

## PRESS RELEASE

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### **Minnesota Taxation of Senior Incomes Among Highest in Nation; State Income Tax Structure One of the Nation's Most Progressive**

The Minnesota Center for Public Finance Research (MCPFR), the supporting research arm of the Minnesota Taxpayers Association, released today a new comparison study of state-level income taxes for tax year 2008. The report updates four previous studies issued for tax years 1997, 1999, 2003 and 2006.

The study compares individual income tax burdens and effective tax rates on five filer types – married-joint, single, head-of-household, senior married-joint, and senior-single – at different income levels ranging from \$10,000 to \$1 million in 41 states and the District of Columbia. Calculations were made using the TAXSIM income tax simulator developed by the National Bureau of Economic Research on median data from tax year 2008 Minnesota returns provided by the Minnesota Department of Revenue.

#### **KEY FINDINGS:**

- Minnesota seniors paid between 30% and 100% more in income taxes than the national average depending on filer type and income level. Minnesota senior income tax burdens were highest in the nation for 5 of the 16 senior filer profiles studied and ranked 2<sup>nd</sup> or 3<sup>rd</sup> in 7 others (see accompanying table). Minnesota is one of the few states that provide no special exemptions for Social Security or pension income, subjecting Minnesota's senior citizens to a larger income tax base than most states.
- Non-senior Minnesotans commonly pay between 4%-23% more in income taxes than the national average.
- Minnesota income tax rankings remained the same or declined from 2006 for the majority of single, married, and head of household filers.
- Based on actual tax burdens, Minnesota has one of the nation's most progressive state income tax structures:
  - Income tax rankings for single filers rise from 39<sup>th</sup> at \$10,000 of gross income to 9<sup>th</sup> at \$250,000 of gross income.
  - Rankings for married filers rise from 37<sup>th</sup> at \$10,000 of gross income to 10<sup>th</sup> at \$1 million of gross income (bottoming out at 41<sup>st</sup> for filers with \$35,000 of gross income).
  - Rankings for head of household filers rise from 38<sup>th</sup> at \$10,000 of gross income to 12<sup>th</sup> at \$250,000 of gross income.
  - Married filers with incomes of \$1,000,000 and single filers with incomes of \$50,000 and of \$150,000 and higher continue to rank in the top ten nationally.
  - The difference in effective income tax rates between married joint filers at \$35,000 of income and those above \$150,000 of income places Minnesota 2<sup>nd</sup> nationally in income tax progressivity.
- Few states provide more favorable income tax treatment for lower earning households. Minnesota ranks near the bottom (from 37<sup>th</sup> to 40<sup>th</sup> out of 42) for married and head of household filers earning \$20,000 or less. At the

\$35,000 gross income level, Minnesota married filers receive a \$269 net tax credit, a tax burden which ranks 41st, ahead of only New York.

- Minnesota's Working Family Credit – the state version of the federal Earned Income Tax Credit – has a significant effect on structural progressivity and state rankings. At the very low income levels, the tax for married and head of household filers is negative, delivering a credit ranging from \$606 to \$1,403 for incomes of \$10,000 - \$20,000 compared to the U.S. average – a credit of \$266 to a tax liability of \$123 over that same income range. Expanded Working Family Credit eligibility thresholds primarily caused the 5 position drop in Minnesota's rank for married-joint filers at the \$35,000 income level since 2006 (see accompanying table).

“Minnesota's tax system has been under a lot of scrutiny, and this study flags some important issues worthy of consideration in any tax reform discussion,” notes Mark Haveman, Executive Director of the Minnesota Taxpayers Association. “For example, Minnesota's fastest-growing and most mobile demographic group – senior households – will increasingly influence the integrity of the state's revenue system. Our findings suggest policy makers would be well advised to carefully consider the revenue implications of this influential demographic group as the Baby Boomer generation moves into retirement.

“Since tax fairness gets a lot of attention in Minnesota, it's important to recognize that we already have one of the most progressive income tax systems in the nation,” Haveman continued. “This study shows that progressivity is already well-established in that part of Minnesota's revenue system best able to address ability-to-pay concerns. Lawmakers should approach efforts to introduce more progressivity with some care since greater progressivity can come at the expense of other, equally important, tax policy principles such as stability, competitiveness, and accountability.”

The full report is available to the general public on MTA's website at [http://www.mntax.org/cpfr/documents/Income\\_Tax\\_Burden\\_Study\\_TY2008\\_FINAL.pdf](http://www.mntax.org/cpfr/documents/Income_Tax_Burden_Study_TY2008_FINAL.pdf)

The Minnesota Taxpayers Association was founded in 1926 for the purpose of disseminating factual information to educate and inform all Minnesotans about Minnesota tax and spending policies. MTA is a non-profit, nonpartisan organization and membership is statewide, open to all, and representative of every category of taxpayer. For eighty-five years, the Association has dedicated itself to being an independent voice for good government and has advocated for the adoption of sound fiscal policies through its research efforts, publications, and meetings. The Minnesota Center for Public Finance Research is the MTA's supporting research and education arm

### Minnesota's Tax Year 2008 Individual Income Tax Rank by Filer Type and Gross Income

Note: 41 states and the District of Columbia are included in this study. The nine remaining states have no general state income tax.

Rank of 1 is highest tax burden and 42 is lowest tax burden. U.S. Average = 100

FILING STATUS	INCOME	Rank		Net Tax as % of U.S. Average	
		2006	2008	2006	2008
Single	\$10,000	28	39	39.6	NA
Single	\$20,000	20	19	107.9	103.8
Single	\$35,000	17	21	107.6	104.8
Single	\$50,000	10	10	119.3	116.4
Single	\$75,000	11	13	117.3	115.4
Single	\$100,000	10	11	119.1	116.7
Single	\$150,000	9	10	120.6	118.1
Single	\$250,000	9	10	123.0	120.8
Married	\$10,000	39	37	*	*
Married	\$20,000	41	39	*	*
Married	\$35,000	36	41	39.5	NA
Married	\$50,000	23	18	101.2	103.2
Married	\$75,000	19	19	107.8	107.0
Married	\$100,000	16	15	109.0	108.4
Married	\$150,000	12	14	111.5	109.9
Married	\$250,000	11	11	116.6	114.9
Married	\$500,000	9	11	121.1	119.6
Married	\$1,000,000	9	10	122.7	122.6
HHouse	\$10,000	39	38	*	*
HHouse	\$20,000	40	40	NA	NA
HHouse	\$35,000	22	22	98.4	96.7
HHouse	\$50,000	14	15	115.2	112.6
HHouse	\$75,000	11	13	116.9	115.3
HHouse	\$100,000	12	14	115.5	114.9
HHouse	\$150,000	--	13	--	115.8
HHouse	\$250,000	--	12	--	117.3
Sr-Married	\$10,000	6	1	*	*
Sr-Married	\$20,000	24	3	36.4	*
Sr-Married	\$35,000	7	7	189.3	*
Sr-Married	\$50,000	4	11	195.6	137.9
Sr-Married	\$75,000	--	2	--	198.9
Sr-Married	\$100,000	--	1	--	184.9
Sr-Married	\$150,000	--	1	--	142.1
Sr-Married	\$250,000	--	3	--	136.9
Sr-Single	\$10,000	--	3	--	*
Sr-Single	\$20,000	--	15	--	*
Sr-Single	\$35,000	--	10	--	161.2
Sr-Single	\$50,000	--	2	--	200.3
Sr-Single	\$75,000	--	1	--	162.1
Sr-Single	\$100,000	--	1	--	154.0
Sr-Single	\$150,000	--	2	--	140.5
Sr-Single	\$250,000	--	3	--	131.5

\* Not shown for instances where U.S. average taxes are \$50 or less since comparisons would be misleading.

NA: Not applicable, since net state tax is negative largely due to state earned income tax credits. Result of 0.0 indicates no net state tax liability.