

Tax Incidence Analysis

Prepared by the Tax Research Division, Minnesota Department of Revenue

June 24, 2013

2013 Omnibus Tax Bill

Chapter 143 (H.F. 677 as enacted on May 23, 2013)

The 2013 Omnibus Tax Bill makes the following tax law changes:

- **Income Tax**
 - Enacts a 4th bracket at 9.85% on taxable income in excess of \$250,000 for joint returns, \$200,000 for head of household returns, and \$150,000 for single returns.
 - Raises the alternative minimum tax rate from 6.4% to 6.75%.
- **Corporate Tax:** Increases income subject to corporate tax, primarily by (1) repealing the foreign operating corporation (FOC) provisions, (2) repealing the foreign royalty subtraction, (3) making the R&D credit nonrefundable, (4) including Minnesota sales made by *all* members of a unitary group in the Minnesota sales factor, and (5) indexing minimum fees for inflation.
- **Cigarette & tobacco taxes:** Increases the cigarette tax by **\$1.60** per pack and raises the taxes on other tobacco products.
- **Sales Tax:** Broadens the sales tax base to include (1) warehousing and storage services purchased by business, (2) repair services for electronic, commercial, and industrial equipment purchased by business, (3) telecommunications equipment purchased by a telecommunications service provider, and (4) digital goods. Exempts cities and counties from tax. Expands definition of affiliate nexus for sales tax, requiring some additional internet sellers to remit tax.
- **Estate Tax:** Enacts a gift tax, includes nonresident property held in pass-through entities in the taxable estate of nonresidents, and modifies the subtraction for farms and small business.
- **Property Taxes**
 - Decreases school property tax levies by **\$29 million** per year.
 - Increases local government aid by **\$80 million**, county aid by **\$40 million**, and payments in lieu of taxes by **\$4 million**. Also create a new township aid of **\$10 million** per year.
 - Enacts temporary levy limits, which will reduce levies by \$19 million.
- **Property Tax Refunds:** Increases property tax refunds by **\$112 million** for homeowners and by **\$17 million** for renters.

The enacted tax law changes modify the burden of state and local taxes compared to what it would have been under prior law. The bill's impact can be estimated using the database and underlying models developed for the *Minnesota Tax Incidence Study*. **Because that study projects income and taxes to calendar year 2015, this analysis generally estimates the impact of law changes in that year. Given data limitations, though, property taxes are modeled for calendar year 2014.** This analysis includes only **permanent** changes in tax law, excluding law changes that only affect the *timing* of tax payments.

A change in state and local taxes will in some cases have a *direct* impact on **federal taxes** – either by changing federal itemized deductions claimed by individuals or by changing state and local taxes deducted on federal returns filed by businesses. **As has been true for all incidence analyses completed for proposed or enacted law changes in past years, this analysis takes these direct changes in federal taxes into account.**

Impact of Law Changes Included in the Analysis on Minnesota State & Local Tax Burden

- **Income Tax**
 - **Rate Increase:** The impact of the increase in the top bracket rate was modeled using the House Income Tax Simulation Model for tax year 2015. Minnesota residents will pay **\$492 million** (91%) of the \$542.5 million of the added tax.
 - **Alternative Minimum Tax:** Minnesota residents will pay **\$2.7 million** (92%) of the \$2.9 million increase.
- **Corporate Tax:** The impact of the net \$171 million increase in corporate tax is modeled using the corporate tax incidence model. Some of the burden will be borne in higher prices, some in lower wages, and some in lower returns to business owners. Tax burdens for Minnesota residents will rise by an estimated **\$107 million** (about 62% of added revenue). The remainder will be borne by nonresidents or by the federal government (in lower federal corporate tax revenue). These estimates apply to the long-term burden, after businesses have fully adjusted to the change in tax burdens.
- **State Sales Tax:** The impact is modeled with the Minnesota Consumption Tax Model.
 - **Tax on Consumer Purchases:** The tax burden on Minnesota consumers is estimated to **rise by \$17 million** (92%) of the \$18 million net increase in tax on consumer purchases. The incidence of the \$18 million net tax increase is modeled in two parts: (1) the tax on specific newly taxed items that can be modeled using Consumer Expenditure Survey data (increase of \$5 million), and (2) other tax changes for consumer purchases (increase of \$13 million).
 - **Tax on Business Purchases:** The incidence of the \$209 million increase is modeled in two parts: (1) the tax on specific goods and services that can be modeled directly (increase of \$221 million), and (2) other tax changes (net reduction of \$12 million). The tax burden on Minnesota residents is estimated to **rise by \$188 million** (90%) of the \$209 million net increase in tax on business purchases.
 - **Tax on Local Governments:** *See discussion of property tax levies below.*
- **Local Sales Taxes:** The expansion in the sales tax base will increase local sales tax revenue by an estimated \$15 million. Of the total, \$1 million will be on consumer purchases and \$14 million on business purchases. This is estimated to increase the burden on Minnesota residents by **\$13 million** (90% of the total).
- **Cigarette and Tobacco Taxes:** Minnesota residents will pay **\$203 million** (95%) of the of the estimated \$215 million increase
- **Estate Tax:** Minnesota residents will pay **\$47 million** (86%) of the \$55 million increase in tax. Note that only nonresidents are affected by the changes regarding property held in pass-through entities.

- **Property Taxes:** Property taxes are expected to fall by \$176 million, including \$89 million for owner-occupied homes, \$3 million for cabins, \$24 million for rental residential property, \$15 million for farm land, and \$45 for other business property.
 - These levy changes include the impact of repeal of the sales tax on most purchases by cities and counties. This will reduce their state tax liability by an estimated \$131 million. Half of this savings is assumed to be passed along in lower property tax levies.¹
 - The total property tax burden on Minnesota residents **falls by \$143 million** (81%) of the total reduction. (This is the change in tax before property tax refunds.)
- **Property Tax Refunds:** Minnesota residents will benefit from an additional **\$112 million** in homeowner refunds, and renter refunds will rise by **\$17 million**.
 - Total property tax relief to Minnesota residents— as measured by the change in the tax burden on Minnesota residents after property tax refunds – is \$272 million.

Law Changes Not Included in the Analysis

- The new law will replace sales tax refunds with an **upfront exemption for capital equipment**, effective September 1, 2014. This is omitted because it generally changes only the *timing* of tax payments.
- Several relatively small **income tax provisions** for non-corporate businesses cannot be modeled effectively using the income tax model. They include the new Greater Minnesota Internship Credit, extension of the Historic Rehabilitation Credit, and modifications to the R&D credit. Total tax reduction is \$8 million.
- Adjustments made for **bonus depreciation and Section 179 expensing** are also excluded because they are temporary changes and only affect the *timing* of tax payments.
- The change in the structure of the **911 fee** charged on cellphones is excluded because the \$3 million net increase is considered a fee rather than a tax.
- Small tax changes included in other omnibus bills are also excluded, such as the \$2 million net increase in motor vehicle registration and motor vehicle sales taxes in the Transportation Omnibus Bill.

¹ Note that this assumption differs from the assumption used for the incidence analysis of the Senate Tax Bill. The analysis of the Senate bill (dated May 11, 2013) did not include any levy impact from that bill's repeal of the sales tax on most purchases by cities and counties.

Results by Population Decile: Change in Minnesota State and Local Tax Burdens

- The Minnesota state and local tax burden on Minnesota taxpayers will rise by **\$798 million**. Of that increase, **76%** will be borne by the top 10% (with 42% of total income), **72%** by the top 5% (with 31% of total income), and **62%** by the top 1% (with 16% of total income).
- Minnesota state and local tax burdens will rise by an average of **0.37%** of income. Tax burdens rise by less than that average in the 4th through 9th deciles and in the lower half of the 10th decile. The tax burden rises by **0.67%** of income for the top decile and by **1.40%** of income for the top 1% of taxpayers.

Table 1.
Change in Minnesota State and Local Tax Burden as Percent of Income
by Population Decile

2015 Population Decile	Income Range	Percent of All Households	Minnesota State and Local Tax Burden as Percent of Income		
			Prior Law	New Law	Change
1	10,937 & under	10%	29.9%	31.5%	1.56%
2	10,938 to 19,316	10%	12.6%	13.3%	0.70%
3	19,317 to 26,397	10%	11.4%	11.8%	0.44%
4	26,398 to 35,600	10%	11.0%	11.2%	0.27%
5	35,601 to 46,507	10%	11.7%	11.8%	0.11%
6	46,508 to 59,998	10%	11.9%	11.9%	0.05%
7	59,999 to 77,704	10%	12.0%	12.0%	0.04%
8	77,705 to 101,616	10%	11.8%	11.8%	0.05%
9	101,617 to 146,400	10%	11.6%	11.7%	0.13%
10	146,401 & over	10%	10.3%	11.0%	0.67%
All Households		100%	11.3%	11.6%	0.37%

Detail for the 10th Decile

Lower Half	146,401 to 202,407	5%	10.9%	11.0%	0.12%
Next 4%	202,408 to 510,005	4%	10.6%	10.9%	0.27%
Top 1%	510,006 & over	1%	9.6%	11.0%	1.40%
Full Decile	146,401 & over	10%	10.3%	11.0%	0.67%

As discussed on page 17 of the 2013 Minnesota Tax Incidence Study, results for the first decile are overstated for several reasons.

- The corporate, sales, and cigarette tax changes are regressive, but their impact is offset by progressive changes in both income and property taxes, as shown in **Table 1**. Under prior law, the top 1% of taxpayers had the lowest effective tax rate (at 9.6% of income) – a full 1.7 percentage points below the overall effective tax rate (at 10.3%). Under the new law, the effective tax rates for the 10th decile will rise from 10.3% to **11.0%** -- still below any other decile but now only 0.6 percentage points below the overall average (at 11.6%). The effective tax rate for the top 1% will rise from 9.6% to **11.0%**.

- The Suits index for the net tax change is **+0.459**, which is very progressive. It is significantly more progressive than the current income tax (+0.200). In the tax system prior to enactment of the 2013 Omnibus Tax Bill, only the estate tax and property tax refunds were more progressive than the combination of enacted tax changes.
 - The Suits index for the income tax fourth bracket rate increase alone is **+0.842**, compared to **+0.828** for the estate tax changes, **+0.372** for the property tax reductions combined with PTR increases, **-0.179** for the corporate tax increases, **-0.212** for the sales tax increases, and **-0.610** for the cigarette and tobacco tax increases.
 - In the absence of the increases in cigarette & tobacco taxes, the Suits index for the tax changes would be **+0.825**.
- With the enacted tax changes, the Suits index for all Minnesota state and local taxes will become less negative, rising from **-0.049** to **-0.033**. Though still regressive, this is less regressive than in recent years (since 2006) as well as 1998, and about the same as in 2000 and 2004.
- As shown in **Table 2**, the total Minnesota state and local tax burden on Minnesota residents **rises by 3.3%**. The increases will be **6.5%** for the top decile and **14.7%** for the top 1%. Tax burdens rise by 1.1% or less in the 5th through 9th deciles and the first half of the 10th decile.

Table 2.
Dollars of Minnesota State and Local Tax Burden
Impact of 2013 Omnibus Tax Bill
 Estimated Calendar Year 2015 Impact

2015 Population Decile	Income Range	Percent of All Households	Percent of All Income	Minnesota State and Local Tax Burden				
				Prior Law Tax Burden (\$1000s)	New Law Tax Burden (\$1000s)	Change in Tax Burden (\$1000s)	Decile's Share of Total Change in Tax	Percent Increase in Burden Over Prior Law
1	10,937 & under	10%	0.8%	537,928	565,993	28,065	3.5%	5.2%
2	10,938 to 19,316	10%	1.9%	514,797	543,342	28,545	3.6%	5.5%
3	19,317 to 26,397	10%	2.9%	707,921	735,192	27,271	3.4%	3.9%
4	26,398 to 35,600	10%	4.0%	945,145	968,726	23,581	3.0%	2.5%
5	35,601 to 46,507	10%	5.3%	1,334,108	1,347,008	12,900	1.6%	1.0%
6	46,508 to 59,998	10%	6.9%	1,756,088	1,763,473	7,385	0.9%	0.4%
7	59,999 to 77,704	10%	8.9%	2,277,516	2,284,352	6,836	0.9%	0.3%
8	77,705 to 101,616	10%	11.5%	2,916,622	2,930,042	13,420	1.7%	0.5%
9	101,617 to 146,400	10%	15.6%	3,902,773	3,945,330	42,557	5.3%	1.1%
10	146,401 & over	10%	42.2%	9,346,791	9,954,081	607,290	76.1%	6.5%
ALL MINNESOTA HOUSEHOLDS		100%	100.0%	24,239,689	25,037,539	797,850	100.0%	3.3%

Detail for the 10th Decile

Lower Half	146,401 to 202,407	5%	11.0%	2,578,683	2,607,915	29,232	3.7%	1.1%
Next 4%	202,408 to 510,005	4%	15.0%	3,413,204	3,499,133	85,929	10.8%	2.5%
Top 1%	510,006 & over	1%	16.3%	3,354,904	3,847,032	492,128	61.7%	14.7%
Full Decile	146,401 & over	10%	42.2%	9,346,791	9,954,081	607,290	76.1%	6.5%

- **Table 3** shows dollar tax changes by tax type. The reduction in the property tax burden (**down by \$272 million**) offsets **25%** of the increased burden attributed to other taxes. The net added burden from other taxes totals **\$1,070 million**. Income and estate tax account for **51%** of that increase, sales taxes for **20%**, excise taxes on cigarettes and tobacco for **19%**, and corporate tax for **10%**.

Table 3.
Change in Minnesota State and Local Tax Burden by Tax Type
Impact of 2013 Omnibus Tax Bill

Estimated Calendar Year 2015 Impact, by Tax Type

Dollars in \$1000s

2015 Population Decile	Income Range	Percent of All Households	Percent of All Income	Change in Tax Burden					
				Income Tax & Estate Tax	Corporate Tax	State & Local Sales Tax	Cigarette & Tobacco Taxes*	Property Taxes Net of PTR	Total
1	10,937 & under	10%	0.8%	431	2,844	6,738	24,574	(6,522)	28,065
2	10,938 to 19,316	10%	1.9%	315	3,683	8,649	22,312	(6,415)	28,545
3	19,317 to 26,397	10%	2.9%	239	4,695	10,649	21,903	(10,215)	27,271
4	26,398 to 35,600	10%	4.0%	139	5,835	12,864	21,596	(16,853)	23,581
5	35,601 to 46,507	10%	5.3%	178	7,242	15,439	21,365	(31,324)	12,900
6	46,508 to 59,998	10%	6.9%	141	8,548	18,004	20,887	(40,195)	7,385
7	59,999 to 77,704	10%	8.9%	143	10,605	21,968	19,864	(45,744)	6,836
8	77,705 to 101,616	10%	11.5%	196	13,261	26,972	19,187	(46,196)	13,420
9	101,617 to 146,400	10%	15.6%	481	17,514	34,528	18,151	(28,117)	42,557
10	146,401 & over	10%	42.2%	539,651	32,504	61,934	13,238	(40,036)	607,290
ALL MINNESOTA HOUSEHOLDS		100%	100.0%	541,914	106,730	217,745	203,078	(271,617)	797,850

Detail for the 10th Decile

Lower Half	146,401 to 202,407	5%	11.0%	1,675	11,449	22,109	7,637	(13,638)	29,232
Next 4%	202,408 to 510,005	4%	15.0%	59,769	13,291	25,171	4,850	(17,152)	85,929
Top 1%	510,006 & over	1%	16.3%	478,206	7,763	14,653	751	(9,246)	492,128
Full Decile	146,401 & over	10%	42.2%	539,651	32,504	61,934	13,238	(40,036)	607,290

*Includes a small alcohol tax decrease.

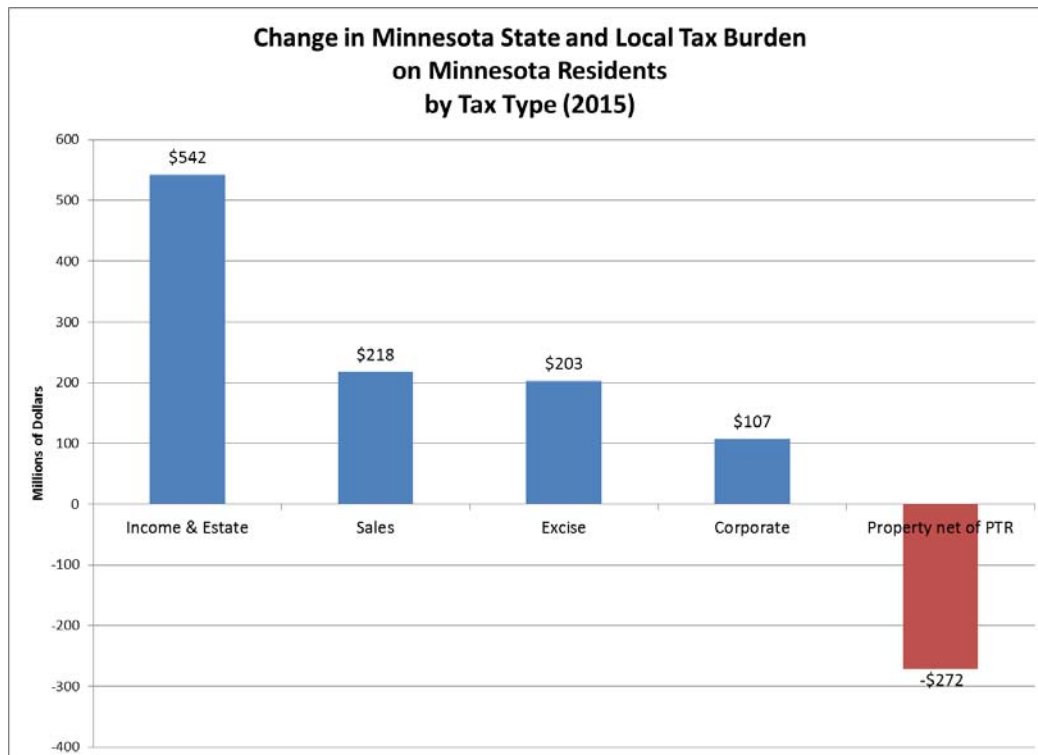


Table 3A shows the impact on tax burdens by population decile as a percent of the total income of the households in each decile. It uses the same tax categories Table 3.

Table 3A.
Change in Minnesota State and Local Tax Burden by Tax Type
Impact of Tax Proposals in 2013 Omnibus Bill
 Estimated Calendar Year 2015 Impact, by Tax Type

2015 Population Decile	Income Range	Percent of All Households	Percent of All Income	Change in Tax Burden as Percent of Income					
				Income Tax & Estate Tax	Corporate Tax	State & Local Sales Tax	Cigarette & Tobacco Taxes*	Property Taxes Net of PTR	Total
1	10,937 & under	10%	0.8%	0.02%	0.16%	0.38%	1.37%	-0.36%	1.56%
2	10,938 to 19,316	10%	1.9%	0.01%	0.09%	0.21%	0.55%	-0.16%	0.70%
3	19,317 to 26,397	10%	2.9%	0.00%	0.08%	0.17%	0.35%	-0.16%	0.44%
4	26,398 to 35,600	10%	4.0%	0.00%	0.07%	0.15%	0.25%	-0.20%	0.27%
5	35,601 to 46,507	10%	5.3%	0.00%	0.06%	0.14%	0.19%	-0.27%	0.11%
6	46,508 to 59,998	10%	6.9%	0.00%	0.06%	0.12%	0.14%	-0.27%	0.05%
7	59,999 to 77,704	10%	8.9%	0.00%	0.06%	0.12%	0.10%	-0.24%	0.04%
8	77,705 to 101,616	10%	11.5%	0.00%	0.05%	0.11%	0.08%	-0.19%	0.05%
9	101,617 to 146,400	10%	15.6%	0.00%	0.05%	0.10%	0.05%	-0.08%	0.13%
10	146,401 & over	10%	42.2%	0.59%	0.04%	0.07%	0.01%	-0.04%	0.67%
ALL MINNESOTA HOUSEHOLDS		100%	100.0%	0.25%	0.05%	0.10%	0.09%	-0.13%	0.37%

Detail for the 10th Decile

Lower Half	146,401 to 202,407	5%	11.0%	0.01%	0.05%	0.09%	0.03%	-0.06%	0.12%
Next 4%	202,408 to 510,005	4%	15.0%	0.19%	0.04%	0.08%	0.02%	-0.05%	0.27%
Top 1%	510,006 & over	1%	16.3%	1.37%	0.02%	0.04%	0.00%	-0.03%	1.41%
Full Decile	146,401 & over	10%	42.2%	0.59%	0.04%	0.07%	0.01%	-0.04%	0.67%

*Includes a small alcohol tax decrease.

Results by Population Decile: Change in Both Minnesota and Federal Tax Burdens

Because homeowner property taxes and state income taxes can be claimed as itemized deductions on federal income tax returns, a change in these taxes can change federal tax liability. The change in federal tax will offset part of the changes in Minnesota income taxes and homeowner property taxes. There is no federal offset for those who do not itemize deductions, nor is there any offset for a taxpayer who is subject to the federal alternative minimum tax (because property and state income taxes are not deductible). For those who itemize (and are not subject to the federal AMT), the portion of the change in Minnesota tax that is offset by the change in federal liability is generally equal to the federal tax rate on the last dollar of the taxpayer's income. The offset is 15% for a taxpayer in the 15% tax bracket and 36.9% for a taxpayer in the 36.9% tax bracket.

- The change in federal tax liability will offset **20% (\$97 million)** of the \$495 million increase in Minnesota income taxes paid by Minnesota residents. However, higher federal income taxes will offset **10% (\$21 million)** of the *benefit* from reduced home property taxes net of PTR (\$218 million). As a result, the changes in itemized deductions will reduce net federal income taxes by **\$76 million**.
- The federal tax reductions are concentrated at high incomes. Federal taxes will fall by **\$93 million** for those in the top decile and by **\$95 million** for the top 1%. Federal taxes will rise in the first 9 deciles because property tax reductions exceed any state income tax increases. Although federal taxes will fall in the top decile, they will rise by \$17 million in the other deciles.

Table 4.
Dollar Change in Minnesota State, Local, *and Federal* Tax Burden
Impact of 2013 Omnibus Tax Bill

(Dollars in \$1000s)

2015 Population Decile	Income Range	Number of Households	Net Change in Minnesota Tax Burden	Net Change in Federal Taxes		Net Change in Minnesota <i>and Federal</i> Tax Burden (\$1000s)
				Change in Federal itemized Deductions for State Income Taxes	Change in Federal Itemized Deductions for Home Property Taxes	
1	10,937 & under	10%	28,065	-	3	28,068
2	10,938 to 19,316	10%	28,545	-	22	28,566
3	19,317 to 26,397	10%	27,271	-	87	27,359
4	26,398 to 35,600	10%	23,581	-	316	23,897
5	35,601 to 46,507	10%	12,900	-	1,009	13,909
6	46,508 to 59,998	10%	7,385	-	2,259	9,644
7	59,999 to 77,704	10%	6,836	-	4,304	11,140
8	77,705 to 101,616	10%	13,420	(1)	5,200	18,618
9	101,617 to 146,400	10%	42,557	(35)	3,576	46,098
10	146,401 & over	10%	607,290	(97,098)	3,988	514,180
ALL MINNESOTA HOUSEHOLDS		100%	797,850	(97,135)	20,764	721,480

Detail for the 10th Decile

Lower Half	146,401 to 202,407	5%	29,268	(260)	2,270	31,279
Next 4%	202,408 to 510,005	4%	85,974	(1,436)	1,195	85,734
Top 1%	510,006 & over	1%	492,164	(95,403)	523	397,284

- Although the new law will increase the burden of *Minnesota* state and local taxes by \$798 million, the increase the total burden of *federal plus Minnesota* state and local tax burdens is less, at **\$721 million**.
- When both federal and state taxes are considered, tax burdens will increase by an average of **0.34%** of income (rather than 0.37%). The tax burden will rise by **0.57%** of income (rather than 0.67%) in the 10th decile and by **1.13%** of income (rather than 1.40%) for the top 1% of taxpayers.
- The net reduction in federal taxes is concentrated at high incomes and federal taxes will increase somewhat in the lower deciles. As a result, **adjusting for the change in federal taxes reduces progressivity**. The Suits Index for the enacted change in taxes falls from +0.459 to **+0.381**, which is still very progressive.

Table 5
Change in Minnesota State, Local, *and Federal* Tax Burden as Percent of Income
Impact of Tax Proposals in 2013 Omnibus Bill

(Dollars in \$1000s)

2015 Population Decile	Income Range	Percent of All Households	Net Change in Minnesota Tax Burden as Percent of Income	Net Change in Federal Taxes as Percent of Income		Net Change in Minnesota <i>and Federal</i> Tax Burden as Percent of Income
				Higher Itemized Deductions for Minnesota Income Tax	Lower Itemized Deductions for Home Property Taxes	
1	10,937 & under	10%	1.56%	0.000%	0.000%	1.56%
2	10,938 to 19,316	10%	0.70%	0.000%	0.001%	0.70%
3	19,317 to 26,397	10%	0.44%	0.000%	0.001%	0.44%
4	26,398 to 35,600	10%	0.27%	0.000%	0.004%	0.28%
5	35,601 to 46,507	10%	0.11%	0.000%	0.009%	0.12%
6	46,508 to 59,998	10%	0.05%	0.000%	0.015%	0.07%
7	59,999 to 77,704	10%	0.04%	0.000%	0.023%	0.06%
8	77,705 to 101,616	10%	0.05%	0.000%	0.021%	0.08%
9	101,617 to 146,400	10%	0.13%	0.000%	0.011%	0.14%
10	146,401 & over	10%	0.67%	-0.107%	0.004%	0.57%
ALL MINNESOTA HOUSEHOLDS		100%	0.37%	-0.045%	0.010%	0.34%

Detail for the 10th Decile

Lower Half	146,401 to 202,407	5%	0.12%	-0.001%	0.010%	0.13%
Next 4%	202,408 to 510,005	4%	0.27%	-0.004%	0.004%	0.27%
Top 1%	510,006 & over	1%	1.40%	-0.272%	0.001%	1.13%

Note: Because amounts paid in Minnesota estate tax are deducted in calculating federal estate tax, a substantial portion of the \$47 million burden from the Minnesota estate tax (perhaps one-third) will be offset by lower federal estate tax liability. This is not included in Tables 4 and 5. Different exemption levels for the state and federal estate taxes make it difficult to estimate the change in federal tax or assign any tax changes to specific income ranges.

Technical Addendum

A. Assumptions about Changes in Local Property Taxes

- For 2014 and future years we assume that *in the absence of levy limits* city and county governments would reduce property taxes by 50 cents for every dollar of (1) increased aid, (2) reduced state sales tax paid on their purchases, and (3) increased PILT. Township aid is assumed to reduce levies dollar for dollar. These changes reduce local levies by \$137 million.
- Estimates from the Department of Education show school levies down \$29 million.
- Levy limits for 2014 taxes are assumed to permanently reduce levies by \$19 million per year.
- A combination of other law changes and interactions raises levies by a net of \$9 million.

B. Estimating the Incidence of CHANGES in Business Taxes (“Incremental Incidence”)

- As explained on pages 60-61 of the 2013 *Tax Incidence Study*, the incidence of a *change* in the level of business taxes (“incremental incidence”) will differ from the average incidence of existing business taxes (“average incidence”). Average incidence (which is estimated in the *Tax Incidence Study* itself) starts by dividing an existing business tax into three parts – the national average tax on all capital, the sector differential, and the Minnesota differential. In contrast, for incremental incidence the *change* in the level of a business tax is all treated as a change in the Minnesota differential.
- If the level of Minnesota business taxes changes, this will generally change the amount of *federal tax* paid by the business – either the federal corporate income tax or the federal individual income tax (for flow-through businesses). For a corporation paying federal tax at the 35% rate, each additional \$1000 in Minnesota tax will reduce the federal tax burden by \$350. So \$350 of the \$1000 of Minnesota tax burden is borne by the federal government in foregone tax revenue. The burden of the remaining \$650 in tax may be shifted to consumers in higher prices or to workers in lower compensation – or it may reduce the after-tax income of the business owner. This analysis assumes an average federal tax rate for business owners of 30% for corporate tax and 20% for individual income tax.
- The extent to which the tax burden will be shifted to consumers or workers will depend on the nature of the market. Minnesota tax changes are most likely to result in price changes if the market is local and close competitors see the same change in tax. In contrast, businesses selling in national or international markets are much less likely to shift the added cost to consumers by raising prices (or cutting prices in response to a tax cut). *As in the incidence study, the incidence results assume the market has time to fully adjust to any tax changes.*
- The incidence of the business tax changes in the bill (as modeled here) is as follows:
 - Corporate tax increases: 35% shifted to Minnesota consumers, 27% shifted to Minnesota workers, 0.4% borne by Minnesota owners, and 37% borne by nonresidents and the federal government.
 - Business property tax reductions for nonresidential nonfarm property: 29% of the benefits to Minnesota consumers, 14% to Minnesota workers, 6% borne by Minnesota owners, and 51% to nonresidents and the federal government.
 - Farm land tax reductions: 77% to Minnesota owners, 3% to Minnesota workers, and 20% to the federal government.
 - Reduction in rental property taxes: 53% of the benefits to renters, 24% to Minnesota owners, and 23% to nonresidents and the federal government.
 - Business sales tax (net increase): 64% to Minnesota consumers, 26% by Minnesota workers, 0.2% by Minnesota owners, and 10% by nonresidents.

FINAL 2013 TAX BILL
ESTIMATED INCIDENCE IN TAX YEAR 2015

	Change in Tax Burden on MN residents	Pct of Change in All but PTX	Suits Index for Change
Income Tax -- 4th tier rate	492,192,175		0.842
Income Tax --AMT increase	2,672,835		0.455
Estate Tax	47,049,375		0.828
Income Plus Estate	541,914,385	51%	0.839
Cigarette & Tobacco Tax	203,472,420		(0.610)
Alcohol taxes	(394,400)		0.215
Total Excise Taxes	203,078,020	19%	(0.611)
Consumer Sales Tax			
Base Broadening (modeled with detail)	4,849,125		(0.144)
Other State Sales Tax	11,658,720		(0.250)
Local Sales Tax (Base Changes)	1,088,857		(0.219)
<i>Total Consumer Sales Tax</i>	<i>17,596,702</i>		<i>(0.219)</i>
Business Sales Tax			
Base Broadening (modeled with detail)	198,553,950		(0.211)
Other State Sales Tax	(10,790,898)		0.218
Local Sales Tax (Base Changes)	12,384,851		(0.211)
<i>Total Business Sales Tax</i>	<i>200,147,903</i>		<i>(0.211)</i>
State & Local Sales Taxes	217,744,605	20%	(0.212)
Corporate Tax	106,730,239	10%	(0.179)
Homesteads	(89,000,000)		0.180
Cabins	(2,400,000)		0.235
Rental Property	(18,469,026)		0.435
Nonresidential Business Property	(33,254,612)		0.147
PTR -- Homeowner	(112,044,434)		0.530
PTR -- Renters	(16,449,178)		0.744
Property Taxes	(271,617,250)	-25%	0.372
Change for All Taxes	797,849,999		0.459
	Total S&L Tax	Total Suits Index	
Current Law Total Tax	24,239,689,661	(0.049)	
Proposed Law Total Tax	25,037,539,660	(0.033)	
Percent Increase	3.3%		

Note: After adjusting for the reduction in federal income tax due changed itemized deductions for state income taxes and homeowner property taxes, the Suits Index for the tax change is **+0.381**.