Tax Incidence of Omnibus Tax Bills: The Minnesota Experience

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I. Background: Tax Incidence Analysis

- Incidence study every two years 1991-2013
  Base tax years 1988-2010
- Sample represents total population (full-year residents)
  Income tax sample (representing 87.6% of households)
  + those filing only for a property tax refund (4.4%)
  + non-filers (from administrative data) (8.0%)
- Income is comprehensive cash income
  (Federal Gross Income on federal returns + 17% more)
- All state and local taxes (but not federal)
- 5-year projections (Added in 2001)
  2013 study has base year of 2010 and
  5-year projection to tax year 2015
Results

- Show effective tax rates by decile
  - Same number of households (tax filing units) in each of the 10 deciles
  - Always remind readers to disregard the first decile

- Summary statistic is Suits Index
  - Summary measure of how progressive or regressive a tax (or the whole system) is.
    - Between -1 and +1
    - If all households paid the same share of their income in tax, Suits index would be 0.
    - Progressive tax: Income (+0.230 in 2010)
    - Regressive tax: Cigarette & tobacco (-0.598 in 2010)
Note: Numbers in parentheses show percent of total tax burden and the full-sample Suits index.
State & local tax burden by population decile (2010)

Percent of Income Paid to Taxes


Annual Household Income ($ Thousands)

MN income tax Property taxes State & local sales taxes Other taxes

Source: Minnesota Tax Incidence Study 2013 (Tax Year 2010), MN Dept. of Revenue. (Annual income amounts rounded.)
Politics of Tax Incidence Studies

- Love-hate relationship
  - Liberals like (1) emphasis on distributional fairness and (2) that we find the overall system is regressive and becoming more so.
  - Conservatives like that we show (1) business taxes are regressive taxes and (2) top decile pays 56% of all income taxes and bears 39% of the tax burden.
    
    Note: The top decile has 42% of total income

- Keeps attention on entire tax structure
- Results show the relative weakness of tax policy relative to the impact of larger economic forces.
II. Incidence of Individual Tax Bills

- Statutory language has always provided for this.
  - Request must come from chair of House of Senate Tax Committee
  - Revenue impact must exceed $20 million per year

- Formalized process for omnibus bills began in 2011
  - First request for Omnibus Tax Bills was 2007, but confidential analysis never released by tax chairs
  - In 2009, analysis of major income tax reform bill for House.
  - 2011: Governor, House, Senate, Governor Revised, Omnibus bill (vetoed)
  - 2013: Governor’s original (back-of-envelope only), Governor’s Supplemental, House, Senate, Enacted Omnibus.
2013 Omnibus Bill

Change in Minnesota State and Local Tax Burden on Minnesota Residents by Tax Type (2015)

Net $798 million increased burden (+3.3%)

- $89 homes
- $128 PTR
- $55 other
- Suits +0.372

- 4th tier $492
- Estate $48
- Suits Index +0.842

- Business $200
- Consumer $18
- Suits Index -0.212

- Cig tax from $1.60 to $2.83
- Suits Index -0.611
- Suits Index -0.179

- Property net of PTR
- $272
- Make clear what provisions in an omnibus tax bill are omitted.
  - Smaller items with unknown distribution
  - Temporary impact or shifts
  - Provisions with long phase-ins (but discuss impact if fully phased-in)
  - Fees

- Show impact by population decile (and parts of top decile)

- Report Impact on Overall Suits Index
2013 Omnibus Tax Bill
Effective Tax Rates by Decile Compared to Prior Law

<table>
<thead>
<tr>
<th>Income in $1000s</th>
<th>(91-95%)</th>
<th>(96-99%)</th>
<th>(Top 1%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$11-26</td>
<td>11.9%</td>
<td>11.0%</td>
<td>11.7%</td>
</tr>
<tr>
<td>$26-36</td>
<td>11.9%</td>
<td>11.0%</td>
<td>11.7%</td>
</tr>
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<td>$36-47</td>
<td>11.9%</td>
<td>11.0%</td>
<td>11.7%</td>
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<td>$47-60</td>
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<tr>
<td>$60-78</td>
<td>11.8%</td>
<td>11.6%</td>
<td>10.3%</td>
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<td>$78-102</td>
<td>11.6%</td>
<td>10.9%</td>
<td>10.6%</td>
</tr>
<tr>
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<td>$146-202</td>
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<td>9.6%</td>
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<td>$202-510</td>
<td>10.3%</td>
<td>10.6%</td>
<td>9.6%</td>
</tr>
<tr>
<td>&gt;$510</td>
<td>10.3%</td>
<td>10.6%</td>
<td>9.6%</td>
</tr>
</tbody>
</table>
Suits Index

- New taxes (total): +0.459

- Impact of law change on overall Suits index:
  - Prior Law in 2015: -0.049
  - Proposed Law: -0.033
Methodological Issues

- **Choice of year**
  - Based on earlier forecast

- **Property tax assumptions**
  - Changes in local government aids
  - Sales tax exemption for local governments

- **Business taxes**
  - Long-run analysis (after full adjustment)
  - Mobile capital, local markets vs national markets

- **Federal tax offset – Limited to additional tables**
  - Cuts burden from increased income taxes
  - Cuts reduction in burden from lower home property taxes
  - Take federal AMT into account,
Political Issues

- Confidential vs public estimates?
- Only when requested or always?
- Timing issues – quick turnaround is important
- Leave political slant to others
  - Do analysis without cigarette tax increase?
  - Show “top 2%”?  
  - Fancy graphics?
- How to handle federal tax offset?
III. Does this help promote good policy?

- Makes it tough to ignore impact of business taxes or regressive excise taxes.
  - Undercut claims that proposals only raised tax on the rich.
- Keeps eye on the entire state and local tax system, not just a single tax.
- Makes it more difficult to repeat outrageous statements about the bill’s distributional impact.
  - Still lots of room for political spin
- Federal tax offset is problematic.
- Lack of counts of winners and losers may be good!
- Lack of geographic breakdowns may be good!

Overall, I think the answer is “yes”.