

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

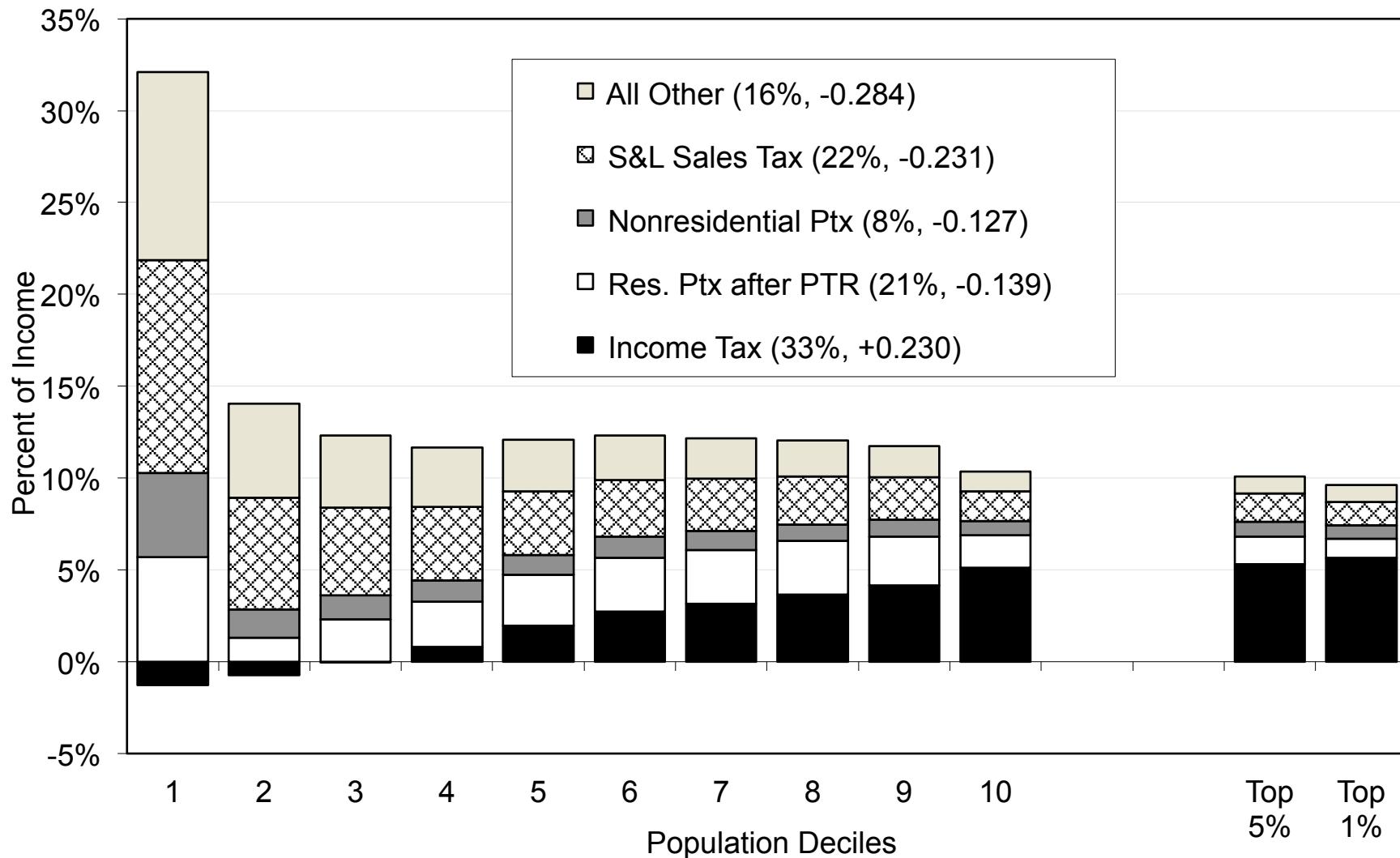
■ Show effective tax rates by decile

- 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

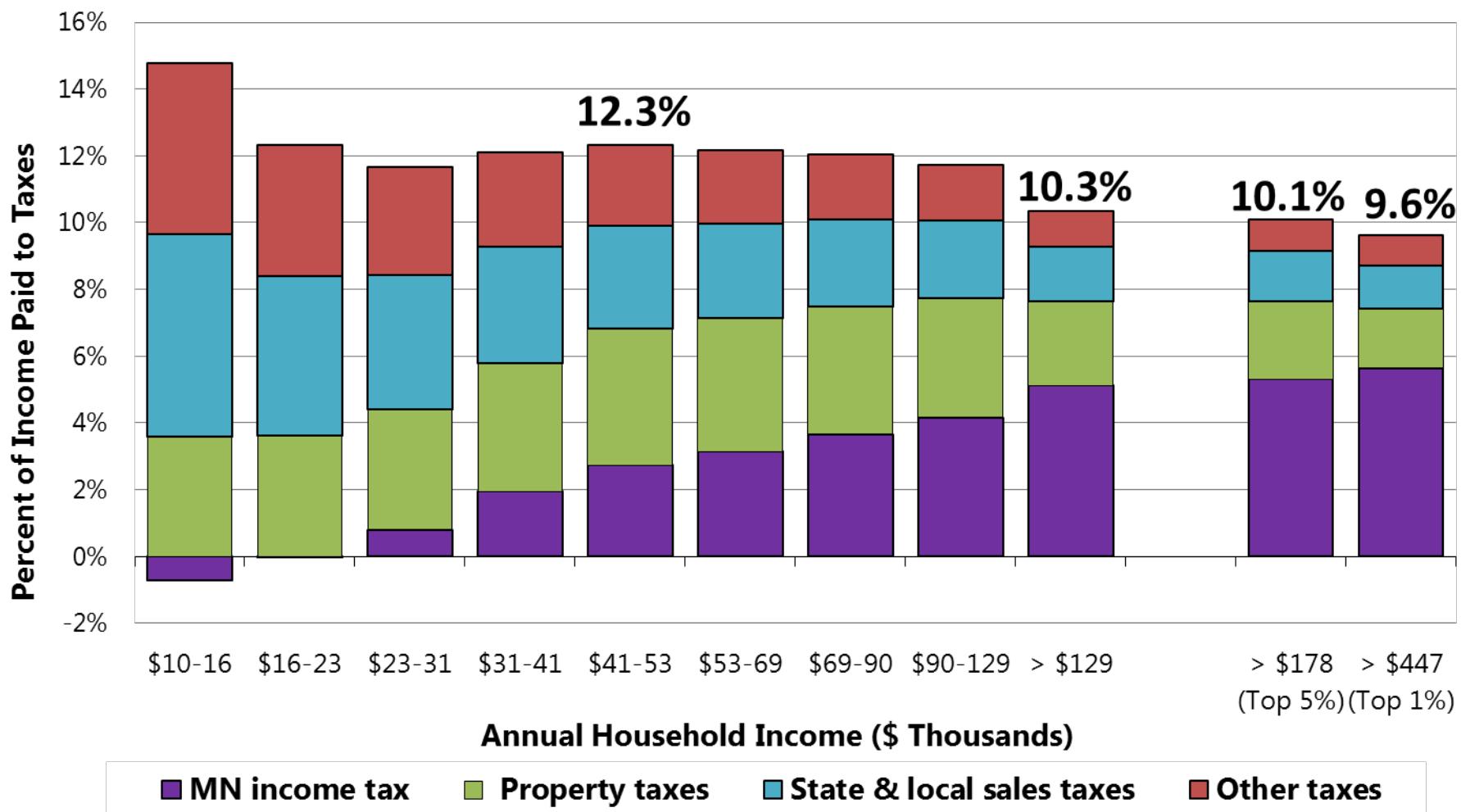
- Summary measure of how progressive or regressive a tax (or the whole system) is.
 - Between -1 and +1
 - If all households paid the same share of their income in tax, Suits index would be 0.
 - Progressive tax: Income (+0.230 in 2010)
 - Regressive tax: Cigarette & tobacco (-0.598 in 2010)

2010 Tax Incidence by Tax Type



Note: Numbers in parentheses show percent of total tax burden and the full-sample Suits index.

State & local tax burden by population decile (2010)



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

Politics of Tax Incidence Studies

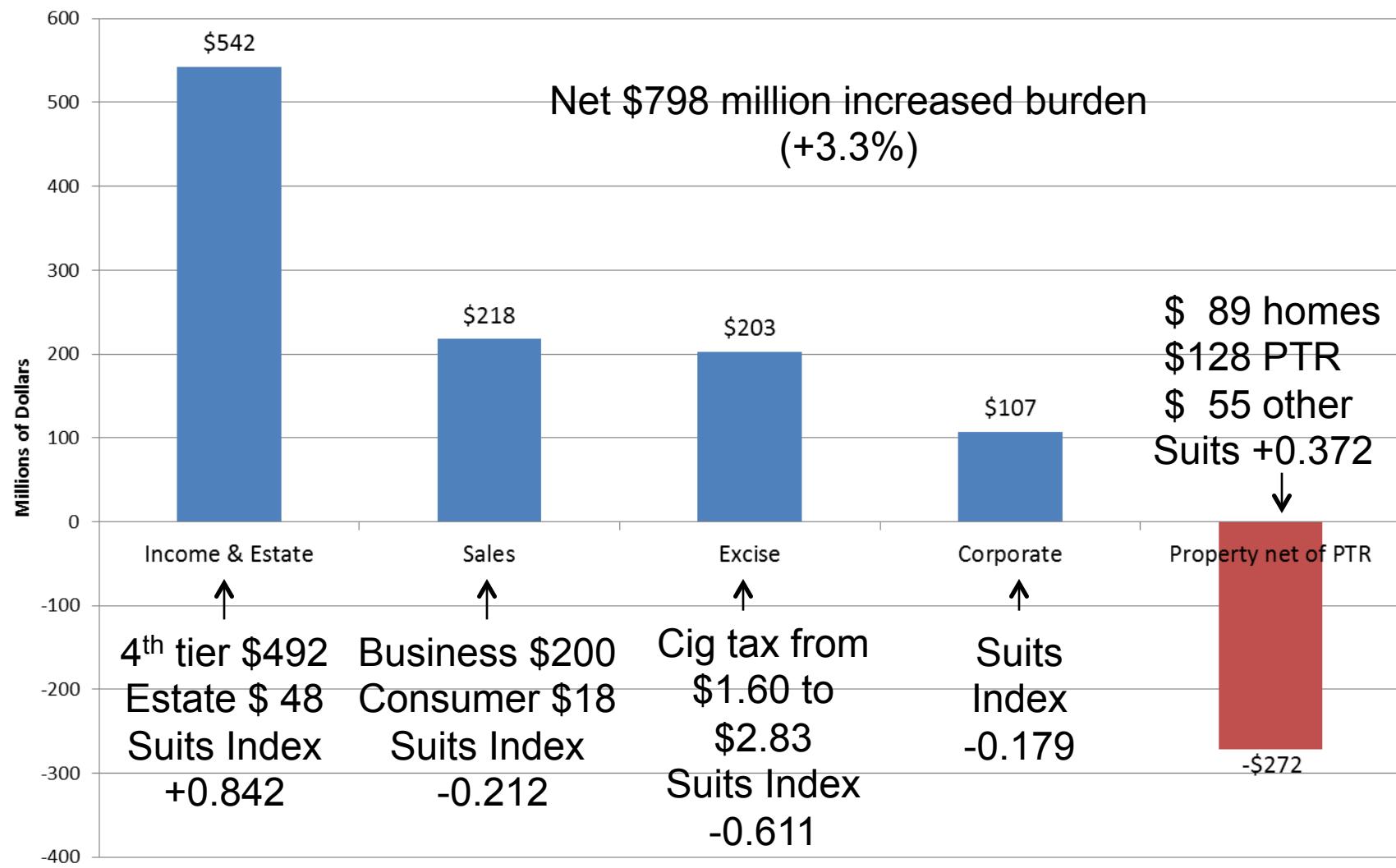
- Love-hate relationship
 - Liberals like (1) emphasis on distributional fairness and (2) that we find the overall system is regressive and becoming more so.
 - Conservatives like that we show (1) business taxes are regressive taxes and (2) top decile pays 56% of all income taxes and bears 39% of the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

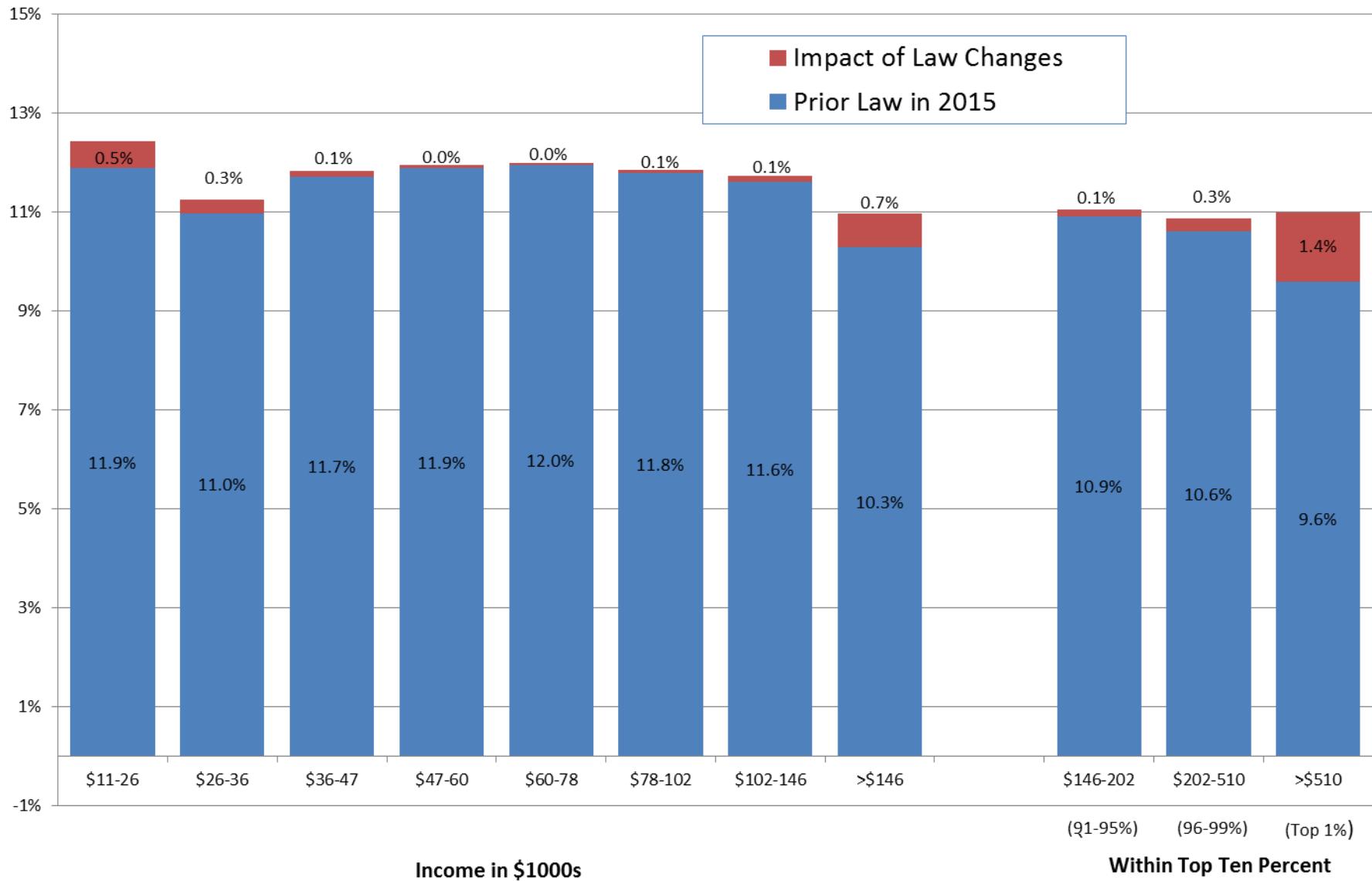
2013 Omnibus Bill

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



- 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

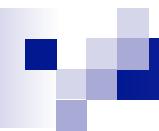


Suits Index

- 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
 - Projection year (2015) rather than base year (2010)
 - 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”.