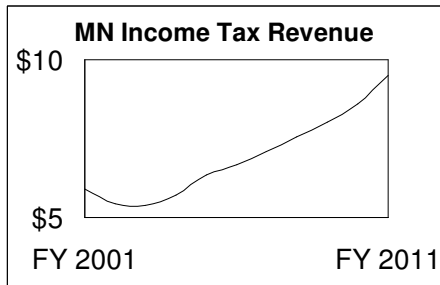


Why Not Raise Minnesota's Personal Income Taxes?

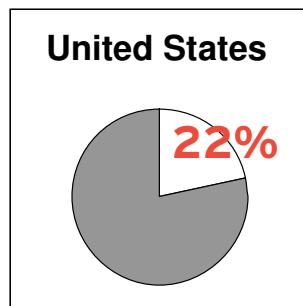
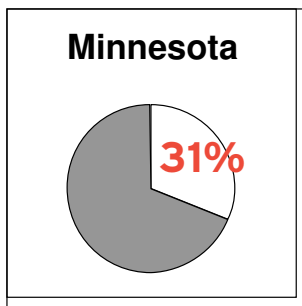


28%: Minnesota's income tax collections increased 28% between fiscal year 2001 and 2008, from nearly \$6 billion to more than \$7.5 billion. State planning estimates project income tax revenues will reach \$9.5 billion in 2011 – without raising income tax rates.^{POG} That ought to be enough.

Despite Income Tax Reductions in 1999 Minnesota Remains a High-Tax State

12th highest: Rank of Minnesota's overall tax burden per person in 2005.^{MTA}

Income taxes: A bigger slice of the pie
Minnesota gets 31% of its state revenue from personal income taxes, compared to an average 22% among all other states.^{MTA}



5th highest: Rank of Minnesota's personal income tax burden per person in 2005 – down from 4th highest in 1999.^{MTA}

39%: At \$1,120 per person, Minnesota's per person income tax collections are 39% above the national average.

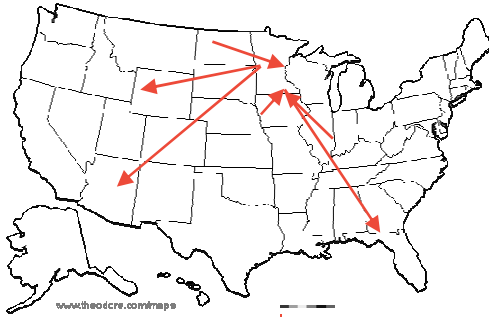
8th highest: At 7.85%, Minnesota has the eighth highest income tax rate in the nation on high-income taxpayers.^{MTA} A proposed 9.0% tax rate would move us into a tie for third highest with Oregon.^{FTA}

2nd highest: At 5.35%, Minnesota has the second highest income tax rate in the nation on low-income taxpayers.^{FTA}

Making a progressive system more progressive

Because of Minnesota's heavy reliance on a progressive income tax, Minnesota has the 11th most progressive – least regressive – tax system in the nation.^{MCTJ} Rather than raise taxes on small-business owners and high-wage earners to make our tax system even more progressive, state lawmakers could use existing resources to reduce regressive taxes:

- Cut the tax rates on the first and second income tax tiers;
- Reduce business taxes – which are among the most regressive because they are passed along to people through higher prices or restrained wages;
- Provide targeted property tax relief.



On the move

1995 - 2000: While 100,000 more people moved into Minnesota than moved out, Minnesota lost income due to migration. ^{MSDC}

\$100,000+: Among movers, those who left the state “had the highest median household income and per capita income and the highest proportion of households with incomes of \$100,000 or more.” ^{MSDC}

Not snow birds: Only 6% of those who left Minnesota were retirees. ^{MSDC}

Raising Minnesota's top income tax rate would

- *Hurt small-business owners who report business income as personal income, slowing their short-term growth and eating into their long-term investment capital.*
- *Discourage large employers from creating high-skilled, high-paying positions in Minnesota by making them more expensive.*

Replacing lost revenue

Top 10%: Minnesotans in the top 10% of income, \$105,451+, paid 37.6% of all state and local taxes, and 55.4% of the income taxes. ^{TIS}

23,600: Minnesotans in the top 1% of income – 23,600 of Minnesota’s 2.36 million households – paid 12.8% of all state and local taxes, and 24.3% of the income taxes. ^{TIS}

86 to 1: Minnesota must attract 86 new households earning \$40,000 to \$53,000 a year to replace the taxes paid by one household in the **top 5%**. ^{TIS}

449 to 1: Minnesota must attract 449 new households earning \$53,000 to \$67,000 a year to replace the taxes paid by one household in the **top 1%**. ^{TIS}

We need to spend smart, not just spend more

Long-term pressures posed by an aging population, a shrinking workforce and an increasingly competitive global economy are leading us into an era that will be defined by increasing demands for public services and a decreasing ability for state and local governments to raise taxes. Minnesota can meet these challenges and maintain our high quality of life if we . . .

- | | |
|---|--|
| 1) Set priorities and fund first things first. | 4) Get a better deal for our tax dollars. |
| 2) Spend what we have, not what we want. | 5) Grow jobs. |
| 3) Pay for what works, not for what doesn't. | |

Sources:

- ^{POG} Minnesota Department of Finance, “Price of Government,” May 2007
- ^{MTA} Minnesota Taxpayers Association “50 State Property Tax Comparison,” 2006 & 2007
- ^{FTA} Federation of Tax Administrators
- ^{MCTJ} Minnesota Citizens for Tax Justice
- ^{MDC} Minnesota State Demographic Center, October 2004 “Population Notes”
- ^{TIS} “2007 Minnesota Tax Incidence Study” and Minnesota Business Partnership analysis