

## Tax Incidence Analysis Supplement

Prepared by the Tax Research Division, Minnesota Department of Revenue

October 31, 2019

### 2019 Special Session Tax Bill, As Enacted

### Omnibus Tax Bill (2019 1<sup>st</sup> SS, Chapter 6)

#### Alternative Baseline:

#### Continuation of the 2% MinnesotaCare Provider Taxes

### MinnesotaCare Taxes

Under prior law, the 2% gross receipts taxes on health care providers, hospitals, surgical centers, and wholesale drug distributors were scheduled to expire at the end of calendar year 2019. The tax bill made two changes: it repealed the sunset on those taxes and reduced the rate from 2% to 1.8%. Those two changes had opposite effects. Since the MinnesotaCare taxes were set to expire, the extension increases the tax burden on Minnesota households. The rate reduction reduces taxes on Minnesota households.

The following table measures the change in the tax burden from the bill against an alternative baseline, assuming the continuation of the MnCare taxes at a rate of 2%.

**Table 1.**  
**Tax burden as Percent of Income**  
**Impact of Tax Changes in Special Session 2019 Tax Bill**  
**Alternative Baseline: Continuation of the 2% MnCare Taxes**

Estimated Calendar Year 2021 Impact

2021 Population Decile	Income Range	Percent of All Households	Extension of 2% MnCare Tax			1.8% Rate and Other Provisions of Tax Bill		
			Minnesota State and Local Tax Burden as Percent of Income					
			(A) Prior Law with MnCare Tax Sunset	(B) Prior Law with MnCare Tax at 2%	C=(B-A) Change	(B) Prior Law with MnCare Tax at 2%	(D) Tax Bill including MnCare Tax Rate at 1.8%	E=(D-B) Change
1	14,528 & under	10%	27.61%	28.45%	0.84%	28.45%	28.00%	-0.45%
2	14,529 to 23,941	10%	11.93%	12.51%	0.57%	12.51%	12.34%	-0.17%
3	23,942 to 33,681	10%	11.01%	11.50%	0.49%	11.50%	11.43%	-0.07%
4	33,682 to 44,730	10%	10.75%	11.18%	0.43%	11.18%	11.12%	-0.06%
5	44,731 to 57,679	10%	11.34%	11.73%	0.39%	11.73%	11.67%	-0.06%
6	57,680 to 74,178	10%	11.61%	11.95%	0.34%	11.95%	11.89%	-0.06%
7	74,179 to 96,071	10%	11.94%	12.27%	0.34%	12.27%	12.22%	-0.05%
8	96,072 to 127,270	10%	11.95%	12.27%	0.31%	12.27%	12.19%	-0.08%
9	127,271 to 185,600	10%	11.82%	12.09%	0.27%	12.09%	12.00%	-0.09%
10	185,601 & over	10%	11.23%	11.34%	0.11%	11.34%	11.40%	0.06%
<b>ALL MINNESOTA HOUSEHOLDS</b>		<b>100%</b>	<b>11.63%</b>	<b>11.88%</b>	<b>0.25%</b>	<b>11.88%</b>	<b>11.86%</b>	<b>-0.02%</b>

*Detail for the 10th Decile*

Lower Half	185,601 to 262,353	5%	11.37%	11.57%	0.21%	11.57%	11.50%	-0.07%
Next 4%	262,354 to 636,247	4%	11.13%	11.25%	0.12%	11.25%	11.27%	0.02%
Top 1%	636,248 & over	1%	11.23%	11.26%	0.03%	11.26%	11.45%	0.19%
Full Decile	185,601 & over	10%	11.23%	11.34%	0.11%	11.34%	11.40%	0.06%

**Column A** shows the tax burden by decile under prior law, with the expiration of the MnCare taxes. This is the projected tax burden as shown in Table 3-3 of the 2019 incidence study.

**Column B** shows the same tax burden as Column A, but without the repeal of the MnCare taxes.

**Column C** is the difference between Column B and A. It shows the tax burden by decile of the 2% MnCare taxes. The tax is regressive, falling most heavily on the lower deciles as a percentage of income. The tax burden falls as income increases.

**Column D** shows the final tax burden after adjusting for all the changes in the 2019 tax bill, including the 1.8% MnCare tax rate. This is the same as the burden shown in **Table 2** of the incidence analysis of the 2019 tax bill.

**Column E** shows the change in the tax burden due to the tax bill, assuming an alternative baseline with the continuation of the MnCare Taxes. There is a slight decrease in the overall tax burden, with the 1<sup>st</sup> decile receiving the largest decrease. The 10<sup>th</sup> decile has a slight increase in tax burden, which is concentrated in the upper 5%.