

How Many Minnesotans Pay No State Income Tax?

Recent news reports that almost half of U.S. households pay no federal income tax have raised questions about whether the same is true of Minnesota's income tax.¹ How many Minnesota households pay no Minnesota income tax?

The answers provided below are based on the *Tax Incidence Study* database for Tax Year 2008. This database includes "non-filers" – those who filed no income tax return – so it is the source to use in answering the question. The analysis is limited to full-year Minnesota residents, so it excludes part-year residents as well as nonresidents.

Summary of Results

The share of Minnesotans who paid no tax (after refundable credits) in 2008 is estimated to be **30 percent of tax units** and **26 percent of non-dependent adults**. The share of tax units who paid no tax varied greatly by type of household, from highs of 59 percent for single seniors and 57 percent for single parents to a low of 12 percent for married couples with dependents. The share fell with income, dropping from almost 100 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 considerably less than the share of all U.S. residents who paid no federal income tax the same year (estimated elsewhere at 48.5 percent). The higher federal percentage is partly due to the one-time federal tax rebates paid in 2008, partly to Minnesota not matching some permanent federal tax credits (such as the child credit), 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 in the context of your question, 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.

¹ For example, CNN (http://money.cnn.com/2011/04/14/pf/taxes/who_pays_income_taxes/index.htm) and Fox News (<http://www.foxnews.com/politics/2010/04/07/nearly-half-households-pay-federal-income-tax/>).

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 analysis below 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 exemptions, (2) either the standard deduction or itemized deductions, and (3) other allowable “above the line” deductions. For example, in 2010 a married couple with two dependents would pay no income tax unless adjusted gross income exceeded \$26,000 – the sum of the standard deduction and four exemptions.
- 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 2008?

As shown on Table 1, **27 percent of tax units** paid no tax before refundable credits and **30 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, **23 percent of adults** paid no tax before refundable credits and **26 percent of adults** paid no tax after refundable credits.

Table 1. Tax Units and Adults with Zero or Negative Tax Liability (Tax Year 2008)

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
File income tax return	2,250,109	384,511	465,674	17%	21%
Do not file income tax return	291,074	291,074	291,074	100%	100%
Total	2,541,183	675,585	756,748	27%	30%

Tax Filing Status	Number of Adults	Adults 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
File income tax return	3,268,384	492,296	588,713	15%	18%
Do not file income tax return	334,112	334,112	334,112	100%	100%
Total	3,602,496	826,408	922,825	23%	26%

Variation by Household Type

The share of **tax units** who pay no tax after refundable credits varies greatly by household type. As shown in Table 2, the highest percentages were for single seniors (59 percent paid no tax). The percentage for senior couples was also high – at 33 percent (compared to 19 percent for non-senior couples with no dependents). Almost half of all senior tax units (47 percent of single and married seniors) paid no income tax.

The percentage paying no tax was also high for single parents – 36 percent before refundable credits and 57 percent after refundable credits. In contrast, the percentage for married couples with dependents was much lower – at 9 percent and 12 percent respectively.

Singles were much more likely to pay no tax – 35 percent before refundable credits and 40 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 just as likely to pay no tax (after refundable credits) as households with dependents (30 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 19 percent before refundable credits to 29 percent after refundable credits. This drop is not surprising. Minnesota's three major refundable credits are targeted almost entirely toward tax units with children.

Table 2. Tax Units with Zero or Negative Tax Liability in 2008, 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	498,999	236,580	236,580	47%	47%
Single Seniors	280,527	164,298	164,298	59%	59%
Senior Couples	218,472	72,282	72,282	33%	33%
All Non-Seniors	2,042,184	439,006	520,168	21%	25%
All Singles	1,479,869	524,762	590,671	35%	40%
All Single-Person Tax Units	1,186,330	419,405	424,628	35%	36%
Single Seniors	280,527	164,298	164,298	59%	59%
Non-Senior Singles (no deps)	905,802	255,107	260,330	28%	29%
Single Parents	293,540	105,357	166,043	36%	57%
All Married	1,061,314	150,823	166,077	14%	16%
Married without Dependents	555,952	102,920	102,920	19%	19%
Married with Dependents	505,361	47,903	63,157	9%	12%
All Households with Dependents	798,901	153,261	229,201	19%	29%
All Households without Dependents	1,742,282	522,325	527,547	30%	30%
Total	2,541,183	675,585	756,748	27%	30%

Variation by Income as Percent of Poverty

As would be expected, 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 level. 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 level 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 38 percent for those between 150 and 200 percent of poverty and to 12 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. Half 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 Who Pay No Tax		Percent Paying No Tax		
		No tax before refundable credits	No tax after refundable credits	No tax before refundable	No tax after refundable credits	
Less than 100%	43,281	43,271	43,271	100%	100%	
100% - 149%	48,886	48,832	48,832	100%	100%	
150% - 199%	50,117	49,525	49,525	99%	99%	
200% - 249%	45,513	38,439	38,439	84%	84%	
250% - 299%	43,889	23,118	23,118	53%	53%	
300% - 399%	79,264	21,842	21,842	28%	28%	
400% or more	188,049	11,553	11,553	6%	6%	
Total	498,999	236,580	236,580	47%	47%	
NON-SENIORS						
Percent of Poverty	Population of Households	No tax before refundable credits	No tax after refundable credits	No tax before refundable credits	No tax after refundable credits	
Less than 100%	301,184	282,424	286,979	94%	95%	
100% - 149%	196,694	83,418	125,910	42%	64%	
150% - 199%	174,361	35,844	66,072	21%	38%	
200% - 249%	165,157	16,192	19,127	10%	12%	
250% - 299%	145,203	8,394	8,797	6%	6%	
300% - 399%	269,326	6,677	6,941	2%	3%	
400% or more	790,258	6,057	6,343	1%	1%	
Total	2,042,184	439,006	520,168	21%	25%	

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

A recent analysis by the Congressional Research Service concluded that 45 percent of U.S. tax units paid no *federal* income tax in 2008. Similar analyses by the Urban Institute-Brookings Institution Tax Policy Center estimated the no-tax share at 48.5 percent of tax units in 2008.² That is significantly higher than the 30 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 so much higher than ours?

Most of the difference can be explained by special one-time federal tax rebates paid in 2008 – rebates of \$600 for singles and \$1200 for joint returns that were enacted as part of the Economic Stimulus Act of 2008. These rebates greatly increased the number who paid no federal tax that year. The Tax Policy Center's estimates for years without such rebates (at 38 percent for tax years 2006 and 2007) are much closer to the 30 percent estimated here for the Minnesota income tax.

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. Second, Minnesota's average income is higher than the national average. Higher incomes should reduce the number of tax units with no tax liability.

Summary

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² Thomas Hungerford, "Who Doesn't Pay Income Taxes?" Congressional Research Service Report R41362 (August 6, 2010); and Urban Institute-Brookings Institution Tax Policy Center, "Tax Units with Zero or Negative Tax Liability, 2004-2008," Table T09-0412 (October 16, 2009). Similar Tax Policy Center estimates for later years are: 47% in 2009, http://www.taxpolicycenter.org/UploadedPDF/1001289_who_pays.pdf; 45% in 2010 http://www.taxpolicycenter.org/UploadedPDF/1001359_harmless_income.pdf; and 46% in 2011. Rachel Johnson, James Nunns, Jeffrey Rohal, Eric Toder, and Robertson Williams, "Why Some Tax Units Pay No Income Tax," Urban-Brookings Tax Policy Center (July 2011), available on-line at <http://www.urban.org/uploadedpdf/1001547-Why-No-Income-Tax.pdf>.