

Comparison of 1999 Individual Income Tax Burdens by State



February 2001

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The Minnesota Taxpayers Association was founded in 1926 for the purpose of disseminating factual information that will educate and inform all Minnesotans about Minnesota tax and spending policies. For seventy-five years, the Association has advocated for the adoption of sound fiscal policies through its research efforts, publications, and meetings.

The Association is a non-profit, non-partisan group supported by membership dues. For information about membership, call (651) 224-7477, or visit our web site at www.mntax.org.

Acknowledgements

This report would not have been possible without the cooperation and assistance of many individuals. Special thanks is due to Renee DiVicino, MTA Research Assistant, Paul Wilson, Minnesota House Research (who for our 1997 study helped in developing assumptions for our examples), and our sister taxpayer associations who, along with MTA, are members of the National Taxpayers Conference. In addition, we are indebted to the Intuit Corporation for providing 1999 ProSeries[®] tax calculation software for all fifty states and the District of Columbia.

About the National Taxpayer Conference

The National Taxpayers Conference (NTC) is a private, nonprofit corporation whose members are the full-time chief executive officers of statewide associations devoted to the pursuit of objective and unbiased analysis of public finance issues. Each member association shares a common mission—to provide accurate, unbiased research on state and local taxation and spending policies in their respective states. Some NTC members focus on research, others combine research with active taxpayer advocacy through lobbying at the state and local level. All are available to answer your questions. Visit the NTC web site at www.statetaxes.net.

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Executive Summary

- This study compares Minnesota's 1999 individual income taxes with those of 41 other states and the District of Columbia and is an update to our 1997 individual income tax study. Calculations were made using Intuit's tax year 1999 ProSeries[®] software. Taxes were calculated on three filer types at ten different income levels ranging from \$7,500 to \$200,000. Assumptions about income, deductions, and credits that were used for our 1997 and were based on actual tax profiles generated by the Minnesota Department of Revenue from 1996 tax returns are also used for this study for comparability purposes.
- The findings in this report are relevant to the current debate over how to make permanent cuts in Minnesota's income tax rates. The findings indicate that Minnesota's personal income tax still places a relatively high burden on high-income filers and negative tax burdens on low-income taxpayers, but that significant progress was made in the 1999 legislative session in reducing Minnesota's high income tax rankings reported in our 1997 study. This report supports a position that if further cuts are to be made, they should be proportionate cuts in all three income tax rates. Such cuts would reduce the effective tax rates for all income tax filers uniformly by the same percentage, favoring neither high-income nor low-income taxpayers, and preserving the current high degree of rate progressivity. Indeed, the report would support income tax proposals that would reduce the progressivity of the tax, because the 1999 changes actually increased the overall progressivity by cutting the lower two rates proportionately more than the top rate.

Findings

- Compared to other states, Minnesota's highest income tax ranking occurs for single filers with gross income of \$200,000, the highest income level used in this report. At \$200,000, Minnesota single filers pay the 8th highest income tax in the nation, down from 5th highest in 1997. Table 1 summarizes the rankings of all filer types and income levels from both the 1997 and 1999 studies.
- The most recent aggregate ranking of Minnesota's income tax collections is for 1998, when Minnesota was 4th highest in total income tax collections. The difference between that higher ranking and that reported in this study is likely due to amounts of capital gains as well as cuts made in 1999. Examples in this study include median amounts of capital gains at the higher income levels. Rapid growth in total capital gains not reflected in our assumptions would explain the higher aggregate ranking.
- Of the ten income levels examined in this study, Minnesota's income tax ranks among the top ten states only at an income level of \$200,000 for married filers; at no income levels for head of household filers; and at income levels of \$35,000 and above for single filers. The six examples in this study with a rank in the top ten states compares to 13 examples in the top ten in the 1997 study.

Table 1. Minnesota's 1997 and 1999 Individual Income Tax Rank by Filer Type and Income

FAGI*	Married Joint, 2 dependents				
	1997		1999		% Change from 1997
	Rank	Tax	Rank	Tax	
\$7,500	39	(452)	40	(664)	-46.9%
\$10,000	39	(548)	41	(840)	-53.3%
\$15,000	39	(451)	41	(932)	-106.7%
\$20,000	40	(140)	41	(888)	-534.3%
\$25,000	27	318	32	144	-54.7%
\$35,000	12	993	17	888	-10.6%
\$50,000	9	1,993	14	1,773	-11.0%
\$75,000	8	3,857	14	3,463	-10.2%
\$100,000	6	5,621	11	5,061	-10.0%
\$200,000	5	13,901	9	12,703	-8.6%
FAGI*	Head of Household. 2 dependents				
	1997		1999		% Change from 1997
	Rank	Tax	Rank	Tax	
\$7,500	39	(452)	40	(664)	-46.9%
\$10,000	39	(548)	41	(840)	-53.3%
\$15,000	40	(388)	41	(907)	-133.8%
\$20,000	35	70	41	(690)	-1085.7%
\$25,000	24	528	39	54	-89.8%
\$35,000	11	1,185	38	520	-56.1%
\$50,000	9	2,285	16	2,046	-10.5%
\$75,000	7	4,269	13	3,844	-10.0%
\$100,000	7	6,085	11	5,490	-9.8%
FAGI*	Single				
	1997		1999		% Change from 1997
	Rank	Tax	Rank	Tax	
\$7,500	18	45	19	25	-44.4%
\$10,000	15	195	17	162	-16.9%
\$15,000	7	495	15	437	-11.7%
\$20,000	10	795	16	712	-10.4%
\$25,000	11	1,130	16	1,000	-11.5%
\$35,000	7	1,778	10	1,602	-9.9%
\$50,000	7	2,938	10	2,653	-9.7%
\$75,000	7	4,869	9	4,413	-9.4%
\$100,000	7	6,909	9	6,333	-8.3%
\$200,000	5	15,533	8	14,433	-7.1%

*FAGI--Federal Adjusted Gross Income

- Legislation was enacted in 2000 which further lowered income tax rates for all three taxable income brackets, effective for tax year 2000. those cuts are not included in this 1999 study. Also, the Governor is proposing further reductions in tax rates for tax year 2001. MTA has estimated how the rankings from this study might change for tax year 2000 from the reductions made last year, and how they might change if the Governor’s recommendations for further cuts are enacted, assuming all other state income tax amounts remain constant. These are shown in the table below.

Table 2. Comparison of MTA's 1999 Income Tax Burden Study with 2000 and the Governor's Plan

FAGI*	Married Joint, 2 dependents							
	1999		2000		% Change	Governor's Plan, 2001		% Change
	Rank**	Tax	Rank**	Tax	from '99	Rank**	Tax	from '00
\$7,500	40	(664)	40	(745)	-12.2%	41	(1,325)	-77.9%
\$10,000	41	(840)	41	(972)	-15.7%	41	(1,609)	-65.5%
\$15,000	41	(932)	41	(1,010)	-8.4%	41	(1,739)	-72.2%
\$20,000	41	(888)	41	(1,060)	-19.4%	41	(1,606)	-51.5%
\$25,000	32	144	41	(278)	-293.1%	41	(591)	-312.6%
\$35,000	17	888	17	853	-3.9%	23	787	-7.7%
\$50,000	14	1,773	14	1,703	-3.9%	19	1,578	-7.3%
\$75,000	14	3,463	14	3,346	-3.4%	18	3,128	-6.5%
\$100,000	11	5,061	14	4,900	-3.2%	18	4,597	-6.2%
\$200,000	9	12,703	9	12,296	-3.2%	14	11,605	-5.6%

*FAGI--Federal Adjusted Gross Income Source: Minnesota Taxpayers Association calculations, 2/01.

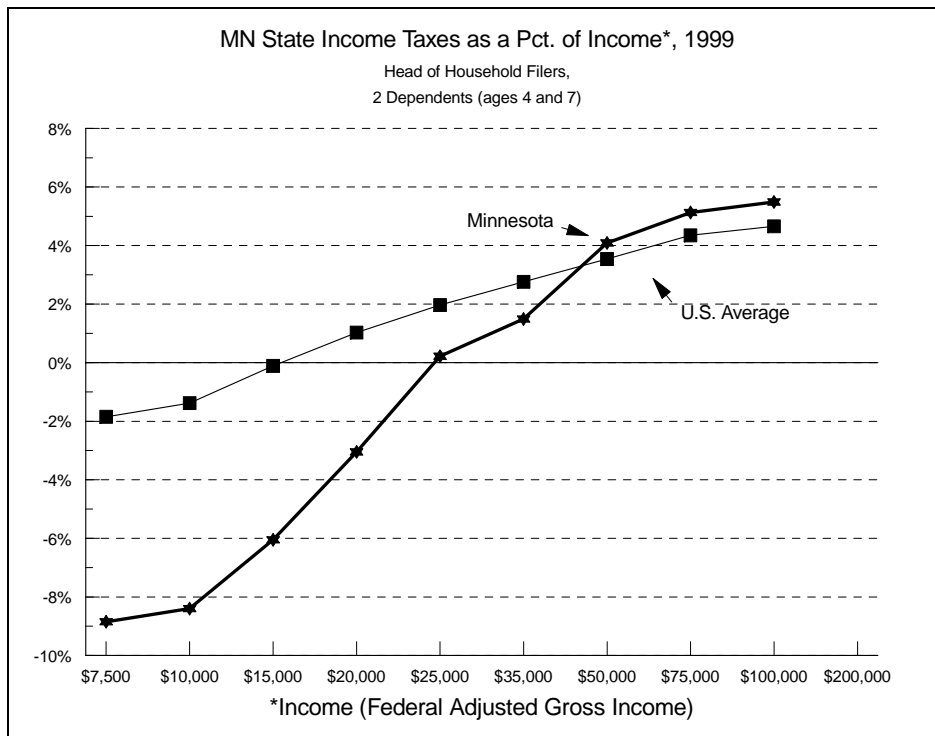
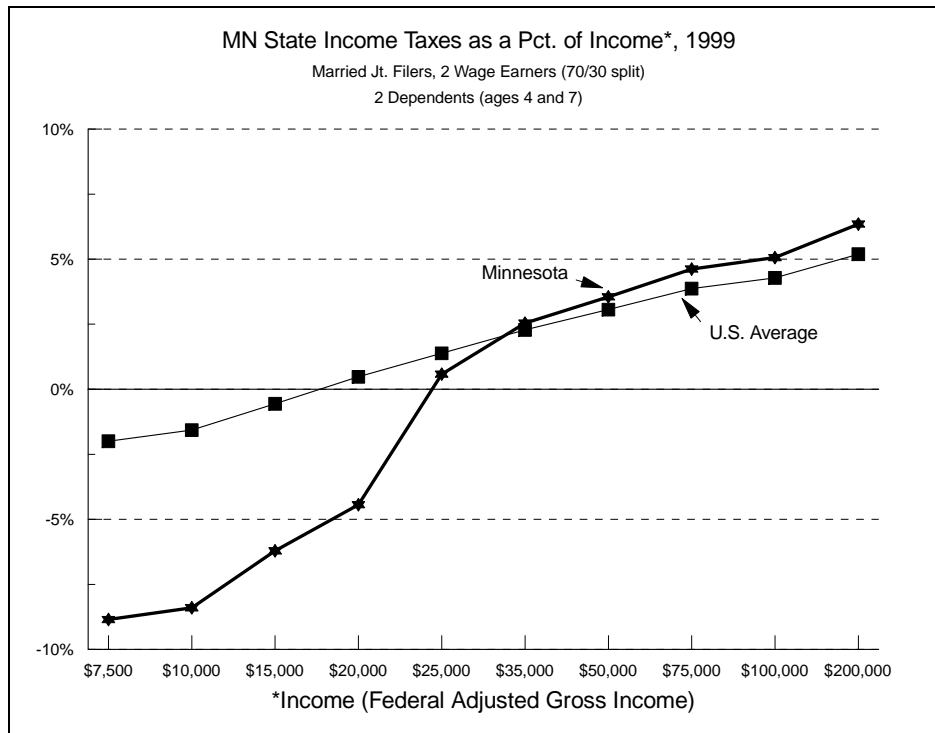
**1 is highest; 42 is lowest. Tax year 2000 and 2001 ranks assume no other state's income taxes

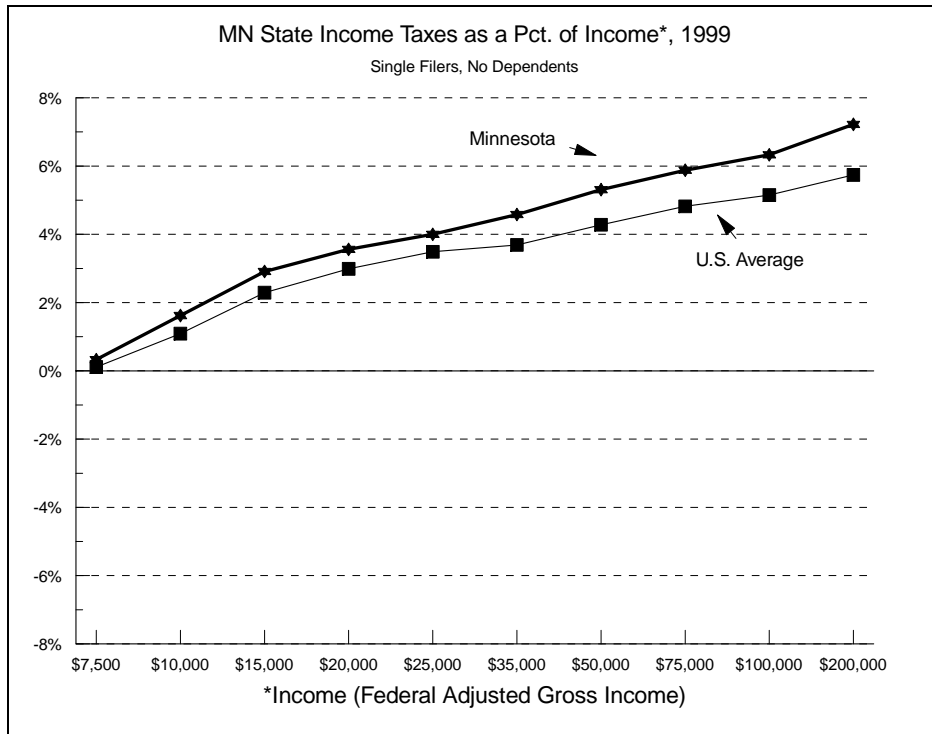
changed from 1999 through 2001. MN's taxes are actual for 2000 (with higher personal exemptions and standard deductions). For 2001, exemptions and deductions are kept the same as for 2000.

Calculations for incomes of \$25,000 and less include changes in the Working Family Credit.

Income tax rates were reduced by 0.4 percentage points for 2001, the first year of the Governor's cuts.

- Minnesota's income tax system is significantly more progressive than the average state income tax system (and was made more progressive by the 1999 and 2000 changes). The charts below show the effective tax rates (taxes as a percent of income) at the various income levels by filer type with respect to the U.S. average for 1999. The pattern of Minnesota liabilities for married joint and head of household filers are similar to each other, and both pay much higher liabilities as a percent of their income at high incomes than at lower incomes. Patterns for those filer types in the charts below also clearly show that lower income Minnesotans pay much less tax than average, while the higher incomes pay more than average. The pattern for singles is different, in that all liabilities but the \$7,500 example in our study are above the U.S. average.





Introduction

This study provides a comparison of Minnesota's 1999 individual income tax burdens with those of 41 other states and the District of Columbia. It is an update of our 1997 burden study, in which we used assumptions about income and deductions based on aggregate data from actual 1996 tax returns. The assumptions used in the previous study were kept the same for this update for comparability purposes. This report uses Intuit's tax year 1999 ProSeries[®] software to calculate the tax liability for three different filer types at ten different income levels in each of the states and the District of Columbia.

In making the calculations, a standard set of assumptions were made for each filer type and, in some cases, the Minnesota tax return data was adjusted to more accurately determine the actual tax that would be paid in the other states. These adjustments are described in the paper.

Why Do Rankings Matter?

In today's world of increased mobility and competition for economic development, states are increasingly watching each other. They must balance the need to provide the high-quality public services and infrastructure improvements needed to encourage economic growth with the need to be fiscally competitive. States that fail to provide adequate services and public investments are likely to lose ground to those that do. On the other hand, if they don't control costs and let their tax burdens rise too far above those of other states, they could lose their competitive edge and fail to attract the kind of jobs and workers needed for long-term prosperity. The tax rankings provided in this report, combined with other tax and spending measures, can help policy makers assess the state's competitive position.

The rankings provided in this report also give us information about how our income tax treats taxpayers at different income levels, that is, the progressivity or "vertical equity" of our income tax.

Our findings that Minnesota's income tax is among the country's most progressive state income taxes is relevant to the debate about what form further income tax rate reductions should take. Except for singles, Minnesotans with incomes of \$35,000 or less pay taxes roughly equal to the U.S. average or much lower, while those with higher incomes pay significantly above the U.S. average. Cuts that continue to favor lower income taxpayers will result in an even more progressive income tax system, with its inherent instability and lack of accountability. Such cuts should only be considered in the context of other tax changes such as the Governor is proposing to offset increases in the more regressive sales tax.

Measuring the Burden of the Income Tax

There are three ways to look at relative income tax burdens. The first is to compare aggregate income tax collections. The latest such data are provided by the U.S. Department of Commerce for fiscal year 1998. In that year, Minnesota's individual income tax collections ranked 6th highest per capita at \$1,005.25, 68.1% above the U.S. average (40.8% above the average for the 43 states with an income tax), and 4th per \$1,000 of personal income at \$38.55, 61.4% above the U.S. average (36.1% above the 43-state average). See Table 3 on the next page. These rankings are down from 2nd highest in 1997 primarily because of the \$500 million property tax rebate that year that was administered as an income tax credit.

Table 3. Fiscal Year 1998 State Individual Income Tax Collections, Amounts and Rank

State	Per Capita		Per \$1,000 of Income	
	Amount	Rank	Amount	Rank
Alabama	\$412.12	37	\$20.06	36
Alaska	-	-	-	-
Arizona	399.06	38	18.60	38
Arkansas	547.80	31	28.11	21
California	850.53	9	32.84	11
Colorado	725.65	15	27.40	25
Connecticut	1,040.29	3	28.97	18
Delaware	1,023.45	4	36.59	5
Florida	-	-	-	-
Georgia	695.81	16	29.73	16
Hawaii	908.12	8	35.55	7
Idaho	633.77	23	31.56	12
Illinois	580.07	29	21.03	35
Indiana	689.11	18	29.90	15
Iowa	642.38	22	27.81	23
Kansas	663.36	20	27.99	22
Kentucky	614.37	27	30.04	14
Louisiana	332.07	39	16.28	40
Maine	728.60	14	33.28	9
Maryland	806.07	11	28.34	19
Massachusetts	1,306.64	1	42.07	2
Michigan	691.98	17	27.80	24
MINNESOTA	1,005.25	6	38.55	4
Mississippi	307.80	40	17.15	39
Missouri	619.91	25	26.31	29
Montana	534.79	33	27.18	26
Nebraska	585.63	28	24.85	32
Nevada	-	-	-	-
New Hampshire*	52.15	42	1.90	42
New Jersey	688.92	19	21.54	34
New Mexico	459.99	36	24.00	33
New York	1,006.28	5	33.28	8
North Carolina	811.65	10	35.59	6
North Dakota	278.80	41	13.73	41
Ohio	621.63	24	25.74	30
Oklahoma	563.26	30	28.12	20
Oregon	1,047.71	2	44.20	1
Pennsylvania	502.03	34	19.52	37
Rhode Island	744.57	13	29.00	17
South Carolina	544.18	32	26.88	28
South Dakota	-	-	-	-
Tennessee*	29.61	43	1.32	43
Texas	-	-	-	-
Utah	654.54	21	32.97	10
Vermont	618.64	26	26.97	27
Virginia	795.98	12	30.67	13
Washington	-	-	-	-
West Virginia	478.25	35	25.46	31
Wisconsin	966.22	7	40.35	3
Wyoming	-	-	-	-
U.S. Average	\$597.72		\$23.88	
43-State Avg.	\$714.04		\$28.32	
	Minnesota History			
1993	735.43	5	36.30	4
1994	755.27	6	36.33	5
1995	794.69	4	36.04	5
1996	887.84	3	37.43	3
1997	1,019.84	2	39.98	2

*New Hampshire and Tennessee have income tax systems which tax only a small portion of income and thus were not included in our burden study.

Aggregate collections data provide an important overall measure of a state’s tax burden, but they provide no information about the distribution of the tax burden across income classes. For this information, we rely on two other sources of information on who pays the income tax. One is a recent report prepared by Citizens for Tax Justice and the Institute on Taxation and Economic Policy published in June of 1996. Using data from 1995 federal income tax returns, this report compares the “incidence” of the personal income tax by income class across the 50 states. Table 4 below shows the incidence of the Minnesota individual income tax by population quintiles for tax year 1995.

Table 4. Personal Income Tax* as a Share of Family Income (Non-Elderly Married Couples)							
	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Top 20% Next 4%	Top 1%
Minnesota	0.8%	3.0%	3.7%	3.6%	3.5%	3.4%	3.9%
Illinois	1.6	2.2	2.0	1.6	1.2	1.0	1.3
Iowa	1.5	3.2	3.8	3.7	3.5	3.3	2.9
N. Dakota	0.1	.07	1.0	1.0	1.1	1.2	1.9
S. Dakota	-	-	-	-	-	-	-
Wisconsin	1.0	3.6	4.1	3.8	3.4	3.1	2.9
U.S. Average	1.1%	2.0%	2.4%	2.2%	2.1%	2.0%	2.5%
Source: <u>Who Pays? A Distributional Analysis of the Tax Systems of all 50 States</u> , Citizens for Tax Justice and the Institute on Taxation & Economic Policy, June 1996							
* After Federal Tax Deduction Offset (itemized deductions for property and income taxes)							

It is clear from the table that compared to our neighboring states, Minnesota’s personal income tax is relatively low for the lowest quintile, and relatively high at the highest incomes. In the first quintile, Minnesota’s burden of 0.8% of family income is below the average state rate of 1.1%, and below three of the four neighboring states with an income tax. From the second quintile up, the Minnesota burden is well above the U.S. average, ranging from 50% higher in the second quintile to 63% above in the fourth quintile and somewhere near 70% in the fifth decile (the percentages are 67%, 70%, and 56% above the U.S. average for the last three columns of Table 4). Though the definitions of income are not comparable, the pattern of effective tax rates across the income levels for Minnesota are similar to those reported in the 1999 Tax Incidence Study prepared by the Minnesota Department of Revenue.

Studies like this one provide another way of looking at the distribution of the personal income tax. Instead of examining aggregate patterns of tax collections by income class, it looks at the actual taxes paid by hypothetical families using reasonable assumptions about sources of income, deductions, and credits taken. Unlike the Citizen’s for Tax Justice study, the basic comparisons in this report focus on the state income tax in isolation from the federal tax. As such they show the state tax burdens without regard to the federal income tax.

One final note. The Minnesota Department of Revenue has prepared studies with conclusions similar to this one in past years, the most recent being for tax year 1994. While the general approach of their study is similar to this one, they are not strictly comparable because of differences in assumptions used.

Methodology

As indicated above, this report calculates income tax burdens for tax year 1999 using Intuit's ProSeries[®] software and a set of assumptions about income, deductions, credits, and other tax provisions. In general the assumptions reflect actual data collected from a random sample of 1996 income tax returns maintained by the Minnesota Department of Revenue that were used in our 1997 study originally. For some data items, adjustments were made when calculating other states' income taxes. We kept the same assumptions for this study, even though it is likely that profiles have changed since 1996 (with more income groups showing a greater than 50% reporting of capital gains, for example). We kept the original 1997 assumptions so that the impact of the structural changes made in 1999 could be readily compared to the 1997 results.

Filer Types, Income Levels and Profiles

To determine the assumptions used in this report, the Minnesota Department of Revenue provided taxpayer profiles for three filer types and ten income levels. The filer types profiled for this report are Minnesota residents with wage income, no taxes paid to another state, and who are not claimed as a dependent on another tax return. Profile data was provided for single filers, married joint filers with two dependents, and head of household filers with 0-2 dependents (the sample size was too small to provide data for two dependents only). For the married filing joint calculations, incomes are assumed to be earned by the two spouses in a 70%/30% split, though the profile data provided by the Department of Revenue combined one-wage and two-wage earners because of sample size problems.

With one exception, the gross incomes selected for study are \$7,500, \$10,000, \$15,000, \$20,000, \$25,000, \$35,000, \$50,000, \$75,000, \$100,000, and \$200,000. The income level of \$200,000 was deleted in the case of heads of households because of small sample size problems. 1996 sample tax data was aggregated and median values provided by assuming some range of income around each of the income levels used. Table 5 on page 6 shows the distribution of filers from which our profile data was drawn.

Itemizers and the 50% Rule

Separate profile data was provided for itemizers and non-itemizers. If more than 50% of filers at a given income level itemized deductions, profile data for itemizers was used to determine assumptions, and conversely, if less than 50% itemized, profiles for non-itemizers were used. The data shows that under \$35,000 taxpayers tend to be non-itemizers. Consequently, we assume taxpayers use the standard deduction below \$35,000, and itemize starting at \$35,000 of gross income.

The 50% rule was used for all line items of the return. For all filer types, whenever fewer than 50% of filers at a given income level reported data for a given line item, that line item was assumed to be zero. For example, the data show that only 7% of all single filers with \$20,000 of gross income reported capital gains income. Accordingly, we assume single filers at \$20,000 have no capital gains. On the other hand, 56% of single filers with \$200,000 gross income reported median capital gains of \$2,500 in 1996. Median values for each item passing the 50% rule were used in this study.

Other Assumptions

All calculations assume taxpayers are under 65 years of age. As indicated above, any tax provision used by at least 50% of the filers in the Minnesota Revenue sample is included in this study. In the case of other states, we asked our sister organizations in the National Taxpayers Conference to alert us to any provisions in their state for which the 50% rule would hold and where special additional assumptions are needed. No such provisions have come to light. If taxpayers are qualified for certain provisions, the ProSeries[®] software will pick up the provision if relevant data are entered on informational sheets.

Circuit Breakers and Other Property Tax Relief and Rebates

Property tax relief provisions which were included on states' income tax returns and which were not simply one-time features, according to Commerce Clearing House's All States Tax Guide, were included as part of the income tax calculations. Minnesota's 1997 property tax rebate was not included in the 1997 study, for example, because it was a one-time reduction. The sales tax rebate in Minnesota was not considered for 1999 because it was not administered through the income tax system. Rent assumptions, where necessary to be made, were the same as for the 1997 study, too, in which they were taken primarily from Wisconsin's renter rebate data which showed rents paid by FGI level. The only exception was for Hawaii, for which we were provided summary rent data.

Adjustments for Other States

By necessity, this study calculates each state's income tax using Minnesota taxpayer profiles. Doing this poses an unavoidable dilemma. On one hand, holding the data constant gives a more accurate comparison of the income tax structures in each state. But on the other hand, some of the tax amounts may deviate from what would actually be paid in the other states. For example, for a Minnesota married joint filer with gross income of \$75,000 we assign a median real property tax deduction of \$1,900. This comes directly from the Department of Revenue profiles. However, we know this deduction amount will vary from state to state because of differences in median home values and effective property tax rates.

Though it can be argued that use of the \$1,900 deduction in all states for this filer would give a more accurate picture of the differences among tax codes of the various states, it is also true that failure to adjust data for known differences across the states will give misleading results in terms of actual taxes paid.

To avoid misleading users of the report, adjustments were made to three itemized deduction amounts—the state income tax deduction, the property tax deduction, and the mortgage interest deduction, the three biggest deductions usually claimed.

Table 5. Estimated Distribution of Income Tax Filers Studied in This Report				
Tax Year 1996				
Federal Adjusted Gross Income	Number of Filers		Total Tax Liability (\$000s)	Average Tax (\$)
	All Filers	Filers with Tax		
Single				
Under \$5,000	46,575	1,969	\$25	\$13
\$ 5,000 – 9,999	84,294	57,467	5,923	103
10,000 – 14,999	95,342	93,315	33,317	357
15,000 – 19,999	85,428	84,935	54,250	639
20,000 – 24,999	148,146	147,361	160,864	1,092
25,000 – 34,999	48,225	48,026	78,174	1,628
35,000 – 49,999	70,608	70,608	158,228	2,241
50,000 – 74,999	25,364	25,364	89,871	3,543
75,000 – 99,999	5,368	5,368	29,529	5,501
100,000 – 149,999	3,388	3,388	27,905	8,236
150,000 – 199,999	1,026	1,026	12,394	12,080
200,000 – 499,999	913	912	20,491	22,468
500,000 and over	304	301	79,611	264,488
Total	614,981	540,040	\$750,582	\$1,390
Married Joint, Two Dependents				
Under \$5,000	624	0	0	0
\$ 5,000 – 9,999	2,037	0	0	0
10,000 – 14,999	2,189	0	0	0
15,000 – 19,999	4,762	1,669	135	\$81
20,000 – 24,999	15,787	15,777	7,713	489
25,000 – 34,999	10,174	10,164	9,073	893
35,000 – 49,999	43,117	43,107	65,014	1,508
50,000 – 74,999	75,136	75,136	208,057	2,769
75,000 – 99,999	28,993	28,927	127,693	4,414
100,000 – 149,999	16,806	16,806	115,886	6,896
150,000 – 199,999	4,365	4,365	48,562	11,125
200,000 – 499,999	4,280	4,278	89,236	20,859
500,000 and over	843	841	96,702	114,985
Total	209,113	201,073	768,077	3,820
Head of Household, Two Dependents				
Under \$5,000	2,622	0	0	0
\$ 5,000 – 9,999	5,281	0	0	0
10,000 – 14,999	6,822	2,519	96	\$38
15,000 – 19,999	3,238	3,238	619	191
20,000 – 24,999	11,574	11,574	7,622	659
25,000 – 34,999	2,535	2,535	2,728	1,076
35,000 – 49,999	3,197	3,197	5,778	1,807
50,000 – 74,999	1,559	1,559	4,387	2,814
75,000 – 99,999	238	238	1,144	4,807
100,000 – 149,999	412	412	3,058	7,422
150,000 – 199,999	66	66	724	10,970
200,000 – and over	112	110	3,063	27,845
Total	37,656	25,449	29,218	1,148

Source: MN Dept. of Revenue, 1996 Sample. Data for residents with wage income only, not a dependent, and FAGI greater than zero.

The itemized deduction for state income taxes was determined by an iterative process within ProSeries[®]. Initially, an estimate of the state income tax amount was used in calculating the federal income tax. Then the state income tax was calculated based on the federal tax return data. The resulting net state income tax amount was then used to recalculate the federal tax, and so on. Usually within one or two iterations the state income tax amount on both the federal and state tax returns converged to within a few dollars. For all calculations, income taxes withheld were set equal to the final income tax liability so that no refunds, balance due amounts or payment penalties existed.

Minnesota's real property tax deduction was adjusted on other states' returns using an index of property taxes paid (Minnesota amount = 100). The index was created by subtracting estimated income tax amounts from average total taxes deducted. The income tax amounts were those reported in a 1994 study of Minnesota income tax liabilities, with single and married joint liabilities blended into one amount using filer weights derived from the Spring 1998 issue of Statistics of Income (SOI) (U.S. Dept. of Treasury, IRS). Average total taxes deducted also came from the Spring 1998 SOI (table 2). Because the resulting property tax amounts by income class were not sufficiently stable, the property tax deduction index was created from the sum across income levels of imputed property tax amounts in each state.

Finally, the Minnesota mortgage interest deduction was adjusted using an index of mortgage interest paid. The index was created from interest amounts paid per return found in Table 2 of the Spring 1998 Statistics of Income. As with the property tax deduction, the index was based on total interest paid across the income levels used in this study.

In each state, these adjustments directly affected the total itemized deduction amount used. "Other deductions" were held constant at the Minnesota level.

Conclusion

This study provides insight into just how progressive the Minnesota income tax system is. It shows that (a) as expected, Minnesota taxes high-income taxpayers at a greater rate than low-income taxpayers; (b) relative to other state income taxes, Minnesota's is one of the most progressive. At high incomes (\$200,000), Minnesota's effective income tax rate is higher than all but eight of the other states for married filers and, at low income levels (\$20,000 and under), effective tax rates are below all but one or two states.

If the state's policy goal is to reduce the yield of the state income tax so that future tax revenues more closely match state expenditures, the findings of this report support the Governor's position for reductions in all three state income tax rates equally, even though doing so would still increase the progressivity somewhat. If all rates are reduced proportionally (by the same percentage), the existing degree of rate progressivity documented in this study will remain unaffected.

This study could be used to support an even more dramatic proposal to cut tax rates relatively more at higher income levels than at lower income levels, though the politics of reducing progressivity are more difficult than that of maintaining the status quo.

In any case, there appears to be little evidence to support making the individual income tax more progressive.

Table 6. 1999 Income Tax Burdens for MARRIED FILING JOINTLY*, 2 WAGE EARNERS (70/30), 2 DEPENDENTS (ages 4 and 7)

STATE	\$7,500		\$10,000		\$15,000		\$20,000		\$25,000	
	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Alabama	\$ 78	1	\$ 158	1	\$ 343	2	\$ 543	4	\$ 793	4
Arizona	-	5	-	7	-	17	-	28	198	28
Arkansas	-	6	-	8	119	9	294	12	485	15
California	-	7	-	9	-	18	-	29	-	38
Colorado	(574)	38	(642)	38	(596)	39	(424)	40	(96)	41
Connecticut	-	8	-	10	-	19	-	30	7	37
Delaware	-	9	-	11	-	20	206	15	470	17
District of Columbia	-	10	-	12	-	21	802	1	1,202	1
Georgia	(80)	31	(32)	31	(5)	33	160	18	415	20
Hawaii	(317)	37	(237)	34	43	14	423	6	775	6
Idaho	-	11	-	13	-	22	-	31	197	29
Illinois	27	3	102	3	252	4	402	7	552	13
Indiana	(136)	32	(34)	32	272	3	442	5	612	8
Iowa	-	12	-	14	-	23	280	13	782	5
Kansas	(301)	34	(382)	35	(328)	36	(46)	37	234	24
Kentucky	49	2	113	2	395	1	703	2	1,071	2
Louisiana	-	13	-	15	83	12	185	16	375	21
Maine	-	14	-	16	-	24	-	32	137	34
Maryland	(301)	35	(382)	36	(159)	35	-	33	97	36
Massachusetts	(301)	36	(382)	37	(328)	37	(62)	38	543	14
Michigan	-	15	-	17	128	8	348	10	568	12
MINNESOTA	(664)	40	(840)	41	(932)	41	(888)	41	144	32
Mississippi	-	16	-	18	-	25	42	26	192	30
Missouri	-	17	-	19	18	16	134	22	324	22
Montana	-	18	16	6	118	10	267	14	459	18
Nebraska	-	19	-	20	-	26	51	24	225	26
New Jersey	-	20	-	21	90	11	160	19	230	25
New Mexico	(180)	33	(145)	33	(90)	34	(20)	36	115	35
New York	(602)	39	(763)	39	(655)	40	(244)	39	167	31
North Carolina	-	21	-	22	-	27	182	17	482	16
North Dakota	-	22	-	23	-	28	38	27	143	33
Ohio	-	23	-	24	40	15	159	20	307	23
Oklahoma	14	4	35	5	136	7	346	11	637	7
Oregon	-	24	-	25	55	13	558	3	1,051	3
Pennsylvania	-	25	-	26	-	29	-	34	-	39
Rhode Island	-	26	-	27	-	30	-	35	-	40
South Carolina	-	27	-	28	-	31	46	25	215	27
Utah	-	28	-	29	-	32	149	21	458	19
Vermont	(2,253)	42	(2,454)	42	(2,319)	42	(2,056)	42	(1,793)	42
Virginia	-	29	36	4	153	6	358	9	580	10
West Virginia	-	30	-	30	210	5	380	8	580	11
Wisconsin	(769)	41	(778)	40	(575)	38	102	23	593	9
42 State Average	\$ (150)		\$ (157)		\$ (84)		\$ 96		\$ 346	

*For states which offered a combined filing status for separate reporting of each spouse's income, that option was used.

Table 6 (continued). 1999, MARRIED FILING JOINTLY*, 2 DEPENDENTS

STATE	\$35,000		\$50,000		\$75,000		\$100,000		\$200,000	
	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Alabama	\$ 1,068	8	\$ 1,683	16	\$ 2,638	26	\$ 3,463	33	\$ 6,718	36
Arizona	443	36	872	38	1,610	40	2,411	40	6,518	38
Arkansas	747	24	1,545	20	3,057	18	4,547	18	11,302	17
California	-	41	314	42	1,780	39	3,663	32	12,247	10
Colorado	272	40	918	37	1,919	37	2,834	36	7,012	35
Connecticut	-	42	391	41	2,342	30	3,691	31	8,600	31
Delaware	697	27	1,498	22	2,809	21	4,135	22	9,908	27
District of Columbia	1,393	3	2,740	1	4,949	1	7,031	1	16,036	1
Georgia	583	32	1,387	27	2,701	24	3,937	25	9,350	30
Hawaii	921	15	1,874	11	3,595	9	5,277	9	12,921	7
Idaho	851	18	1,970	9	3,855	6	5,680	5	13,629	5
Illinois	803	22	1,253	29	1,975	36	2,692	38	5,639	41
Indiana	952	13	1,462	24	2,312	32	3,162	35	6,562	37
Iowa	1,260	7	2,207	7	4,063	4	5,900	4	13,727	3
Kansas	657	29	1,252	30	2,719	23	4,154	20	10,373	25
Kentucky	1,388	4	2,255	5	3,664	8	5,004	13	10,840	22
Louisiana	705	26	1,175	32	1,905	38	2,545	39	5,953	40
Maine	530	33	1,527	21	3,506	11	5,410	7	13,587	6
Maryland	1,422	2	2,546	2	4,385	2	6,128	2	13,649	4
Massachusetts	1,438	1	2,295	4	3,789	7	5,254	10	11,103	19
Michigan	1,008	10	1,668	17	2,768	22	3,868	27	8,268	33
MINNESOTA	888	17	1,773	14	3,463	14	5,061	11	12,703	9
Mississippi	467	35	1,131	34	2,317	31	3,447	34	8,292	32
Missouri	769	23	1,481	23	2,620	27	3,844	28	9,634	28
Montana	712	25	1,441	25	2,893	19	4,322	19	11,150	18
Nebraska	527	34	1,190	31	2,646	25	4,118	23	11,524	14
New Jersey	405	37	668	39	1,237	41	2,289	41	8,063	34
New Mexico	362	38	1,047	36	2,484	28	4,021	24	11,335	16
New York	821	20	1,652	18	3,318	15	4,893	14	12,193	11
North Carolina	950	14	1,927	10	3,575	10	5,407	8	12,791	8
North Dakota	351	39	648	40	1,230	42	2,173	42	6,235	39
Ohio	691	28	1,274	28	2,477	29	3,912	26	10,193	26
Oklahoma	894	16	1,806	13	3,302	16	4,725	17	10,889	21
Oregon	1,326	5	2,361	3	4,290	3	6,119	3	14,097	2
Pennsylvania	980	12	1,400	26	2,100	35	2,800	37	5,600	42
Rhode Island	589	31	1,138	33	2,273	33	3,783	29	10,949	20
South Carolina	820	21	1,828	12	3,480	13	5,048	12	11,867	13
Utah	1,067	9	2,002	8	3,498	12	4,855	15	10,628	24
Vermont	601	30	1,122	35	2,260	34	3,720	30	10,642	23
Virginia	834	19	1,578	19	2,890	20	4,147	21	9,598	29
West Virginia	990	11	1,695	15	3,230	17	4,855	16	11,355	15
Wisconsin	1,291	6	2,235	6	3,893	5	5,465	6	11,982	12
42 State Average	\$ 797		\$1,529		\$ 2,900		\$ 4,281		\$ 10,373	

*For states which offered a combined filing status for separate reporting of each spouse's income, that option was used.

**Table 7. 1999 Income Tax Burdens for HEAD OF HOUSEHOLD filers, 2
DEPENDENTS (ages 4 and 7)**

State	\$7,500		\$10,000		\$15,000		\$20,000		\$25,000	
	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Alabama	\$ 88	1	\$ 183	1	\$ 433	2	\$ 683	4	\$ 933	6
Arizona	-	6	-	10	-	25	-	34	258	32
Arkansas	-	7	-	11	32	21	549	7	843	8
California	-	8	-	12	-	26	-	35	-	40
Colorado	(415)	38	(483)	38	(420)	39	(94)	39	234	35
Connecticut	-	9	-	13	-	27	7	32	-	41
Delaware	-	10	-	14	85	16	345	17	612	20
District of Columbia	-	11	-	15	451	1	802	1	1,202	1
Georgia	(60)	31	(24)	32	84	17	322	18	619	19
Hawaii	(211)	34	(90)	33	272	7	655	5	1,022	5
Idaho	-	12	-	16	-	28	149	27	447	25
Illinois	77	2	152	2	302	6	452	12	602	21
Indiana	(102)	32	68	5	306	5	476	8	646	17
Iowa	-	13	-	17	-	29	280	20	782	9
Kansas	(301)	35	(382)	36	(275)	37	6	33	286	30
Kentucky	59	3	123	3	410	3	720	2	1,090	3
Louisiana	-	14	-	18	165	13	365	16	535	23
Maine	-	15	-	19	-	30	-	36	315	29
Maryland	(301)	36	(348)	35	(69)	34	-	37	243	34
Massachusetts	(301)	37	(382)	37	(328)	38	138	28	743	10
Michigan	-	16	31	8	251	9	471	9	691	13
MINNESOTA	(664)	40	(840)	41	(907)	41	(690)	41	54	39
Mississippi	-	17	-	20	18	22	174	23	380	27
Missouri	-	18	-	21	54	20	248	22	540	22
Montana	-	19	55	6	227	10	419	13	649	16
Nebraska	-	20	-	22	-	31	172	25	346	28
New Jersey	-	21	-	23	104	14	174	24	248	33
New Mexico	(145)	33	(115)	34	(69)	35	51	31	226	36
New York	(602)	39	(763)	40	(554)	40	(144)	40	275	31
North Carolina	-	22	-	24	68	18	369	15	668	14
North Dakota	-	23	-	25	9	24	114	29	219	37
Ohio	-	24	2	9	100	15	257	21	449	24
Oklahoma	24	5	51	7	168	12	397	14	697	12
Oregon	-	25	-	26	216	11	719	3	1,167	2
Pennsylvania	-	26	-	27	-	32	112	30	700	11
Rhode Island	-	27	-	28	-	33	-	38	104	38
South Carolina	-	28	-	29	11	23	158	26	405	26
Utah	-	29	-	30	67	19	313	19	643	18
Vermont	(2,253)	42	(2,454)	42	(2,319)	42	(2,056)	42	(1,793)	42
Virginia	42	4	108	4	350	4	600	6	870	7
West Virginia	-	30	-	31	270	8	460	11	660	15
Wisconsin	(769)	41	(674)	39	(187)	36	469	10	1,031	4
42 State Average	\$ (139)		\$ (138)		\$ (16)		\$ 206		\$ 491	

Table 8 (continued). 1999, HEAD OF HOUSEHOLD, 2 DEPENDENTS

State	\$35,000		\$50,000		\$75,000		\$100,000	
	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Alabama	\$1,113	14	\$ 1,718	24	\$ 2,633	34	\$ 3,433	34
Arizona	519	39	943	39	1,743	40	2,569	40
Arkansas	1,116	13	2,082	14	3,815	14	5,428	12
California	-	42	500	42	2,668	33	4,705	20
Colorado	631	35	1,258	36	2,354	35	3,346	35
Connecticut	1,100	16	2,459	5	3,933	9	4,260	29
Delaware	830	29	1,604	25	3,009	25	4,375	27
District of Columbia	1,455	5	2,756	1	5,122	1	6,960	1
Georgia	769	30	1,549	28	2,959	26	4,231	30
Hawaii	1,134	10	2,101	13	4,031	8	5,826	8
Idaho	1,131	11	2,215	9	4,223	5	6,105	5
Illinois	849	28	1,291	35	2,041	39	2,746	39
Indiana	986	23	1,496	29	2,346	36	3,196	36
Iowa	1,301	7	2,234	8	4,140	7	6,032	6
Kansas	592	36	1,442	31	3,055	24	4,544	24
Kentucky	1,445	6	2,285	7	3,771	16	5,150	16
Louisiana	855	27	1,315	33	2,225	37	3,138	37
Maine	918	25	2,033	17	4,141	6	6,113	4
Maryland	1,615	2	2,705	2	4,668	2	6,460	2
Massachusetts	1,557	3	2,420	6	3,896	11	5,361	14
Michigan	1,131	12	1,791	22	2,891	28	3,991	32
MINNESOTA	520	38	2,046	16	3,844	13	5,490	11
Mississippi	741	31	1,444	30	2,683	32	3,850	33
Missouri	1,014	21	1,735	23	3,154	22	4,538	25
Montana	1,101	15	2,117	12	3,922	10	5,513	10
Nebraska	685	34	1,558	27	3,138	23	4,697	21
New Jersey	423	40	685	41	1,274	42	2,351	42
New Mexico	543	37	1,306	34	2,947	27	4,630	22
New York	1,051	20	2,007	18	3,720	17	5,282	15
North Carolina	1,178	9	2,204	10	3,894	12	5,770	9
North Dakota	421	41	709	40	1,630	41	2,504	41
Ohio	879	26	1,572	26	2,825	30	4,198	31
Oklahoma	996	22	1,884	19	3,505	19	4,921	19
Oregon	1,460	4	2,495	4	4,546	3	6,428	3
Pennsylvania	980	24	1,400	32	2,100	38	2,800	38
Rhode Island	717	33	1,245	37	2,856	29	4,403	26
South Carolina	1,058	19	2,052	15	3,774	15	5,391	13
Utah	1,240	8	2,146	11	3,670	18	5,034	17
Vermont	723	32	1,227	38	2,796	31	4,297	28
Virginia	1,084	17	1,869	20	3,302	21	4,596	23
West Virginia	1,080	18	1,815	21	3,360	20	4,985	18
Wisconsin	1,689	1	2,684	3	4,374	4	5,984	7
42 State Average	\$ 967		\$1,771		\$ 3,261		\$ 4,658	

Table 8. 1999 Income Tax Burdens for SINGLE filers, NO DEPENDENTS

STATE	\$7,500		\$10,000		\$15,000		\$20,000		\$25,000	
	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Alabama	\$188	6	\$288	6	\$538	7	\$788	10	\$1,038	13
Arizona	12	22	83	25	267	28	425	35	585	36
Arkansas	-	26	71	28	349	23	609	21	903	21
California	-	27	21	35	121	40	318	38	570	38
Colorado	(138)	40	(19)	41	219	34	456	31	694	31
Connecticut	-	28	-	36	22	41	156	41	408	39
Delaware	-	29	54	33	285	26	545	26	812	25
District of Columbia	248	1	398	3	730	3	1,130	3	1,554	2
Georgia	26	18	126	20	408	20	713	15	1,013	14
Hawaii	91	11	271	9	646	4	1,035	4	1,435	4
Idaho	5	25	99	23	445	13	835	8	1,225	7
Illinois	176	7	251	10	401	21	551	25	701	29
Indiana	221	2	306	5	476	10	646	19	816	24
Iowa	-	30	205	11	481	9	792	9	1,118	11
Kansas	80	13	167	16	342	24	517	27	823	22
Kentucky	79	14	143	18	440	14	754	14	1,128	10
Louisiana	58	15	103	22	265	29	435	32	605	35
Maine	-	31	59	31	254	32	597	22	969	18
Maryland	-	32	470	1	825	1	1,220	1	1,614	1
Massachusetts	-	33	200	12	629	5	927	5	1,224	8
Michigan	207	5	317	4	537	8	757	13	977	17
MINNESOTA	25	19	162	17	437	15	712	16	1,000	16
Mississippi	-	34	51	34	218	35	435	33	685	32
Missouri	16	21	65	29	233	33	474	30	729	27
Montana	116	9	196	13	380	22	661	18	1,007	15
Nebraska	-	35	86	24	260	30	435	34	665	33
New Jersey	-	36	-	37	146	38	216	40	300	41
New Mexico	(72)	39	(15)	40	127	39	341	37	622	34
New York	-	37	56	32	256	31	490	29	787	26
North Carolina	121	8	272	8	572	6	889	7	1,239	6
North Dakota	10	24	62	30	167	37	272	39	377	40
Ohio	37	16	72	27	201	36	372	36	579	37
Oklahoma	97	10	176	15	419	19	784	11	1,156	9
Oregon	215	3	399	2	786	2	1,164	2	1,551	3
Pennsylvania	210	4	280	7	420	17	560	24	700	30
Rhode Island	18	20	118	21	317	25	516	28	714	28
South Carolina	12	23	78	26	270	27	568	23	918	20
Utah	29	17	138	19	458	11	782	12	1,106	12
Vermont	(1,483)	42	(1,389)	42	(1,201)	42	(1,013)	42	(826)	42
Virginia	81	12	180	14	430	16	680	17	962	19
West Virginia	-	38	-	38	420	18	620	20	820	23
Wisconsin	(348)	41	(3)	39	449	12	918	6	1,297	5
42 State Average	\$8		\$109		\$344		\$597		\$871	

Table 9 (continued). 1999, SINGLE, NO DEPENDENTS

STATE	\$35,000		\$50,000		\$75,000		\$100,000		\$200,000	
	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank	Tax	Rank
Alabama	\$1,173	25	\$1,708	33	\$2,573	35	\$3,423	37	\$6,527	40
Arizona	798	40	1,323	39	2,290	38	3,690	36	8,571	35
Arkansas	1,267	21	2,282	17	3,927	16	5,597	16	12,480	19
California	816	39	2,040	25	4,188	12	6,411	7	15,689	2
Colorado	945	36	1,610	35	2,642	34	3,691	35	8,079	36
Connecticut	817	38	1,549	36	2,898	33	4,088	33	8,750	33
Delaware	1,105	27	1,920	29	3,249	29	4,695	29	10,681	28
District of Columbia	1,996	2	3,378	1	5,600	1	7,881	1	17,208	1
Georgia	1,235	23	2,057	23	3,377	28	4,733	28	10,358	30
Hawaii	1,555	11	2,682	9	4,542	6	6,480	6	14,520	7
Idaho	1,889	3	3,082	3	5,011	3	6,988	3	15,200	5
Illinois	964	34	1,406	37	2,140	39	2,874	41	5,841	41
Indiana	1,156	26	1,666	34	2,516	36	3,366	38	6,766	39
Iowa	1,472	16	2,453	14	4,288	10	6,237	10	14,099	10
Kansas	1,292	19	2,225	18	3,748	19	5,303	21	11,668	22
Kentucky	1,553	12	2,429	15	3,625	22	5,288	22	11,279	25
Louisiana	875	37	1,285	40	2,061	41	3,026	39	6,821	38
Maine	1,692	8	2,933	5	4,939	5	6,996	2	15,385	3
Maryland	2,025	1	3,172	2	5,024	2	6,921	5	14,681	6
Massachusetts	1,819	6	2,688	8	4,169	13	5,647	14	11,335	23
Michigan	1,417	17	2,077	21	3,177	30	4,277	31	8,677	34
MINNESOTA	1,602	10	2,653	10	4,413	9	6,333	9	14,433	8
Mississippi	1,041	29	1,771	31	2,959	32	4,170	32	9,122	32
Missouri	1,191	24	1,995	26	3,414	27	4,862	26	10,788	27
Montana	1,296	18	2,223	19	3,914	18	5,631	15	13,134	12
Nebraska	1,086	28	2,058	22	3,639	21	5,270	23	12,569	17
New Jersey	475	42	1,139	41	2,492	37	4,029	34	10,337	31
New Mexico	1,024	30	1,974	27	3,674	20	5,488	17	13,101	13
New York	1,488	15	2,516	13	4,118	14	5,747	13	13,069	14
North Carolina	1,768	7	2,786	7	4,524	7	6,394	8	14,133	9
North Dakota	567	41	116	42	2,013	42	3,018	40	7,602	37
Ohio	1,009	31	1,717	32	2,970	31	4,359	30	10,999	26
Oklahoma	1,500	14	2,425	16	3,924	17	5,453	18	11,777	20
Oregon	1,857	4	3,054	4	4,998	4	6,984	4	15,211	4
Pennsylvania	980	33	1,400	38	2,100	40	2,800	42	5,600	42
Rhode Island	983	32	1,949	28	3,563	24	5,359	20	13,572	11
South Carolina	1,527	13	2,542	12	4,201	11	5,888	12	12,915	16
Utah	1,655	9	2,544	11	3,978	15	5,424	19	11,297	24
Vermont	963	35	1,913	30	3,460	25	5,184	25	13,029	15
Virginia	1,272	20	2,108	20	3,450	26	4,829	27	10,485	29
West Virginia	1,260	22	2,055	24	3,620	23	5,245	24	11,745	21
Wisconsin	1,847	5	2,880	6	4,515	8	6,171	11	12,554	18
42 State Average	\$1,292		\$2,138		\$3,617		\$5,149		\$11,478	



Minnesota Taxpayers Association
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