partly to Minnesota incomes being higher than the national average.

Definitions

For purposes of this analysis, the term “**Tax Unit**” refers to all those included on an income tax return – taxpayer and spouse (if filing a joint return) plus all dependents claimed on the return. For non-filers, a Tax Unit is defined as all who *would* be included on the same tax return *if one were filed*.

The term “**Adult**” counts married couples (those filing a joint return and non-filing married couples) as two. The term “taxpayer” is sometimes used to refer to the same concept, but it seems confusing to refer to someone paying no tax as a taxpayer. Counts and percentages of adults are sometimes a useful alternative to counts and percentages of tax units, which make no distinction between joint returns and single filers.

The definition of “pay no tax” can be based on either (1) tax *before* refundable credits or (2) tax *after* refundable credits. The refundable credits include the Working Family Credit, the Child Care Credit, and the K-12 Education Credit. The following analysis reports results under both definitions.

Why Minnesotans Can Pay No Income Tax

There are several reasons a Minnesota full-year resident may pay no Minnesota income tax.

- No tax is paid if taxable income is zero (or negative) after subtracting (1) personal and dependent exemptions¹, (2) either the standard deduction or itemized deductions, and (3) other allowable deductions or subtractions.
- Some forms of income are exempt from tax and not included in adjusted gross income. This includes public assistance (MFIP and Supplementary Security Income) and some or all Social Security benefits.
- Even if taxable income is positive, tax credits may reduce tax liability to zero (or – if eligible for refundable credits – below zero).

How Many Paid No Tax in 2018?

Table 1 shows **25 percent of tax units** paid no tax before refundable credits and **29 percent of tax units** paid no tax after refundable credits. Because singles are more likely to have no tax liability than couples are, the percentage paying no tax falls if defined in terms of adults rather than tax units. Therefore, **22 percent of adults** paid no tax before refundable credits and **25 percent of adults** paid no tax after refundable credits.

Table 1. Tax Units and Adults with Zero or Negative Tax Liability (Tax Year 2018)

Tax Filing Status	Number of Tax Units	Tax Units Paying No Tax		Percent Paying No Tax	
		No tax before refundable	No tax after refundable credits	No tax before refundable	No tax after refundable credits
File income tax return	2,472,027	382,035	479,213	15%	19%
Do not file income tax return	315,479	315,479	315,479	100%	100%
Total	2,787,506	697,514	794,692	25%	29%
Tax Filing Status	Number of Adults	Adults Paying No Tax		Percent Paying No Tax	
		No tax before refundable	No tax after refundable credits	No tax before refundable	No tax after refundable credits
File income tax return	3,520,599	487,790	604,779	14%	17%
Do not file income tax return	363,803	363,803	363,803	100%	100%
Total	3,884,402	851,593	968,582	22%	25%

Variation by Household Type

The share of **tax units** who pay no tax after refundable credits varies greatly by household type. Table 2 shows the highest percentages were for single seniors (52 percent paid no tax). The percentage for senior couples was also high – at 28 percent (compared to 19 percent for non-senior couples with no dependents). Almost half of all senior tax units (41 percent of single and married seniors) paid no income tax.

The percentage paying no tax was also high for single parents – 30 percent before refundable credits and 51 percent after refundable credits. In contrast, the percentage for married couples with dependents was much lower – at 8 percent and 12 percent respectively.

¹ In 2018, Minnesota had not adopted the federal law changes in the Tax Cuts and Jobs Act and still allowed personal and dependent exemptions. Beginning in 2019, only dependent exemptions were allowed, along with changes to the standard deduction and itemized deductions. The enactment of the 2019 tax bill and adoption of many of the federal law changes did not significantly affect the percentage of taxpayers who pay no tax.

Singles were much more likely to pay no tax – 32 percent before refundable credits and 37 percent after refundable credits. This is not surprising given the high no-tax rates for single seniors and single parents. In contrast, for all married tax units (with or without dependents) the no-tax shares were much lower, at 14 percent and 16 percent respectively.

Tax units without dependents were about as likely to pay no tax (after refundable credits) as households with dependents (28 percent compared to 29 percent). Refundable credits are important in keeping the percentage for households with dependents this low. The share of tax units with dependents who paid no tax rose from 17 percent before refundable credits to 28 percent after refundable credits. This drop is not surprising. Minnesota’s three major refundable credits (the Working Family Credit, the Child Care Credit, and the K-12 Education Credit) are targeted almost entirely toward tax units with children.

Table 2. Tax Units with Zero or Negative Tax Liability in 2018, by Type of Household

Tax Filing Status	Number of Tax Units	Tax Units Paying No Tax		Percent Paying No Tax	
		No tax before refundable credits	No tax after refundable credits	No tax before refundable credits	No tax after refundable credits
All Seniors	670,176	272,684	273,414	41%	41%
Single Seniors	358,850	186,895	187,414	52%	52%
Senior Couples	311,326	85,788	86,000	28%	28%
All Non-Seniors	2,117,330	424,831	521,278	20%	25%
All Singles	1,690,610	543,436	620,802	32%	37%
All Single-Person Tax Units	1,371,355	448,174	457,641	33%	33%
Single Seniors	358,850	186,895	187,414	52%	52%
Non-Senior Singles (no dependents)	1,012,505	261,279	270,227	26%	27%
Single Parents	319,255	95,262	163,162	30%	51%
All Married	1,096,896	154,079	173,890	14%	16%
Married without Dependents	610,688	113,285	113,935	19%	19%
Married with Dependents	486,208	40,794	59,954	8%	12%
All Households with Dependents	805,463	136,055	223,116	17%	28%
All Households without Dependents	1,982,043	561,459	571,576	28%	29%
Total	2,787,506	697,514	794,692	25%	29%

Variation by Income as Percent of Poverty

The share of tax units paying no income tax was much higher for those with low incomes. Table 3 shows how the share varied with a tax unit’s income as a percent of the poverty guideline. The *Tax Incidence Study* database includes many forms of nontaxable income, such as public assistance, nontaxable social security and pension income, and workers’ compensation. This makes it possible to calculate the ratio of total income to the poverty level.

Because a much higher share of the income of seniors is exempt from tax, Table 3 shows results separately for senior and non-senior tax units. At any given percent of poverty, seniors are more likely than non-seniors to pay no income tax.

For non-seniors, almost all households with income below the poverty guideline paid no tax. About two-thirds of those with incomes between 100 and 150 percent of poverty paid no income tax. The share with no tax dropped to 41 percent for those between 150 and 200 percent of poverty and to 15 percent for those between 200 and 250 percent of poverty.

In contrast, more than 80 percent of senior tax units with incomes between 200 and 250 percent of poverty paid no income tax; 62 percent of seniors with incomes between 250 and 300 percent of poverty paid no tax – compared to only 6 percent of non-senior tax units.

Table 3. Tax Units with Zero or Negative Tax Liability by Percent of Poverty

SENIORS					
Percent of Poverty	Population of Tax Units	Tax Units Paying No Tax		Percent Paying No Tax	
		No tax before refundable credits	No tax after refundable credits	No tax before refundable credits	No tax after refundable credits
Less than 100%	47,071	47,029	47,029	100%	100%
100% - 149%	54,077	53,869	53,939	100%	100%
150% - 199%	54,277	52,482	52,553	97%	97%
200% - 249%	52,076	41,560	41,975	80%	81%
250% - 299%	51,330	31,931	32,001	62%	62%
300% - 399%	93,750	32,446	32,548	35%	35%
400% or more	317,595	13,367	13,368	4%	4%
Total	670,176	272,684	273,414	41%	41%
NON-SENIORS					
Percent of Poverty	Population of Households	Tax Units Paying No Tax		Percent Paying No Tax	
		No tax before refundable credits	No tax after refundable credits	No tax before refundable credits	No tax after refundable credits
Less than 100%	271,828	256,749	262,763	94%	97%
100% - 149%	203,543	86,325	132,832	42%	65%
150% - 199%	180,958	38,553	73,927	21%	41%
200% - 249%	158,271	18,866	23,829	12%	15%
250% - 299%	152,851	7,796	8,835	5%	6%
300% - 399%	270,712	6,781	7,586	3%	3%
400% or more	879,168	9,760	11,507	1%	1%
Total	2,117,330	424,831	521,278	20%	25%

Why Is the Percentage Paying No *Federal* Tax Higher?

An analysis by the Urban Institute-Brookings Institution Tax Policy Center concluded that 44.4 percent of U.S. tax units paid no *federal* income tax in 2018.² That is higher than the 29 percent estimated here for Minnesota’s income tax in the same year. The national studies defined tax units the same way, reported results for tax after refundable credits (as we have done for Minnesota), and were for the same tax year. They included non-filers in their analysis, as we have done here.

So why are their estimates higher than ours?

² Tax Policy Center, “Tax Units with Zero or Negative Income Tax Liability,” September, 2018, [T18-0128 - Tax Units with Zero or Negative Income Tax Under Current Law, 2011-2028 | Tax Policy Center](#)

Much of the difference can be explained by changes that were enacted as part of the Tax Cuts and Jobs Act (TCJA) of 2017. The TCJA increased the standard deduction for singles and married filing separately from \$6,350 to \$12,000, for married filing jointly and qualifying widow(er)s from \$12,700 to \$24,000, and for head of household filers from \$9,350 to \$18,000. The increase in the standard deduction increased the number who paid no federal tax that year. Minnesota did not conform to the federal change in tax year 2018, although it did adopt many of the changes in 2019.

There are two additional reasons to expect the no-tax share to be higher for the federal income tax than for the Minnesota income tax. First, the federal tax includes several tax credits that are not part of the Minnesota tax structure. The child credit, in particular, raises the percentage of tax units who have no federal tax liability. The TCJA increased the child credit and expanded the threshold for eligibility. Second, Minnesota's average income is higher than the national average. Higher incomes should reduce the number of tax units with no tax liability.

What Effect Did the Tax Cuts and Jobs Act Have?

The Tax Cuts and Jobs Act made substantial changes to the federal tax code beginning in tax year 2018. Minnesota enacted conforming legislation in 2019, changing the starting point for calculating Minnesota taxable income to adjusted gross income, increasing the standard deduction, creating Minnesota itemized deductions, and repealing personal exemptions, among other changes.

In 2018, the first year the TCJA was in effect, the percentage of U.S. tax units paying no tax increased from 42.7 percent to 44.4 percent, according to estimates by the Tax Policy Center. In Minnesota, the 2019 tax bill did not increase the percentage of tax units owing no Minnesota tax. The share of Minnesotans expected to pay no tax (after refundable credits) in 2023 is projected to be **28 percent of tax units** and **25 percent of non-dependent adults**, slightly lower than in 2018. The difference is likely due mostly to federal refundable credits. The TCJA greatly expanded the federal child credit, increasing the number of tax units who pay no federal income tax. There is no comparable Minnesota credit.

Summary

The share of Minnesotans who paid no tax (after refundable credits) in 2018 is estimated to be **29 percent of tax units** and **25 percent of non-dependent adults**. The share of tax units who paid no tax varied greatly by type of household, from highs of 52 percent for single seniors and 51 percent for single parents to a low of 12 percent for married couples with dependents. The share fell with income, dropping from 95 percent for tax units below the poverty level to 12 percent for non-senior tax units between 200 and 250 percent of poverty (and 1 percent for non-seniors over 400 percent of poverty). The results for seniors were much different. For any given percent of poverty, the no-tax share for seniors was much higher.

The share of tax units who paid no Minnesota tax is less than the share of all U.S. residents who paid no federal income tax the same year (Tax Policy Center estimates show that about 44.4 percent of tax returns had no tax liability in tax year 2018). The higher federal percentage is partly due to the Tax Cuts and Jobs Act of 2017 which nearly doubled the standard deduction and the expansion of the child tax credit (Minnesota did not conform to those provisions in tax year 2018) and partly to Minnesota incomes being higher than the national average.