

## Minnesota's Tax Reform 2001

a  
Research Perspective  
by

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### MN State and Local Tax Revenues 2003

	<u>Pre Session</u>	<u>Governor</u>	
		<u>Proposed</u>	<u>Enacted</u>
➤ Personal income tax	35%	31%	37%
➤ Corporate income tax	4%	5%	5%
➤ Property tax	30%	27%	26%
➤ Sales Taxes	24%	28%	25%
➤ Other taxes	7%	6%	7%

**Tax Reform Followed  
Five Phases**

- 1) Development Phase      May-September, 2000
- 2) Proposal Phase          September-January, 2001
- 3) Legislative Phase        January-April, 2001
- 4) End of session Phase    April-May, 2001
- 5) Special Session Phase   June, 2001

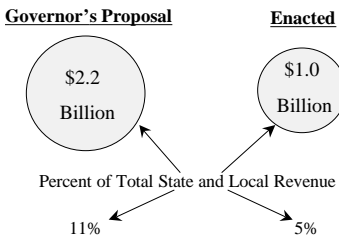
- Started as a bottom up approach
- Characterized by an environment of budget surplus
- Established a consensus that both reform and reduction were needed

**Major Tax Reform Provisions - Tax Year 2003**

Governor's Proposal	Enacted
◀Fully fund general education levy. Makes changes in property tax classification, imposes a state business levy and increases homeowner property tax refund.	◀With some modifications, the proposal passed. In addition, shifted metro transit funding from property tax to sales tax.
◀Lower sales tax rate to 6%, broaden sales tax base by extending to services not now taxed. Repeals certain exemptions. Adopt streamlined.	◀Streamlined passed. Service base broadening and repeal of exemptions did not pass. Some new exemptions added.
◀Lower income tax rates by 0.5% points and increase the working family credit.	◀None of this passed.
◀Repeal taxes on HMO premiums and wholesale prescription drugs and stabilize the health care provider tax at a permanent rate of 1.5%.	◀Health care provider tax set at 1.5%.
◀Reduce motor vehicle registration (license tabs) taxes to maximum \$189 first year and \$89 thereafter.	◀Did not pass.

Amount - \$ Millions		
Tax	Proposed Amount	Enacted
Property	(\$803)	(\$1,020)
Sales	504	40
Individual Income	(626)	26
Health Care	(110)	0
Auto Registration	(90)	0
Other	(41)	(30)
<b>Total</b>	<b>(\$1,166)</b>	<b>(\$984)</b>

### Absolute Value of Tax Proposal 2003



- Proposal was aggressive, impacting 11% of all state and local revenue.
- What was enacted was about 1/2 of the proposal in dollar terms.
- Reform aspects mainly in property tax, less complexity, greater accountability, funding shift for transit to sales tax.
- Property tax is a smaller part of state and local revenues
- Largest reform foregone was in sales tax base expansion
- Streamlined sales taxes a potential major step forward.

### Minnesota Tax Reform Tax Reduction by Industry (\$ Millions)

Industry	Pre-Session	Change	Enacted
Agriculture	\$337	(\$62)	\$275
Mining*	23	(\$0)	23
Construction	596	(\$13)	583
Durable Manufacturing	735	(\$26)	709
Nondurable Manufacturing	444	(\$7)	437
TCPU	822	(\$47)	775
FIRE	664	(\$62)	602
Services	1,692	(\$175)	1,517
Retail Trade	615	(\$18)	597
Wholesale Trade	546	(\$23)	523
Government	149	(\$3)	146
Federal	-	-	-
State	24	(\$0)	23
Local	126	(\$2)	123
<b>Total</b>	<b>\$6,622</b>	<b>(\$438)</b>	<b>\$6,186</b>

- Virtually all of reduction in property tax.
- Industry with largest reduction was Services.
- Second largest industry reduction was in FIRE

\* Does not include taconite production tax decrease of \$13 million.

### Household/Business Burdens (\$ Millions)

Comparisons	Total	Household	Nonresident	Business		
				Total	Private	Government
1998: Dollars	\$16,136	\$10,221	\$461	\$5,455	\$5,335	\$120
Percent	100.0%	63.3%	2.9%	33.8%	33.1%	0.7%
Pre-Session						
2003: Dollars	\$20,671	\$13,448	\$602	\$6,620	\$6,473	\$147
Percent	100.0%	65.1%	2.9%	32.0%	31.3%	0.7%
Pre-Session Plus Governor's Proposal						
2003: Dollars	\$19,505	\$12,562	\$569	\$6,374	\$6,374	-
Percent	100.0%	64.4%	2.9%	32.7%	32.7%	0.0%
Pre-Session Plus Enacted Governor's Proposal						
2003: Dollars	\$19,686	\$12,900	\$597	\$6,188	\$6,042	\$146
Percent	100.0%	65.5%	3.0%	31.4%	30.7%	0.7%

### Percentage Change in Household/Business Burdens

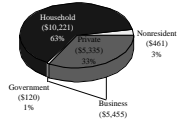
	Pre-Session	Enacted	Change
Household	65.1%	65.5%	0.4%
Business	32.0%	31.4%	-0.6%
Nonresident	2.9%	3.0%	0.1%

-6-

### Household/Business Burdens (\$ Millions)

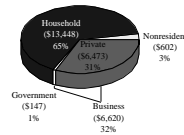
#### Initial Tax Distribution (\$ Millions)

1998 Total = \$16,136



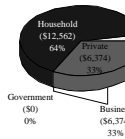
#### Pre-Session (\$ Millions)

2003 Total = \$20,671



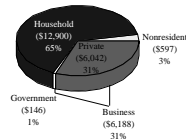
#### Pre-Session Plus Governor's Proposal (\$ Millions)

2003 Total = \$19,505



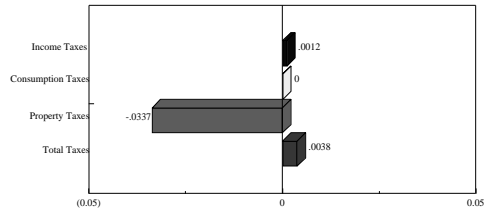
#### Pre-Session Plus Enacted (\$ Millions)

2003 Total = \$19,650



-7-

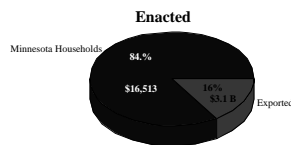
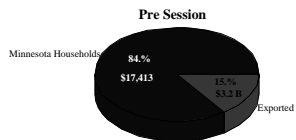
**Minnesota Tax System 2003  
Change In Suits Index  
Pre Session To Enacted**



- Property tax became more regressive.
- Overall system became slightly more progressive because property reduced as a part of the whole.

-8-

**Minnesota's Tax System 2003  
After Shifting**



- Enacted tax reform increased the percentage of tax burden exported because the greatest reductions were in property taxes which fall heavily on Minnesota households.

-9-

### **Reflections**

- Try and get proposals done early.
- Get priorities straight with management on what will be done first.
- Don't be developing approaches as you are trying to produce products.
- Manage expectations in all areas as a quality control measure.
- Be aware of administrative limitations.