

## Tax Incidence Analysis

Prepared by the Tax Research Division, Minnesota Department of Revenue

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### Governor's Tax Bill (H.F. 991, as Introduced) and Supplemental Tax Bill (H.F. 991, As Proposed to Be Amended (A21-0148))

#### Governor's Tax Bill

As introduced, the tax bill includes the following tax law changes:

- **Income Tax – Personal:**
  - Create 5<sup>th</sup> income tax bracket at 10.85%, expand 2<sup>nd</sup> income tax bracket threshold and lower 3<sup>rd</sup> income tax bracket threshold
  - Expand the working family credit to include taxpayers with ITINs and increase rates
  - Create capital gains tax surcharge
  - Revised the definition of casualty losses
- **Taxes on Business (Corporate and Non-corporate):**
  - Addition for Global Intangible Low Taxed Income (GILTI)
  - Addition for Section 965 Repatriated Income
  - Definition of Resident Trust
  - Increase Corporate Franchise Tax rate to 11.25%
- **Sales Tax:**
  - Limit Refunds for Qualified Data Center Software
- **Cigarette and Tobacco Taxes:**
  - Increase Excise Tax Rate on Cigarettes by \$1 per Pack
  - Gross receipts tax of 35% on the retail sale of all nicotine solution products
- **Property Taxes:**
  - ITIN for homestead classification allowed
- **Estate Tax:**
  - Reinstate \$2.7 Million Exclusion

#### Supplemental Tax Bill

The supplemental tax bill is similar to the original bill with the following modifications:

- **Income Tax – Personal:**
  - Conform to federal law that permanently extends special rules for disaster-related casualty losses
  - Further expand the working family credit, including allowing the credit at age 19

- **Taxes on Business (Corporate and Non-corporate):**
  - Increase Corporate Franchise Tax rate to 10.8% rather than 11.15%
- **Estate Tax**
  - Maintain the current estate tax exclusion
- **Cigarette and Tobacco Taxes:**
  - Create a gross receipts tax of 35% on the retail sale of all nicotine solution products
  - Subject electronic vaping devices to tobacco taxes
  - Maintain the current cigarette tax rate per pack
- **Property Taxes:**
  - Renter Property Tax Refund Increase
  - Property Tax Refund Income Definition Veterans Disability
  - Residential Homesteads, Cabins, and Second Homes Local Property Tax modifications
  - Several Local Property Tax modifications to Business Property taxes

These tax law changes modified the burden of state and local taxes compared to what it would be under prior law. The bill's impact can be estimated using the database and underlying models developed for the *Minnesota Tax Incidence Study*. **Because the latest study projects income and taxes to calendar year 2023, this analysis generally estimates the impact of law changes in that calendar year.**

The analysis is limited to **permanent** changes in tax law. Many federal update provisions are temporary and are not included in this analysis.

### ***Impact of Proposals on Minnesota State & Local Tax Burdens on Minnesota Residents***

#### **Governor's Tax Bill**

The combined increase in tax collections in the Governor's bill is estimated to be **\$658.7 million** in 2023, of which **\$523.5 million** is borne by Minnesota residents. The capital gains tax surcharge and the corporate tax rate increase represent the largest changes in tax, with an estimated increase in tax collections of **\$218.6 million** and **\$204.9 million** respectively for tax year 2023.

- **Income Tax Changes (nonbusiness):** Proposed changes in income tax provisions would increase tax revenue by **\$288.4 million**, increasing the tax burden on Minnesota residents by **\$226.5 million**. The provisions include a mix of tax increases and tax decreases. The creation of the 5<sup>th</sup> tax bracket and the capital gains tax surcharge increase taxes. The change in definition of casualty losses, change in 2<sup>nd</sup> and 3<sup>rd</sup> tax bracket thresholds, and the modifications of the working family credit will generally decrease taxes.
- **Income Tax Changes on Non-Corporate Businesses** (sole proprietors, S-corps, and partnerships): The GILTI addition and its interactions would increase tax revenue by **\$1.9 million**. An estimated **\$0.2 million** would be borne by Minnesota residents.

- **Corporate Tax Changes:** Corporate franchise tax revenue will increase by **\$253.4 million**. After full adjustment, some of the burden would be borne in higher prices, some in lower wages, and some in lower returns to business owners. Tax burdens for Minnesota residents would rise by an estimated **\$184.7 million**. The remainder would be borne by nonresidents or the federal government (in lower federal corporate tax revenue). These estimates apply to the long-term burden, after businesses have fully adjusted to the change in tax burdens.
- **Sales Tax Changes:** State sales taxes would increase by **\$26.0 million**, increasing the tax burden on Minnesota residents by **\$23.9 million**. This change is largely a result of a limit put on the allowable refund for qualified data center software with a small offsetting factor from a credit for fundraising sales for school organizations.
- **Cigarette and Tobacco Tax Changes:** The net impact of these provisions would increase tax revenue by **\$75.1 million** with **\$73.6 million** borne by Minnesota residents. The largest portion of the increase would be a **\$56.1 million** increase in the cigarette excise tax due to the increased rate per pack.
- **Property Tax Changes:** Proposed changes to the homeowner property tax would decrease tax revenue by **\$1.8 million**. 100% of the change would be borne by Minnesota residents.
- **Estate Tax Changes:** Reinstatement of the \$2.7 million exclusion to the estate tax would result in an estimated increase in tax revenue of **\$16.8 million**, of which **\$16.0 million** would be borne by Minnesota residents.

### Supplemental Tax Bill

The combined increase in tax collections in the Governor’s Supplemental Tax Bill (A21-0148) is estimated to be **\$402.1 million** in 2023, of which **\$285.7 million** is borne by Minnesota residents. As in the original bill, the capital gains tax surcharge on individuals represents the single largest change in tax. The corporate tax rate increase is smaller than in the original bill, raising revenue of **\$188.2 million**.

- **Income Tax Changes (nonbusiness):** Proposed changes in income tax provisions would increase tax revenue by **\$206.6 million**, increasing the tax burden on Minnesota residents by **\$146.4 million**. The provisions include a mix of tax increases and tax decreases. The creation of the 5<sup>th</sup> tax bracket and the capital gains tax surcharge increase taxes. The change in definition of casualty losses, change in 2<sup>nd</sup> and 3<sup>rd</sup> tax bracket thresholds, and the modifications of the working family credit will decrease taxes.
- **Income Tax Changes on Non-Corporate Businesses** (sole proprietors, S-corps, and partnerships): The GILTI addition and its interactions would increase tax revenue by **\$1.9 million**. An estimated **\$0.2 million** would be borne by Minnesota residents.
- **Corporate Tax Changes:** Corporate franchise tax revenue will increase by **\$188.2 million**. After full adjustment, some of the burden would be borne in higher prices, some in lower wages, and some in lower returns to business owners. Tax burdens for Minnesota residents would rise by an estimated **\$137.1 million**. The remainder would be borne by nonresidents or the federal government (in lower federal corporate tax revenue). These estimates apply to the long-term burden, after businesses have fully adjusted to the change in tax burdens.

- **Sales Tax Changes:** State sales taxes would increase by **\$26.0 million**, increasing the tax burden on Minnesota residents by **\$23.9 million**. This change is a result of a limit put on the allowable refund for qualified data center software.
- **Cigarette and Tobacco Tax Changes:** The impact of the two provisions would increase tax revenue by **\$6.8 million** with **\$6.7 million** borne by Minnesota residents. The nicotine solutions products gross receipts tax and the electronic vaping devices gross receipts and excise taxes increase tax revenue. The bill does not include the \$1 increase in the cigarette tax.
- **Property Tax Changes:** Proposed changes to the homeowner and business property taxes would decrease tax revenue by **\$26.2 million**. The burden on Minnesota residents would be an estimated **\$29.1 million**. Homeowner changes include the modification to the homestead classification to allow ITIN users, the increase in renter property tax refund, change in definition of property tax refund to benefit veterans who own and rent. These combined reduce tax by an estimated **\$45.6 million**. Changes to the definitions of residential homesteads, cabins, second homes as well as business property tax changes to commercial, industrial, utility, farm and timber, and rental property taxes are all local property tax provisions that increase tax. Their combined impact on tax revenue is estimated at **\$19.4 million** with the burden on Minnesota residents at **\$16.5 million**.

#### ***Law Changes Not Included in this Analysis***

- **Temporary changes** including the Angel investment credit, unemployment benefit subtraction, Payroll Protection Program exclusion up to \$350,000, and other federal update provisions.
- **Timing changes** to depreciation of certain residential rental property, special expensing rules for certain film, television, and live theatrical productions, and other depreciation-related provisions.
- **Small changes** or changes with unknown impacts, including the expansion of Section 529 plans and the addition for certain cooperatives.

#### ***Results by Population Decile: Change in Minnesota State and Local Tax Burdens***

**Tables 1A and 1B** show the changes in dollars of tax burden by decile for the Governor’s bill and the supplemental bill, respectively.

- The average increase in the total tax burden is 1.55% for the Governor’s tax bill and 0.84% for the supplemental bill. For both bills the tenth decile shows a significantly larger increase than the other deciles, at 2.94% and 2.74% respectively. The second and third deciles decrease slightly with all other deciles increasing in the Governor’s bill. The supplemental bill shows a more consistent change with the first five deciles negative and the percent in total change in tax steadily increasing with income.
- In the Governor’s bill as introduced, residents in the 10<sup>th</sup> decile will pay 79.07% of the proposed tax increases while those in the second and third deciles will have a reduction in tax (-0.66% of the change in revenue).
- In the supplemental bill, residents in the 10<sup>th</sup> decile will have tax increases exceeding the total change in tax (134.89%), offset by tax decreases in the bottom five deciles.

**Table 1A.**  
**Dollars of Minnesota State and Local Burden**  
**HF 991 Governor's Bill**  
 Estimated Calendar Year 2023 Impact

2023 Population Decile	Income Range	Percent of All Households	Percent of All Income	Minnesota State and Local Tax Burden				
				Current Law Tax Burden (\$1000s)	Proposed Tax Burden (\$1000s)	Change in Tax Burden (\$1000s)	Decile's Share of Total Change in Tax	Percent Increase in Burden Over Prior Law
1	\$14,964 & Under	10%	0.9%	656,612	661,632	5,019	0.96%	0.76%
2	\$14,965 - \$24,373	10%	2.0%	671,303	670,118	(1,185)	-0.23%	-0.18%
3	\$24,374 - \$34,203	10%	3.0%	944,141	941,906	(2,234)	-0.43%	-0.24%
4	\$34,204 - \$44,612	10%	4.1%	1,235,898	1,241,756	5,858	1.12%	0.47%
5	\$44,613 - \$56,913	10%	5.3%	1,700,059	1,712,735	12,676	2.42%	0.75%
6	\$56,914 - \$72,424	10%	6.8%	2,304,994	2,323,109	18,115	3.46%	0.79%
7	\$72,425 - \$94,295	10%	8.8%	3,001,556	3,021,797	20,241	3.87%	0.67%
8	\$94,296 - \$124,667	10%	11.4%	3,906,114	3,928,759	22,645	4.33%	0.58%
9	\$124,668 - \$181,552	10%	15.5%	5,372,082	5,400,523	28,441	5.43%	0.53%
10	\$181,553 & Over	10%	42.1%	14,077,601	14,491,490	413,890	79.07%	2.94%
<b>ALL MINNESOTA HOUSEHOLDS</b>		<b>100%</b>	<b>100.0%</b>	<b>33,870,361</b>	<b>34,393,826</b>	<b>523,465</b>	<b>100.00%</b>	<b>1.55%</b>

*Detail for the 10th Decile*

Lower Half	\$181,554 - \$265,517	5%	11%	3,710,402	3,733,145	22,743	4.34%	0.61%
Next 4%	\$265,518 - \$650,434	4%	15%	5,243,925	5,278,903	34,979	6.68%	0.67%
Top 1%	\$650,434 & Over	1%	16%	5,123,275	5,479,442	356,168	68.04%	6.95%
Full Decile	\$181,553 & Over	10%	42%	14,077,601	14,491,490	413,890	79.07%	2.94%

**Table 1B.**  
**Dollars of Minnesota State and Local Burden**  
**HF 991 Governor's Bill Supplemental**  
 Estimated Calendar Year 2023 Impact

2023 Population Decile	Income Range	Percent of All Households	Percent of All Income	Minnesota State and Local Tax Burden				
				Current Law Tax Burden (\$1000s)	Proposed Tax Burden (\$1000s)	Change in Tax Burden (\$1000s)	Decile's Share of Total Change in Tax	Percent Increase in Burden Over Prior Law
1	\$14,964 & Under	10%	0.9%	656,612	619,605	(37,007)	-12.95%	-5.64%
2	\$14,965 - \$24,373	10%	2.0%	671,303	627,248	(44,055)	-15.42%	-6.56%
3	\$24,374 - \$34,203	10%	3.0%	944,141	913,120	(31,021)	-10.86%	-3.29%
4	\$34,204 - \$44,612	10%	4.1%	1,235,898	1,215,605	(20,294)	-7.10%	-1.64%
5	\$44,613 - \$56,913	10%	5.3%	1,700,059	1,689,740	(10,319)	-3.61%	-0.61%
6	\$56,914 - \$72,424	10%	6.8%	2,304,994	2,310,078	5,084	1.78%	0.22%
7	\$72,425 - \$94,295	10%	8.8%	3,001,556	3,011,422	9,866	3.45%	0.33%
8	\$94,296 - \$124,667	10%	11.4%	3,906,114	3,917,521	11,407	3.99%	0.29%
9	\$124,668 - \$181,552	10%	15.5%	5,372,082	5,388,759	16,678	5.84%	0.31%
10	\$181,553 & Over	10%	42.1%	14,077,601	14,462,935	385,334	134.89%	2.74%
<b>ALL MINNESOTA HOUSEHOLDS</b>		<b>100%</b>	<b>100.0%</b>	<b>33,870,361</b>	<b>34,156,033</b>	<b>285,672</b>	<b>100.00%</b>	<b>0.84%</b>

*Detail for the 10th Decile*

Lower Half	\$181,554 - \$265,517	5%	11%	3,710,402	3,725,937	15,536	5.44%	0.42%
Next 4%	\$265,518 - \$650,434	4%	15%	5,243,925	5,268,735	24,810	8.68%	0.47%
Top 1%	\$650,434 & Over	1%	16%	5,123,275	5,468,263	344,988	120.76%	6.73%
Full Decile	\$181,553 & Over	10%	42%	14,077,601	14,462,935	385,334	134.89%	2.74%

Tables 2A and 2B show the change in tax burden by decile as a percent of income for the Governor’s bill and the supplemental bill, respectively.

- Minnesota residents’ state and local tax burden would increase by an average of 0.18% of income in the Governor’s tax bill as introduced and 0.10% in the supplemental bill. The increased tax burden would be highest for the tenth decile in both bills and negative for the second and third deciles in the bill as introduced while negative for the first five deciles in the supplemental bill.
- In the Governor’s bill, the burden for the top decile would increase by 0.34%. That increase is concentrated in the top 1 percent of filers, which would see an increase in tax burden of 0.79%. Similarly, in the supplemental bill the burden for the top decile would increase by 0.32% while the top 1 percent of filers would see an increase of 0.76%.

**Table 2A.**  
**Tax Burden as Percent of Income**  
**Impact of Tax Changes in Governor's Bill 2023**  
 Estimated Calendar Year 2023 Impact

2023 Population Decile	Income Range	Percent of All Households	Minnesota State and Local Tax Burden as Percent of Income		
			Current Law Tax Burden (\$1000s)	Proposed Tax Burden (\$1000s)	Percent Increase in Burden Over Prior Law
1	\$14,964 & Under	10%	24.70%	24.89%	0.19%
2	\$14,965 - \$24,373	10%	11.50%	11.48%	-0.02%
3	\$24,374 - \$34,203	10%	10.80%	10.77%	-0.03%
4	\$34,204 - \$44,612	10%	10.50%	10.55%	0.05%
5	\$44,613 - \$56,913	10%	11.20%	11.28%	0.08%
6	\$56,914 - \$72,424	10%	11.80%	11.89%	0.09%
7	\$72,425 - \$94,295	10%	11.90%	11.98%	0.08%
8	\$94,296 - \$124,667	10%	11.90%	11.97%	0.07%
9	\$124,668 - \$181,552	10%	12.10%	12.16%	0.06%
10	\$181,553 & Over	10%	11.60%	11.94%	0.34%
<b>ALL MINNESOTA HOUSEHOLDS</b>		<b>100%</b>	<b>11.80%</b>	<b>11.98%</b>	<b>0.18%</b>

*Detail for the 10th Decile*

Lower Half	\$181,554 - \$265,517	5%	11.70%	11.77%	0.07%
Next 4%	\$265,518 - \$650,434	4%	12.00%	12.08%	0.08%
Top 1%	\$650,434 & Over	1%	11.30%	12.09%	0.79%
Full Decile	\$181,553 & Over	10%	11.60%	11.94%	0.34%

**Table 2B.**  
**Tax Burden as Percent of Income**  
**Impact of Tax Changes in Governor's Supplemental Bill 2023**  
 Estimated Calendar Year 2023 Impact

2023 Population Decile	Income Range	Percent of All Households	Minnesota State and Local Tax Burden as Percent of Income		
			Current Law Tax Burden (\$1000s)	Proposed Tax Burden (\$1000s)	Percent Increase in Burden Over Prior Law
1	\$14,964 & Under	10%	24.70%	23.31%	-1.39%
2	\$14,965 - \$24,373	10%	11.50%	10.75%	-0.75%
3	\$24,374 - \$34,203	10%	10.80%	10.44%	-0.36%
4	\$34,204 - \$44,612	10%	10.50%	10.33%	-0.17%
5	\$44,613 - \$56,913	10%	11.20%	11.13%	-0.07%
6	\$56,914 - \$72,424	10%	11.80%	11.83%	0.03%
7	\$72,425 - \$94,295	10%	11.90%	11.94%	0.04%
8	\$94,296 - \$124,667	10%	11.90%	11.93%	0.03%
9	\$124,668 - \$181,552	10%	12.10%	12.14%	0.04%
10	\$181,553 & Over	10%	11.60%	11.92%	0.32%
<b>ALL MINNESOTA HOUSEHOLDS</b>		<b>100%</b>	<b>11.80%</b>	<b>11.90%</b>	<b>0.10%</b>

*Detail for the 10th Decile*

Lower Half	\$181,554 - \$265,517	5%	11.70%	11.75%	0.05%
Next 4%	\$265,518 - \$650,434	4%	12.00%	12.06%	0.06%
Top 1%	\$650,434 & Over	1%	11.30%	12.06%	0.76%
Full Decile	\$181,553 & Over	10%	11.60%	11.92%	0.32%

**Tables 3A and 3B** show the change in dollars of tax burden by tax type for the Governor's bill and the supplemental bill, respectively.

- **Individual income tax** changes benefit all deciles except for the tenth decile in both bills. The provisions which reduce taxes for lower deciles are partially offset by the capital gains tax and the 10.85% rate, which affect higher income returns.
- **Estate Tax** increases fall primarily on the 10<sup>th</sup> decile, with smaller effects on the lower deciles. The supplemental bill does not change the estate tax so it is not shown in table 3B.
- **Property Tax** burden decreases for all but the top three deciles in the original bill and the 10<sup>th</sup> decile in the supplemental bill, driven primarily by increases in the property tax refund.
- **Local Property Tax** burdens increase in the supplemental bill, generally rising with income. The bill as introduced did not affect local taxes, so the local property tax changes are only shown in table 3B.

**Table 3A. Change in Minnesota State and Local Tax Burden by Tax Type  
HF 991 Governor's Bill**

Estimated Calendar Year 2023 Impact, by Tax Type  
Dollars in \$1,000s

2023 Population Decile	Income Range	Percent of All Households	Percent of All Income	Change in Tax Burden							
				Income Tax	Estate Tax	Corporate Tax	General Sales Tax	Cigarette & Tobacco Excise Taxes	Insurance Premiums Taxes	Property Tax Net of PTR	Total
1	\$14,964 & Under	10%	0.9%	(\$8,071)	\$95	\$4,976	\$642	\$7,507	\$18	(\$146)	\$5,019
2	\$14,965 - \$24,373	10%	2.0%	(\$16,319)	\$95	\$6,731	\$877	\$7,681	\$22	(\$271)	(\$1,185)
3	\$24,374 - \$34,203	10%	3.0%	(\$19,533)	\$95	\$8,545	\$1,111	\$7,967	\$27	(\$446)	(\$2,234)
4	\$34,204 - \$44,612	10%	4.1%	(\$13,562)	\$95	\$10,305	\$1,339	\$8,029	\$31	(\$380)	\$5,858
5	\$44,613 - \$56,913	10%	5.3%	(\$8,656)	\$120	\$11,965	\$1,553	\$7,908	\$37	(\$251)	\$12,676
6	\$56,914 - \$72,424	10%	6.8%	(\$5,789)	\$174	\$14,382	\$1,865	\$7,612	\$45	(\$174)	\$18,115
7	\$72,425 - \$94,295	10%	8.8%	(\$7,460)	\$322	\$17,767	\$2,304	\$7,386	\$55	(\$133)	\$20,241
8	\$94,296 - \$124,667	10%	11.4%	(\$10,210)	\$545	\$22,153	\$2,871	\$7,219	\$67	\$0	\$22,645
9	\$124,668 - \$181,552	10%	15.5%	(\$12,135)	\$958	\$29,017	\$3,755	\$6,757	\$89	\$0	\$28,441
10	\$181,553 & Over	10%	42.1%	\$328,260	\$13,501	\$58,863	\$7,566	\$5,523	\$178	\$0	\$413,890
<b>ALL MINNESOTA HOUSEHOLDS</b>		<b>100%</b>	<b>100.0%</b>	<b>\$226,525</b>	<b>\$15,998</b>	<b>\$184,704</b>	<b>\$23,882</b>	<b>\$73,588</b>	<b>\$568</b>	<b>(\$1,800)</b>	<b>\$523,465</b>

*Detail for the 10th Decile*

Lower Half	\$181,554 - \$265,517	5%	11.1%	(\$3,881)	\$1,187	\$19,814	\$2,561	\$3,002	\$60	\$0	\$22,743
Next 4%	\$265,518 - \$650,434	4%	15.2%	\$1,226	\$4,286	\$24,182	\$3,118	\$2,094	\$74	\$0	\$34,979
Top 1%	\$650,434 & Over	1%	15.8%	\$330,915	\$8,027	\$14,868	\$1,887	\$427	\$45	\$0	\$356,168
Full Decile	\$181,553 & Over	10%	42.1%	\$328,260	\$13,501	\$58,863	\$7,566	\$5,523	\$178	\$0	\$414,159

**Table 3B. Change in Minnesota State and Local Tax Burden by Tax Type  
HF 991 Governor's Bill Supplemental**

Estimated Calendar Year 2023 Impact, by Tax Type  
Dollars in \$1,000s

2023 Population Decile	Income Range	Percent of All Households	Percent of All Income	Change in Tax Burden								
				Income Tax	Corporate Tax	General Sales Tax	Cigarette & Tobacco Excise Taxes	Insurance Premiums Taxes	Property Tax Net of PTR	State Total	Local Total	State and Local Total
1	\$14,964 & Under	10%	0.9%	(\$38,178)	\$3,695	\$642	\$683	\$18	(\$4,408)	(\$37,549)	\$542	(\$37,007)
2	\$14,965 - \$24,373	10%	2.0%	(\$43,162)	\$4,998	\$877	\$699	\$22	(\$7,904)	(\$44,471)	\$416	(\$44,055)
3	\$24,374 - \$34,203	10%	3.0%	(\$29,838)	\$6,344	\$1,111	\$725	\$27	(\$10,010)	(\$31,640)	\$619	(\$31,021)
4	\$34,204 - \$44,612	10%	4.1%	(\$20,604)	\$7,651	\$1,339	\$731	\$31	(\$10,023)	(\$20,875)	\$581	(\$20,294)
5	\$44,613 - \$56,913	10%	5.3%	(\$13,333)	\$8,884	\$1,553	\$720	\$37	(\$9,121)	(\$11,260)	\$941	(\$10,319)
6	\$56,914 - \$72,424	10%	6.8%	(\$6,350)	\$10,679	\$1,865	\$693	\$45	(\$3,285)	\$3,646	\$1,438	\$5,084
7	\$72,425 - \$94,295	10%	8.8%	(\$7,558)	\$13,192	\$2,304	\$672	\$55	(\$607)	\$8,059	\$1,807	\$9,866
8	\$94,296 - \$124,667	10%	11.4%	(\$10,438)	\$16,449	\$2,871	\$657	\$67	(\$225)	\$9,381	\$2,026	\$11,407
9	\$124,668 - \$181,552	10%	15.5%	(\$12,175)	\$21,545	\$3,755	\$615	\$89	(\$17)	\$13,812	\$2,866	\$16,678
10	\$181,553 & Over	10%	42.1%	\$328,073	\$43,706	\$7,566	\$503	\$178	\$0	\$380,025	\$5,309	\$385,334
<b>ALL MINNESOTA HOUSEHOLDS</b>		<b>100%</b>	<b>100.0%</b>	<b>\$146,436</b>	<b>\$137,143</b>	<b>\$23,882</b>	<b>\$6,698</b>	<b>\$568</b>	<b>(\$45,600)</b>	<b>\$269,128</b>	<b>\$16,545</b>	<b>\$285,672</b>

*Detail for the 10th Decile*

Lower Half	\$181,554 - \$265,517	5%	11.1%	(\$3,881)	\$14,712	\$2,561	\$273	\$60	\$0	\$13,725	1810.95	\$15,536
Next 4%	\$265,518 - \$650,434	4%	15.2%	\$1,039	\$17,955	\$3,118	\$191	\$74	\$0	\$22,376	2434.68	\$24,810
Top 1%	\$650,434 & Over	1%	15.8%	\$330,915	\$11,039	\$1,887	\$39	\$45	\$0	\$343,925	1063.58	\$344,988
Full Decile	\$181,553 & Over	10%	42.1%	\$328,073	\$43,706	\$7,565	\$503	\$178	\$0	\$380,025	5309.21	\$385,334



## ***Suits Indexes of Proposed Changes***

**Tables 4A and 4B** provide detail of the overall impact of the bill by tax type, in the same manner as shown on Table 3-1 in the *Tax Incidence Study* for all current-law taxes. (See page 41 of that report.)

### **Income and Estate Taxes**

Changes to total income taxes make the tax system more progressive with a combined Suits Index of +0.832 for the Governor's bill and +1.517 for the supplemental bill<sup>1</sup>. Total tax increases on Minnesota households are estimated to be \$242.5 million and \$146.4 million respectively. The Suits index for total income and estate taxes increases from 0.222 under current law to 0.240 with the Governor's bill as introduced and 0.243 with the supplemental bill.

- The increase in the individual income tax are progressive overall because the increases fall more heavily on the top deciles while the lower deciles have a decrease in tax, mostly due to the working family credit. The Suits Index for the individual income tax changes is +1.660 for the Governor's bill as introduced and +3.088 for the supplemental bill. In both cases the high suits index is the result of the combination of tax increases in the upper deciles and tax decreases in the lower deciles.
- The corporate franchise tax increases are regressive for both bills with a Suits Index of -0.161, since a portion of the burden is shifted to consumers and labor.
- The estate tax is only modified in the Governor's bill as introduced. The change would be progressive with a Suits Index of +0.545.

### **State Consumption Taxes**

The changes to state consumption taxes make the tax system more regressive with a combined Suits Index of -0.478 for the Governor's bill as introduced and -0.254 for the supplemental bill. Sales and excise tax increases on Minnesota households are estimated to be \$74.4 million for the Governor's bill and \$6.1 million for the supplemental bill. Cigarette and tobacco excise taxes increases taxes on Minnesota residents by \$73.6 million for the Governor's bill as introduced and \$6.7 million for the supplemental bill. The overall suits index for consumption taxes decreases from -0.243 under current law to -0.246 with the Governor's bill as introduced, and remains unchanged at -0.243 with the supplemental bill.

### **State Property Taxes**

The increase in the property tax refund makes the property taxes more progressive overall. The Suits index for the change in tax is +0.832 in the Governor's bill as introduced and +0.851 in the supplemental bill.

### **Local Taxes**

There are no local tax provisions in the Governor's bill as introduced. The supplemental bill includes increases to the general property tax, all of which are regressive in nature with a combined Suits Index of -0.142.

### **Total State and Local Taxes**

Both bills would make the overall tax system slightly progressive, increasing the suits index from -0.007 under current law to +0.002 in the Governor's bill as introduced and +0.007 in the supplemental bill.

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<sup>1</sup> Although the Suits index generally ranges from -1.0 to +1.0, the Suits index for a *change* in law can be greater than 1.0 if tax decreases on the lower deciles are combined with offsetting tax increases in the upper deciles. Similarly, the Suits can be less than -1.0 if tax increases in the lower deciles are combined with tax decreases in the upper deciles.

**Table 4A.**  
**Impact of HF 991 Governor's Bill on State and Local Tax Collection and Tax Burdens**  
**Calendar Year 2023**  
**All dollars in millions**

All dollar values rounded to nearest tenth of a million dollars. All values that are truly zero are blanks.

Tax Type	Change in Collection	As Imposed			After shifting		Full-Sample Suits Index
		MN HH's	NR	Business	Minnesota	Exported	
<b>State Taxes</b>							
<b>Taxes on Income and Estates</b>							
Individual income tax	\$288,392	\$226,525	\$61,867		\$226,525	\$61,867	1.660
Corporation franchise tax <sup>1</sup>	253,400			253,400	184,704	68,696	-0.161
Estate tax	16,800	15,998	802		15,998	802	0.545
<b>Total Income and Estate Taxes</b>	<b>\$558,592</b>	<b>\$242,523</b>	<b>\$62,669</b>	<b>\$253,400</b>	<b>\$427,227</b>	<b>\$131,365</b>	<b>0.832</b>
<b>Taxes on Consumption</b>							
Total sales tax							
General sales/use tax	25,980	-720		25,980	23,882	2,098	-0.164
Sales tax on motor vehicles							
Motor fuels excise taxes							
Alcoholic beverage excise taxes							
Cigarette and tobacco excise taxes	75,090	75,090			73,588	1,502	-0.583
Insurance premiums taxes	800			800	568	232	-0.170
Gambling taxes							
MinnesotaCare taxes							
Solid waste management taxes							
<b>Total Consumption Taxes</b>	<b>\$101,870</b>	<b>\$74,370</b>	<b>\$0</b>	<b>\$26,780</b>	<b>\$98,038</b>	<b>\$3,832</b>	<b>-0.478</b>
<b>Taxes on Property</b>							
State Property Tax							
Residential recreational property							
Commercial <sup>2</sup>							
Industrial							
Utility							
Motor vehicle registration tax							
Mortgage and deed taxes							
<b>Total Property Taxes</b>							
<b>Property Tax Refunds</b>							
Homeowners	-\$1,800	-\$1,800			-\$1,800		0.832
Renters							
<b>Total Property Tax Refunds</b>	<b>-\$1,800</b>	<b>-\$1,800</b>			<b>-\$1,800</b>		<b>0.832</b>
<b>Total State Taxes</b>	<b>\$658,662</b>	<b>\$315,093</b>	<b>\$62,669</b>	<b>\$280,180</b>	<b>\$523,465</b>	<b>\$135,197</b>	<b>0.593</b>
<b>Local Taxes</b>							
<b>Taxes on Property</b>							
General Property Tax							
Homeowners (before PTR)							
Residential recreational & 2 <sup>nd</sup> homes <sup>3</sup>							
Commercial <sup>2</sup>							
Industrial							
Farm (other than residence) <sup>4</sup>							
Rental Housing (before PTR) <sup>5</sup>							
Utility <sup>6</sup>							
Mining Production Taxes (taconite)							
Wheelage Taxes							
<b>Taxes on Consumption</b>							
Local Sales Taxes <sup>7</sup>							
Local Gross Earnings Taxes							
<b>Total Local Taxes</b>							
<b>Total State and Local Taxes</b>	<b>\$658,662</b>	<b>\$315,093</b>	<b>\$62,669</b>	<b>\$280,180</b>	<b>\$523,465</b>	<b>\$135,197</b>	<b>0.593</b>

<sup>1</sup> Includes occupation tax on taconite, iron, and other ores

<sup>2</sup> Includes resorts, railroads, and minerals

<sup>3</sup> Second homes are 20% of residential non-homestead property

<sup>4</sup> Includes timber

<sup>5</sup> Apartments, 80% of residential non-homestead property, & rented mobile homes

<sup>6</sup> Includes wind and solar energy production taxes

<sup>7</sup> Includes lodging and other selective sales taxes

Table 4B

**Impact of HF 991 Governor's Supplemental Bill on State and Local Tax Collection and Tax Burdens  
Calendar Year 2023  
All dollars in millions**

All dollar values rounded to nearest tenth of a million dollars. All values that are truly zero are blanks.

Tax Type	Change in Collection	As Imposed			After shifting		Full-Sample Suits Index
		MN HH's	NR	Business	Minnesota	Exported	
<b>State Taxes</b>							
<b>Taxes on Income and Estates</b>							
Individual income tax	\$206,550	\$146,436	\$60,114		\$146,436	\$60,114	3.088
Corporation franchise tax <sup>1</sup>	188,150			188,150	137,143	51,007	-0.161
Estate tax							
<b>Total Income and Estate Taxes</b>	<b>\$394,700</b>	<b>\$146,436</b>	<b>\$60,114</b>	<b>\$188,150</b>	<b>\$283,579</b>	<b>\$111,121</b>	<b>1.517</b>
<b>Taxes on Consumption</b>							
Total sales tax							
General sales/use tax	25,980	-720		26,700	23,882	2,098	-0.164
Sales tax on motor vehicles							
Motor fuels excise taxes							
Alcoholic beverage excise taxes							
Cigarette and tobacco excise taxes	6,835	6,835			6,698	137	-0.583
Insurance premiums taxes	800			800	568	232	-0.170
Gambling taxes							
MinnesotaCare taxes							
Solid waste management taxes							
<b>Total Consumption Taxes</b>	<b>\$33,615</b>	<b>\$6,115</b>	<b>\$0</b>	<b>\$27,500</b>	<b>\$31,148</b>	<b>\$2,467</b>	<b>-0.254</b>
<b>Taxes on Property</b>							
State Property Tax							
Residential recreational property							
Commercial <sup>2</sup>							
Industrial							
Utility							
Motor vehicle registration tax							
Mortgage and deed taxes							
<b>Total Property Taxes</b>							
<b>Property Tax Refunds</b>							
Homeowners	-\$6,370	-\$6,370			-\$6,370		0.820
Renters	-39,230	-\$39,230			-\$39,230		0.856
<b>Total Property Tax Refunds</b>	<b>-\$45,600</b>	<b>-\$45,600</b>			<b>-\$45,600</b>		<b>0.851</b>
<b>Total State Taxes</b>	<b>\$382,715</b>	<b>\$106,951</b>	<b>\$60,114</b>	<b>\$215,650</b>	<b>\$269,128</b>	<b>\$113,587</b>	<b>1.713</b>
<b>Local Taxes</b>							
<b>Taxes on Property</b>							
General Property Tax	19,425	9,664	278	9,483	16,545	2,880	-0.142
Homeowners (before PTR)	8,551	8,551			8,551		-0.171
Residential recreational & 2 <sup>nd</sup> homes <sup>3</sup>	1,391	1,113	278		1,113	278	-0.078
Commercial <sup>2</sup>	2,138			2,138	1,166	972	-0.113
Industrial	729			729	413	316	-0.057
Farm (other than residence) <sup>4</sup>	3,886			3,886	3,180	706	-0.111
Rental Housing (before PTR) <sup>5</sup>	1,679			1,679	1,320	359	-0.113
Utility <sup>6</sup>	1,051			1,051	802	249	-0.183
Mining Production Taxes (taconite)							
Wheelage Taxes							
<b>Taxes on Consumption</b>							
Local Sales Taxes <sup>7</sup>							
Local Gross Earnings Taxes							
<b>Total Local Taxes</b>	<b>\$19,425</b>	<b>\$9,664</b>	<b>\$278</b>	<b>\$9,483</b>	<b>\$16,545</b>	<b>\$2,880</b>	<b>-0.142</b>
<b>Total State and Local Taxes</b>	<b>\$402,140</b>	<b>\$116,615</b>	<b>\$60,392</b>	<b>\$225,133</b>	<b>\$285,672</b>	<b>\$116,468</b>	<b>0.856</b>

<sup>1</sup> Includes occupation tax on taconite, iron, and other ores

<sup>2</sup> Includes resorts, railroads, and minerals

<sup>3</sup> Second homes are 20% of residential non-homestead property

<sup>4</sup> Includes timber

<sup>5</sup> Apartments, 80% of residential non-homestead property, & rented mobile homes

<sup>6</sup> Includes wind and solar energy production taxes

<sup>7</sup> Includes lodging and other selective sales taxes

## Appendix I: Technical Notes

### A. Assumptions about Changes in Local Property Taxes

- Local government levies will change in response to changes in state aids and credits. Standard assumptions are used by the Property Tax Division to estimate the magnitude of those changes.

### B. Estimating the Incidence of Changes in Business Taxes (“Incremental Incidence”)

- As explained on pages 69-70 of the 2021 *Tax Incidence Study*, the incidence of a change in the level of business taxes (“incremental incidence”) will differ from the incidence of existing business taxes (“average incidence”). Average incidence divides an existing business tax into three parts – the national average tax on all capital, the sector differential, and the Minnesota differential. In contrast, a change in the level of a business tax is all treated as a change in the Minnesota differential.
- If the level of Minnesota business taxes changes, this will generally change the amount of *federal tax* paid by the business – either the federal corporate income tax or the federal individual income tax for flow-through businesses. For a corporation paying federal tax at the 21% rate, each additional \$1,000 in Minnesota tax will reduce the federal tax burden by \$210. Therefore \$210 of the \$1,000 of Minnesota tax burden is borne by the federal government in foregone tax revenue. The burden of the remaining \$790 in tax may be shifted to consumers in higher prices or to workers in lower compensation – or it may reduce the after-tax income of the business owner. This analysis assumes federal tax rates of 21% for corporate tax and 18% for individual income tax.
- The extent to which the tax burden will be shifted to consumers or workers will depend on the nature of the market. Minnesota tax changes are most likely to result in price changes if the market is local and close competitors face the same change in tax. Businesses selling in national or international markets are much less likely to shift the added cost to consumers by raising prices (or reduce their price in response to a tax cut). *As in the incidence study, the incidence results assume the market has had time to fully adjust to any tax changes.*
- The incidence of the **business tax** changes in the bill (as modeled here) is as follows:
  - Corporate tax increases: 45% shifted to Minnesota consumers, 28% shifted to Minnesota workers, less than 1% borne by Minnesota owners, and 27% borne by nonresidents and the federal government.
  - Business property tax changes: 22% of the burden to Minnesota consumers and renters, 7% to Minnesota workers, 7% to Minnesota owners (non-farm), 36% to Minnesota farm owners, and 28% to nonresidents and the federal government.
  - Individual income tax increases on flow-through income: The burden is assumed to fall on the recipient of the income, as modeled using the House Income Tax Simulation (HITS) Model.