Minnesota's Income Tax Rates Since 1933

The tables show Minnesota income tax rates and tax brackets for each year since 1933.

When comparing tax rates and brackets either across years (or with those in other states), it is important to keep the following things in mind:

1. **Tax is based on "Minnesota taxable income" (MTI), which can be considerably less than a household's total income.**

   Total Income
   - Exempt Income[1]
   - Standard Deduction or Itemized Deductions[2]
   - Personal and Dependent Exemptions[3]
   - Other Deductions or Subtractions[4]
   + Some Minnesota Additions[5]
   = Minnesota Taxable Income

   In 2010, MTI equaled roughly 61 percent of the total cash income of Minnesota residents.

   Tax liability depends not just on the tax rates but also on how much of a household's total income is included in MTI.

   The share of total income included in MTI was considerably smaller prior to the tax reform of 1987 (which piggybacked on the federal tax reforms enacted in 1986).

   - Prior to 1987, federal income tax was deducted in calculating MTI. The top Minnesota tax rates were considerably higher prior to 1987, but those subject to the top Minnesota rates were able to subtract federal income taxes – and the top federal tax rate was as high as 50%.
   - Prior to 1987, 60% of capital gains income was excluded from taxable income. This is one of many examples of tax changes that broadened the tax base, increasing the share of total income subject to tax.

   As a result, care must be taken in comparing pre-1987 tax rates with rates in more recent years.

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[1] Exempt income includes nontaxable interest, nontaxable portions or Social Security and pension income, workers compensation, public assistance payments (cash, food stamps, medical assistance), and most employer-provided fringe benefits.
[2] For tax year 2014, Minnesota's standard deduction is $12,400 for married filing joint returns, $6,200 for single filers, and $9,100 for single parents filing as head of household. Itemized deductions are the same as federal, except that any amount claimed as a federal deduction for state income taxes (or sales taxes) must be added back.
[3] For tax year 2014, exemption is $3,950 for each taxpayer or dependent.
[4] For example, federal deductions recognized by Minnesota include deductions for IRA contributions, interest on student loans, and the cost of self-employed health insurance. Minnesota subtractions (not deductible federally) include the charitable contributions subtraction for those who do not itemize deductions, a subtraction for certain dependent education expenses, and a subtraction for federal bond interest.
[5] Additions include federally exempt interest on non-Minnesota state and local bonds.

2. **Tax rates shown on the tables are incremental tax rates, showing the tax rate for each *additional* dollar of income *within that tax bracket***. The top rate is currently 9.85%. A taxpayer in the top tax bracket pays $9.85 in added tax for each additional $100 of taxable income. However, those in the 9.85% bracket often pay a much smaller percentage of their total income in tax.

   For example, the typical married couple with two children and total income of $400,000 has Minnesota taxable income of $325,000 – high enough to be in the 9.85% tax bracket – and pays $24,000 in Minnesota income tax. For such a taxpayer, total tax equals 6.0% of total income – and 7.4% of Minnesota *taxable* income – even though the tax rate on the last dollar of taxable income is 9.85%.

   As a result, the rates shown on these tables do not equal the percentage of *total* income paid in tax. *Incremental* tax rates are not *average* tax rates.

3. **Prior to 1985, there was no separate tax rate for married filers**. A married couple reported income separately for each spouse and tax was calculated separately based on each spouse's income. For this reason, it is difficult to compare tax rates and brackets for married couples before 1985 to those after 1985 (unless only one spouse had income).

4. **Beginning in 1979, Minnesota tax brackets have been indexed for inflation**. This prevents "bracket creep", where inflation alone moves taxpayers into a higher tax bracket. The indexing of tax brackets explains the change in tax brackets each year since 1979.