Minnesota’s Tax Fairness Retreat:

Low-, middle-income shouldering more of state’s revenue burden

By Advocate Tribune
Posted Mar 18, 2011 @ 08:00 AM

By Jeff Van Wychen

Since 2000, Minnesota’s state and local taxes have become more regressive, meaning low and moderate income families shoulder a disproportionate share of the tax load. It’s a nationwide trend progressing more aggressively in Minnesota than nearly every other state, according to our latest report, Minnesota’s Tax Fairness Retreat: A 50-State Study. It could be found at: http://mn2020.org/issues-that-matter/fiscal-policy/minnesotas-tax-fairness-retreat

Minnesota is slipping when it comes to its level of tax fairness. Low and middle income families, who are already struggling to make ends meet, should not be asked to pay a larger percentage of their income to fund state and local government services than high income households.

Using data from the Institute on Taxation and Economic Policy, our organization, Minnesota 2020, a St. Paul-based progressive policy think tank, compared tax systems in all 50 states. The study finds an increased reliance on property taxes—which are regressive—and decreased dependence on income taxes—which are progressive—as a major set of forces pushing Minnesota toward becoming a more regressive tax state.

One of the main reasons for this shift is “no new taxes” state policy, which led to reductions in state revenue sharing with local governments, thereby forcing property tax hikes. Middle-income Minnesotans saw a significant rise in property tax rates since 2000, compared to a sizable drop for the state’s wealthiest households.

Overall Minnesota’s middle-income earners pay 10.3 percent of their income in taxes compared to the state’s highest earners who pay 7.7 percent of their income in taxes. Minnesota’s sales and excise taxes have also become more regressive.

Efforts to reduce regressivity are not “socialism” or “class warfare,” but simple tax fairness.

While making taxes fairer is the right thing to do, there’s an economic benefit to giving low- and middle-income Minnesotans more purchasing power. These folks tend to spend a larger share of income in the local community on goods and services than high income families. Respected economists agree that a stronger recovery will start when “aggregate demand” rises. That won’t come by giving untargeted tax breaks to the rich.

Despite conservative policy, more tax breaks for wealthy business owners will not result in more jobs. We need to put money back in workers’ hands to spur the demand that will get businesses hiring again. We’ve tried the no new tax myth for eight years now. It’s done nothing to improve our economy:

•Minnesota ranks 32nd in percentage growth in employment (Jan. 2002 to Nov. 2010)
•Minnesota ranks 36th in the percentage growth in per capita personal income (2002 to 2009)
•Minnesota ranks 42nd in the percentage growth in median household income (2002 to 2009)
•There are several policy options which could halt or reverse the state’s growth in tax

regressivity:
•Increase dependence on progressive revenues, such as the income tax, and reduce dependence on regressive revenues, such as property and consumption taxes.
•Enhance income tax progressivity with a more steeply graduated rate structure and refundable credits, such as the working family and dependent care credits.
•Reduce consumption tax regressivity by using progressive sales tax credits.
Regressivity increases in Minnesota and other states should cause concern for many reasons, but most importantly because it undermines the notion of fairness which is essential for public support of the tax system.

Jeff van Wychen is a fiscal policy fellow with Minnesota 2020.