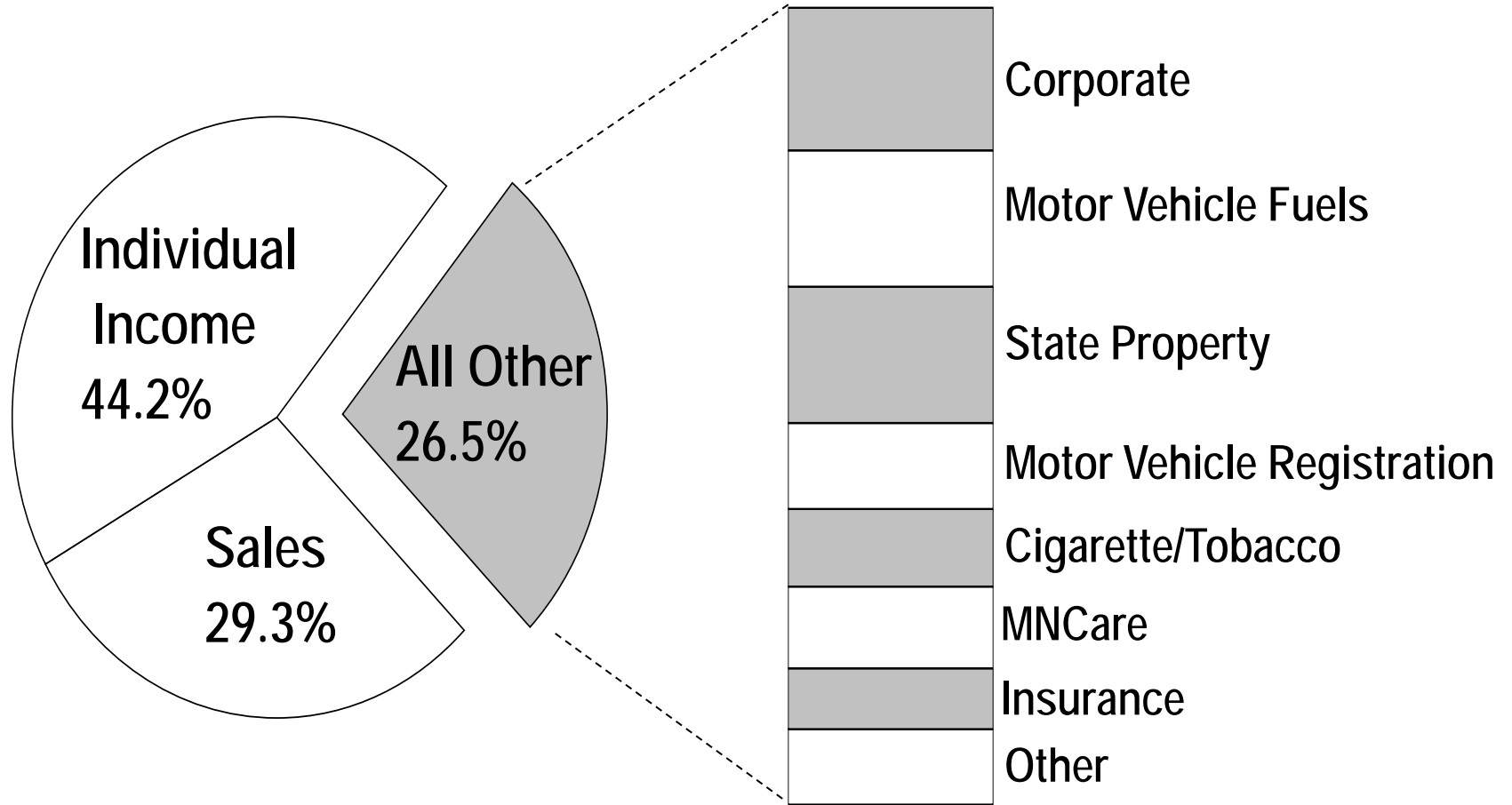


A Primer on Minnesota State Taxes

Presentation to the
Association of Minnesota Counties

Joel Michael
House Research Department
December 8, 2009

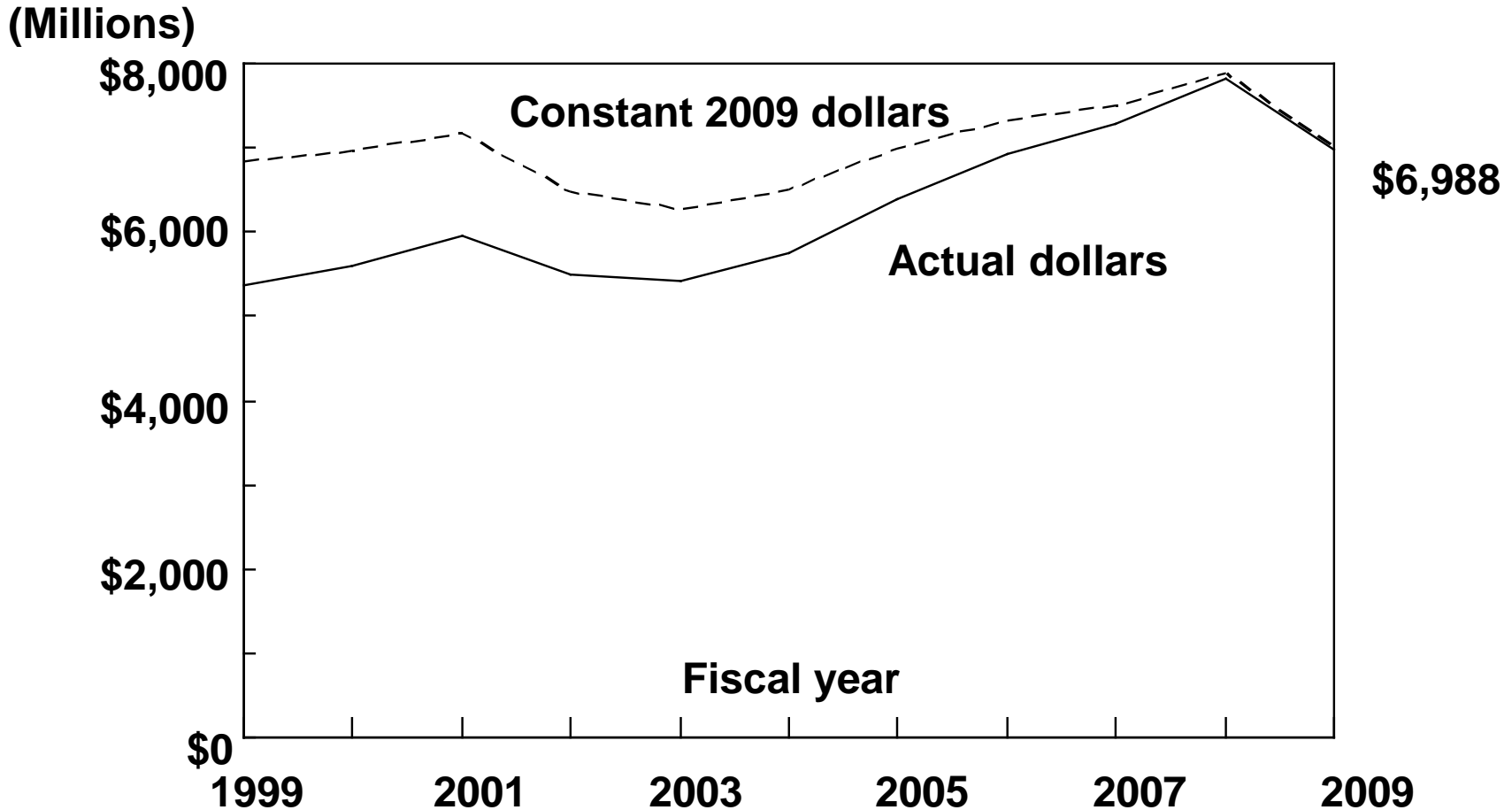
State Tax Revenues



Income Tax Revenue

- \$6.7 billion projected for FY 2010
 - Includes one-time effect of elimination of reciprocity agreement with Wisconsin
- Roughly 41% of state tax revenue
- All goes to general fund

Individual Income Tax Revenues, FY 1999-2009

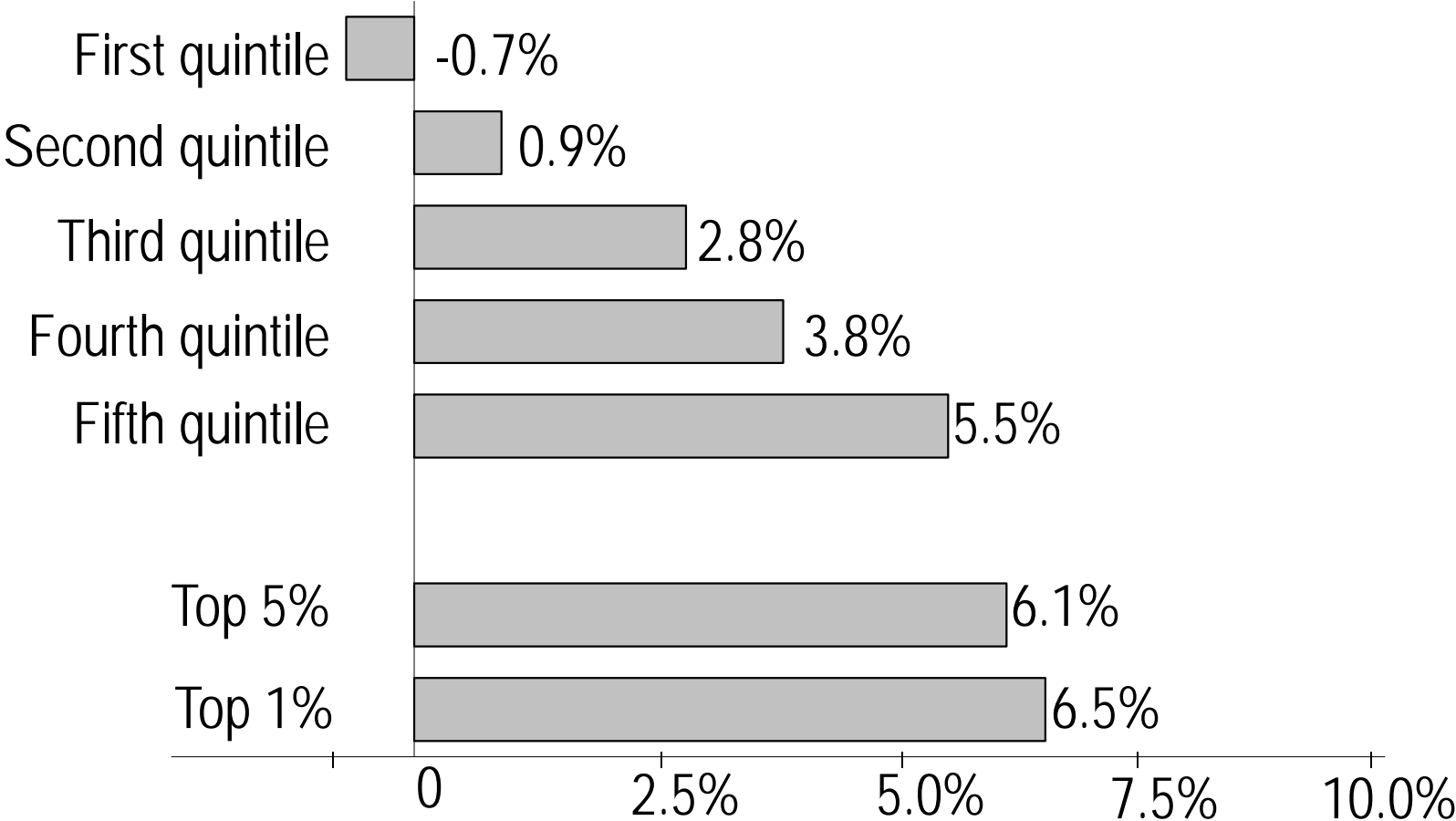


MN Rates and Brackets

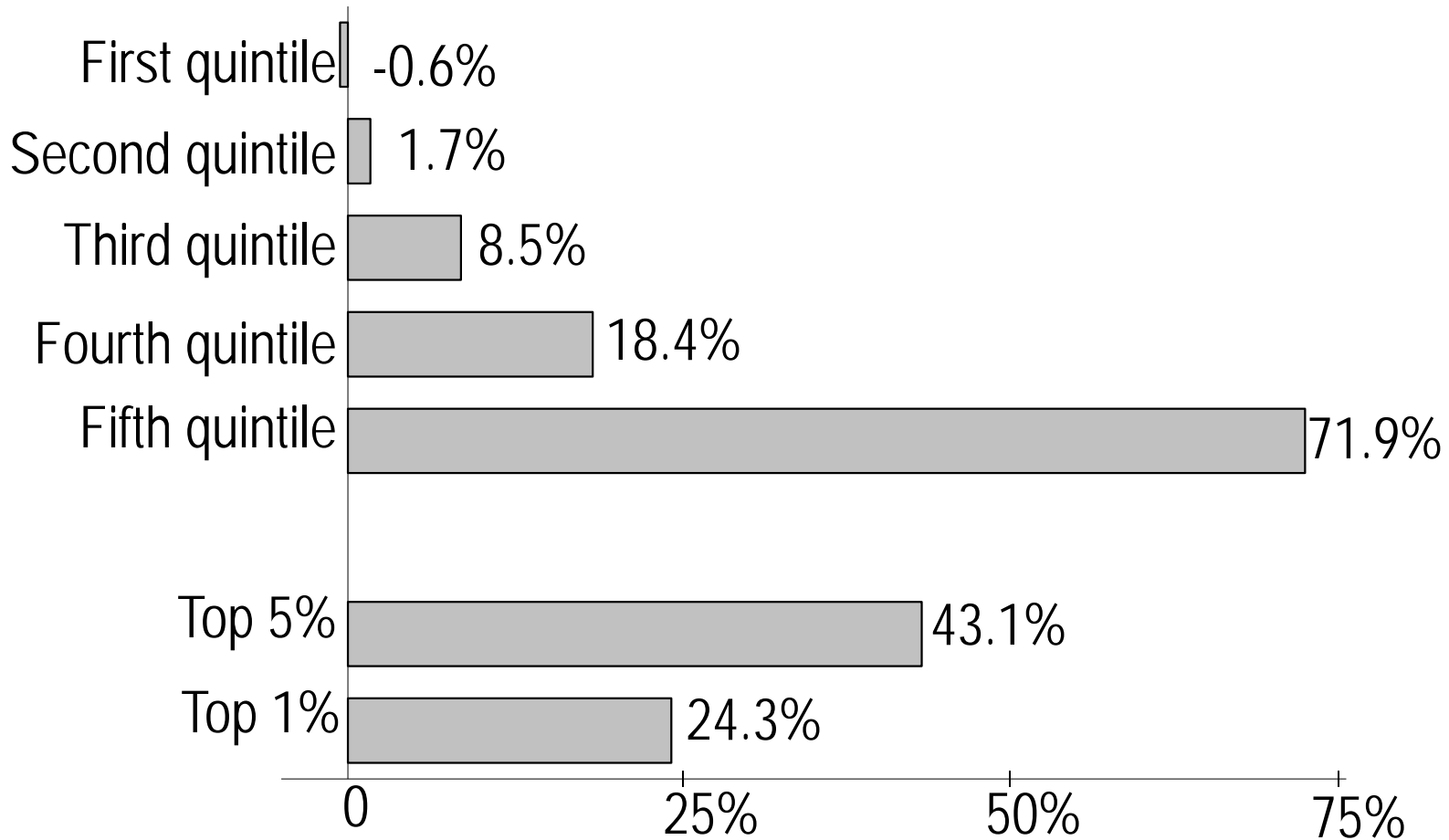
Married joint filers, tax year 2009

Income bracket	Tax Rate
\$0 to \$33,220	5.35%
\$33,221 to \$131,970	7.05%
Over \$131,970	7.85%

Effective income tax rates



Percent of tax paid



MN Individual Income Tax

- **Relies on federal income tax**
- **Incorporates federal law by reference**
- **Federal compliance and enforcement efforts flow through to state**

MN Deductions

- **Required by federal law**
 - **U.S. bond interest**
 - **Railroad retirement benefits**
 - **On-reservation earnings (members of Indian tribes)**

MN Deductions

- **K-12 education expenses**
- **Charitable contributions for non-itemizers**
- **Elderly subtraction**
- **Active service military pay**
- **Organ donation expenses**
- **Other**

Non-refundable vs. Refundable Credits

- ***A nonrefundable credit offsets liability, but not to less than zero***
- ***A refundable credit offsets liability, with any excess paid as a refund***

Nonrefundable Credits

- **Marriage penalty credit**
- **Credit for taxes paid to other states**
- **Long-term care credit**
- **Credit for past military service**

Refundable Credits

- **Working family credit**
- **K-12 Education credit**
- **Dependent care credit**
- **Military service credit**
- **Bovine tuberculosis testing credit**
- **Motor fuels tax credit**

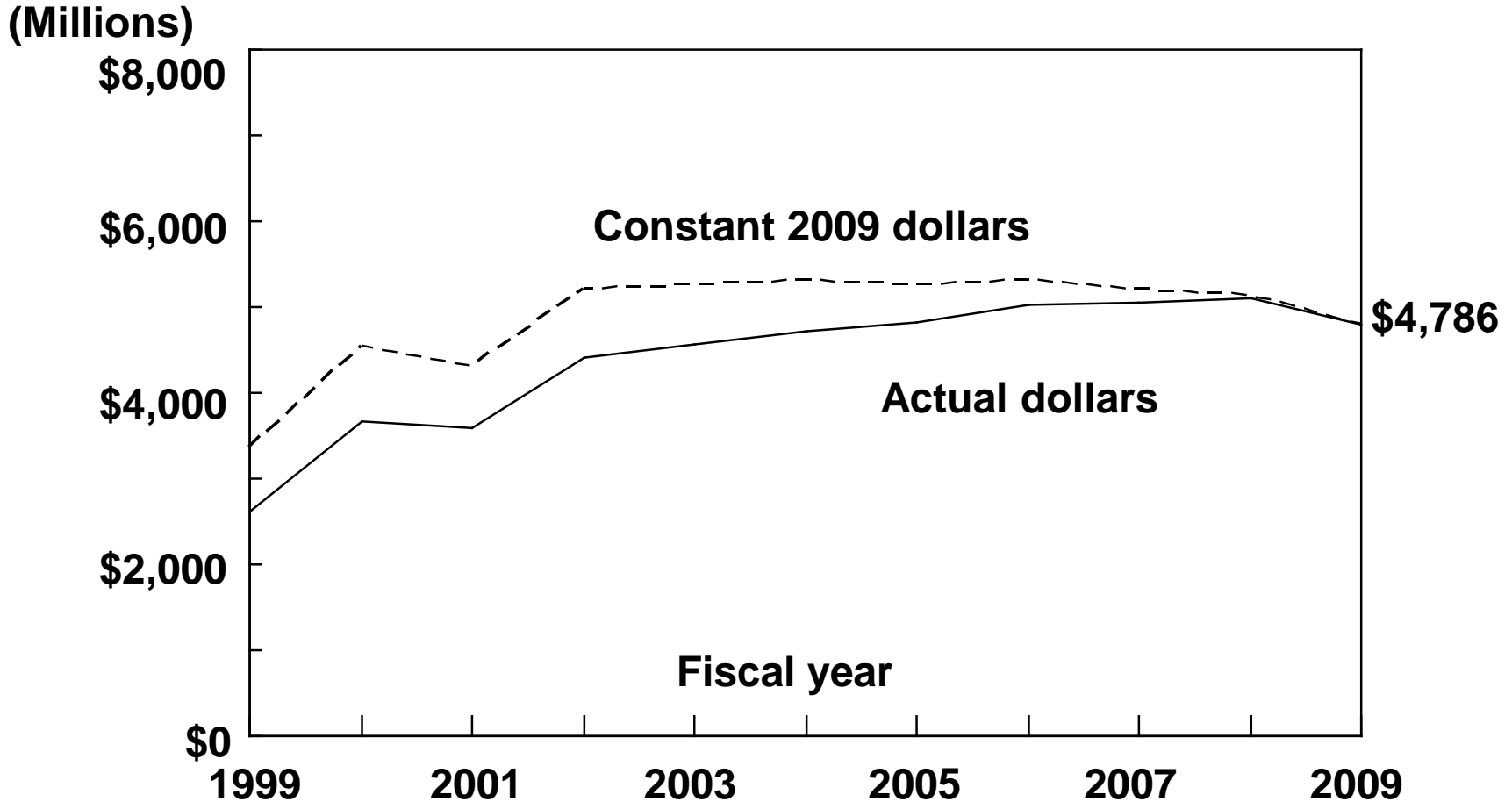
Refundable Credits

Credit	FY 2009 cost
Working family credit	\$160.1 million
K-12 education credit	\$13.6 million
Dependent care credit	\$13.9 million
Military service credit (FY2010)	\$2.2 million
Bovine TB testing	\$800,000
Motor fuels credit (FY 2010)	\$29.8 million

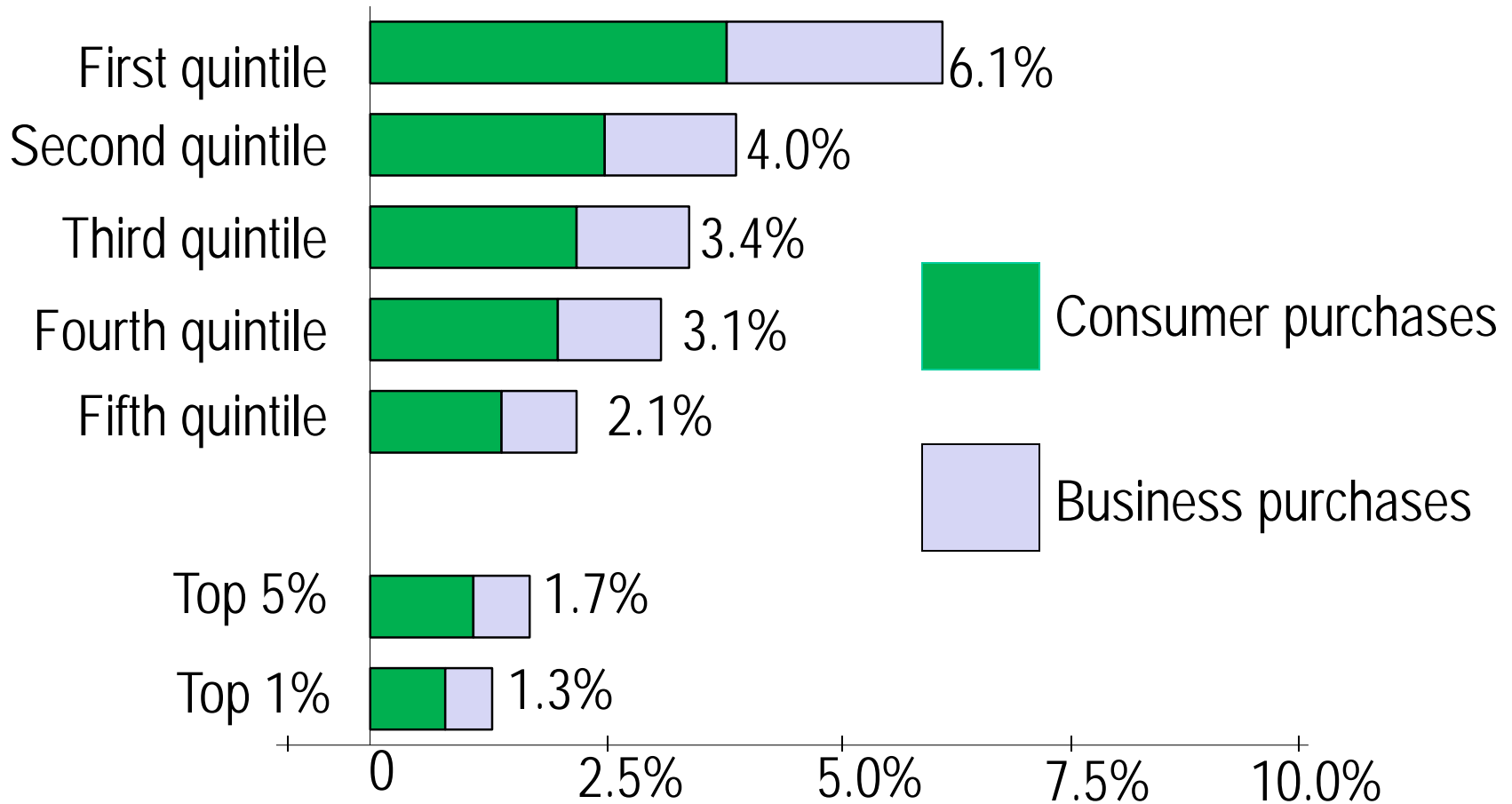
Sales Tax Revenue

- **\$4.8 billion projected for FY 2010**
 - **\$430 million is motor vehicle sales tax**
- **Slightly under 1/3 of state tax revenue**
- **Business pays about 44% of the tax**

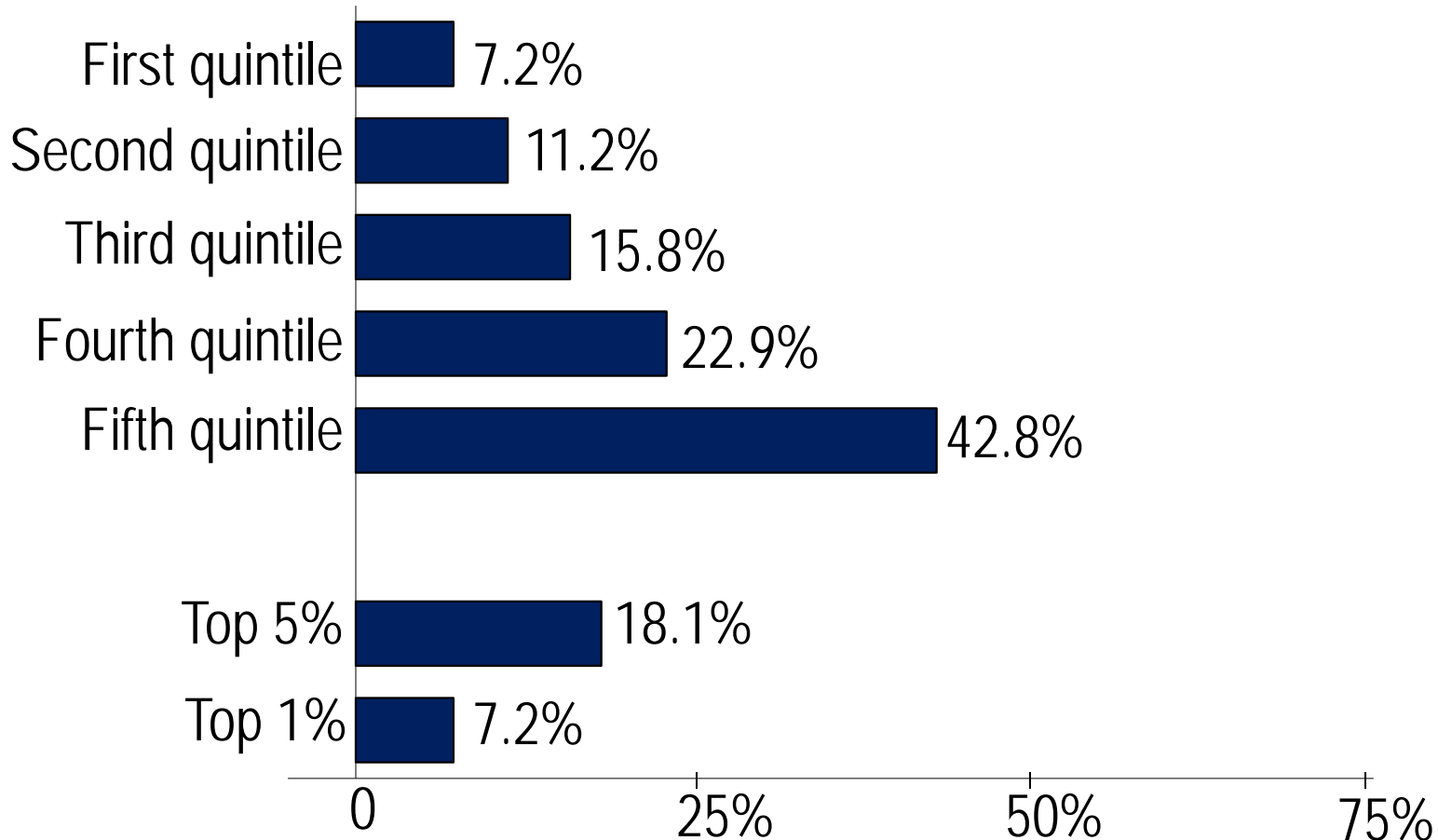
Sales Tax Revenues, FY 1999-2009



Effective sales tax rates



Percent of tax paid (business and consumer)



Distribution of Sales Tax Revenues

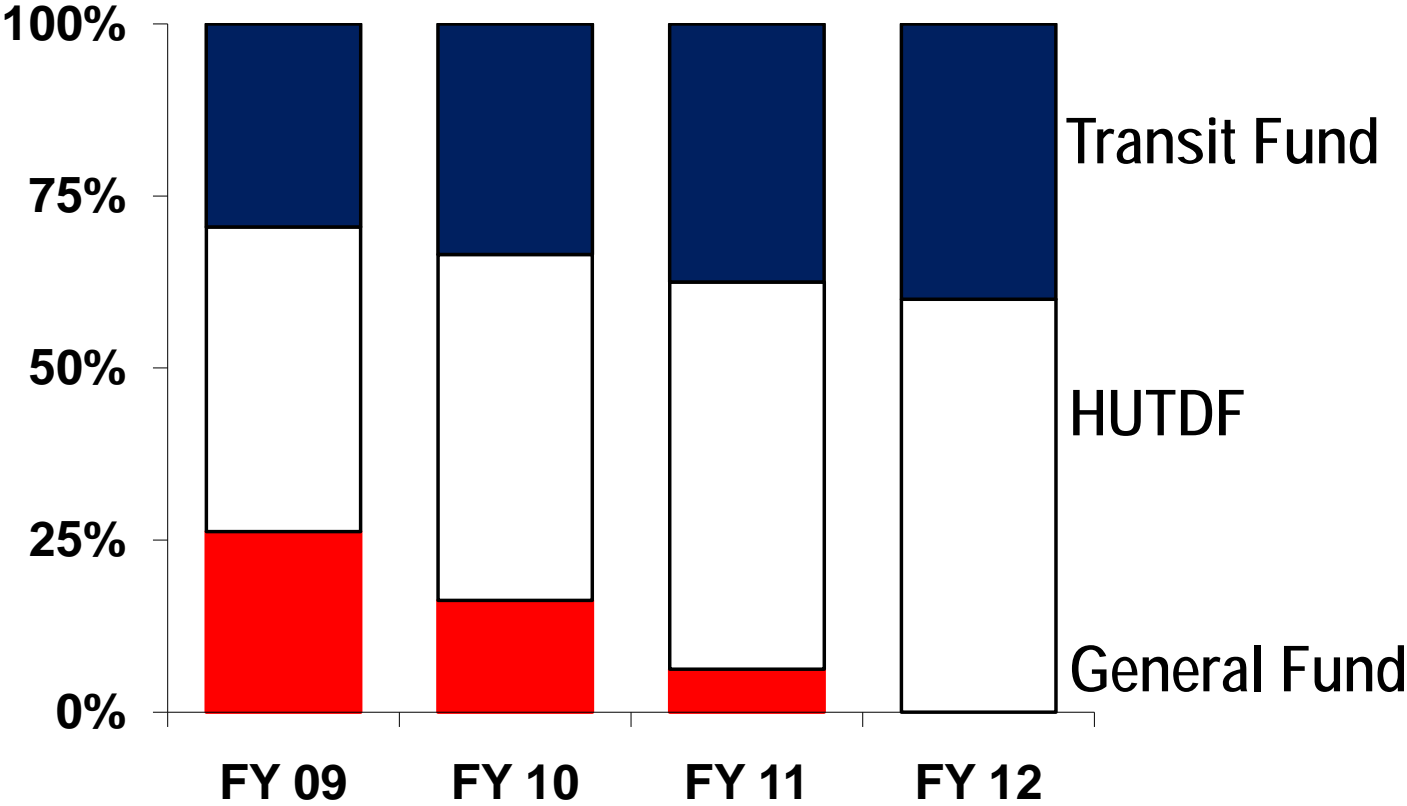
- Most of the revenues goes to the general fund except the following:
 - motor vehicle sales tax
 - tax on motor vehicle leases
 - Lottery in-lieu payments
 - Beginning 7/1/2009 revenue from the 3/8th of one percent (0.3875%) rate increase

Dedication of the Motor Vehicle Sales Tax

- Constitutional dedication of MVST revenues to transportation passed at general election
- No more than 60 percent can go to roads
- No less than 40 percent can go to transit
- Dedication phased in over 4 years

Motor Vehicle Sales Tax by Fund (Percent)

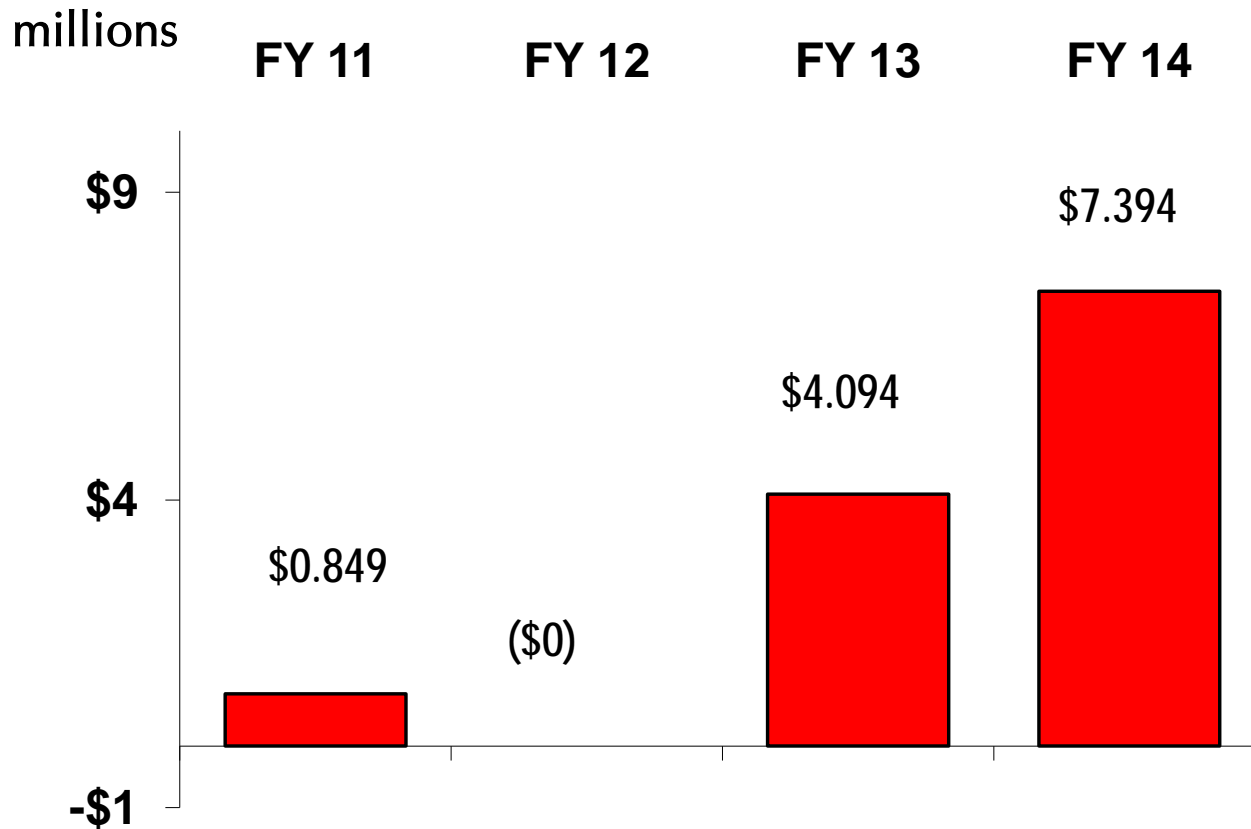
Percent



Tax on Motor vehicle leases

- Statutory dedication beginning FY 2011
- Dedication phased in on same schedule as the MVST dedication
- Amount dedicated is the revenue from leases, minus the amount of low income motor fuel tax credit
 - 50-50 split between Mn. transit account and county state-aid highway fund

MV Lease Dedication: Amount Dedicated to other Funds



Dedication of the In-lieu tax on lottery tickets

- Statutory dedication of 72.43 % of the revenues
- Amount dedicated in FY 2009 - \$22.73 million
 - 50% to the heritage enhancement account
 - 50 % to the natural resource fund with 48% for trails and 2% for zoos

The 0.375% tax increase

- Effective July 1, 2009 for 20 years
- Constitutionally dedicated
- Revenue in FY 2010 - \$241.6 million
 - 33% to the outdoor heritage fund
 - 33% to the clean water fund
 - 14.25% to the parks and trails fund
 - 19.75% to the arts & cultural heritage fund

Sales Tax Rates

- General rate 6.875%
- Special rates
 - Rental motor vehicles: 12.7%
 - Manufactured housing and park trailers: 6.5% on 65% of the cost
- All rates increase by 3/8ths (0.375%) of one percent on July 1, 2009 except the rate on motor vehicle sales

Sales Tax Base

- Goods (personal property) are usually taxable unless specifically exempted
- Services are usually not taxable unless specifically included

Major Exemptions for Individuals

- Food for home consumption
- Clothing
- Home heating fuels
- Motor fuels subject to gas tax
- All drugs for human consumption
- Newspaper and subscription magazines
- Cigarettes*

Major Business and Farm Sales Tax Exemptions

- Capital equipment
- Farm machinery
- Certain direct inputs to agricultural and industrial production
- Certain direct inputs for some taxable services

Other Major Sales Tax Exemptions

- Sales to schools, the federal government, public libraries, and hospitals
- Selected other sales to local governments
- Sales to nonprofit charitable organizations
- Certain sales by nonprofit charitable organizations

Sales Tax and Remote Sales

- The state cannot constitutionally impose a duty to collect sales tax on remote sellers that do not have a physical presence in the state (nexus)
- Congress can impose a duty to collect on remote sellers but has not done so
- State revenue losses from retail remote sales is estimated to be \$204 million in 2011

Local Sales Taxes

- 23 cities in the state currently impose a general local sales tax of 0.5%
- Duluth imposes a 1% tax
- Hennepin County imposes 0.15% tax for the Twins ballpark
- Anoka, Dakota, Hennepin, Ramsey and Washington Co. impose 0.25% transit tax
- All local taxes are required to expire except the Duluth and transit taxes

Local Sales Taxes, cont..

- The two remaining metro area counties may impose the transit tax in the future
- All other counties may impose a 0.5% tax for transportation purposes with voter approval
- Cook County and the city of Winona may impose a tax for other purposes in the future, with voter approval

Corporate Franchise Tax

- Tax base is (largely) the profits of “C” corporations
- Multi-state corporations use weighted 3 factor apportionment of sales, payroll and property(84-8-8 for TY09); this favors corporations with more operations in Minnesota
- Tax rate of 9.8%

Corporate Franchise Tax

- Credits allowed for
 - research
 - taxes paid to other states
 - enterprise zones
- Minimum fee applies to all businesses, including S corporations and partnerships

Corporate Franchise Tax

- \$0.8 billion in FY 2009
- Most volatile revenue source of the major taxes –
 - \$529 million in FY2002
 - \$1,171 million in FY2007
 - \$593 million in FY2010 (projected)

Corporate Franchise Tax Phase-in of Sales Apportionment

Tax year	Sales	Property	Payroll
2009	84%	8%	8%
2010	87%	6.5%	6.5%
2011	90%	5%	5%
2012	93%	3.5%	3.5%
2013	96%	2%	2%
2014	100%	0	0

Motor Vehicle Fuels Tax

- Tax base is motor fuels used by vehicles on public highways
- Tax rate is 25 cents per gallon
- Additional debt service surcharge of 0.5 cents to 3.5 cents (0.5 cents in FY2009 rising to a maximum of 3.5 cents in 2013 and later)

Motor Vehicle Fuels Tax

- Revenues are constitutionally dedicated to highway user trust fund.
- Local governments receive a share of the revenues from the fund under county and municipal state aid street funds
- \$822.7 million in FY 2010

Cigarette and Tobacco Tax

- Tax on cigarettes is a per unit tax, while the tobacco products tax is a percent of the price
- Tax rate is 48 cents per pack of 20 for cigarettes; 35% of wholesale price for tobacco products
- Additional health impact fee applies at rates of 75 cents per pack and 35% of wholesale price for tobacco products

Cigarette and Tobacco Tax

- \$422 million in FY 2009 (including fees)
- About \$31 million of the revenues dedicated to health research
- 35 cent/pack fee applies to nonsettlement cigarettes (about \$3.5 million of the revenue)

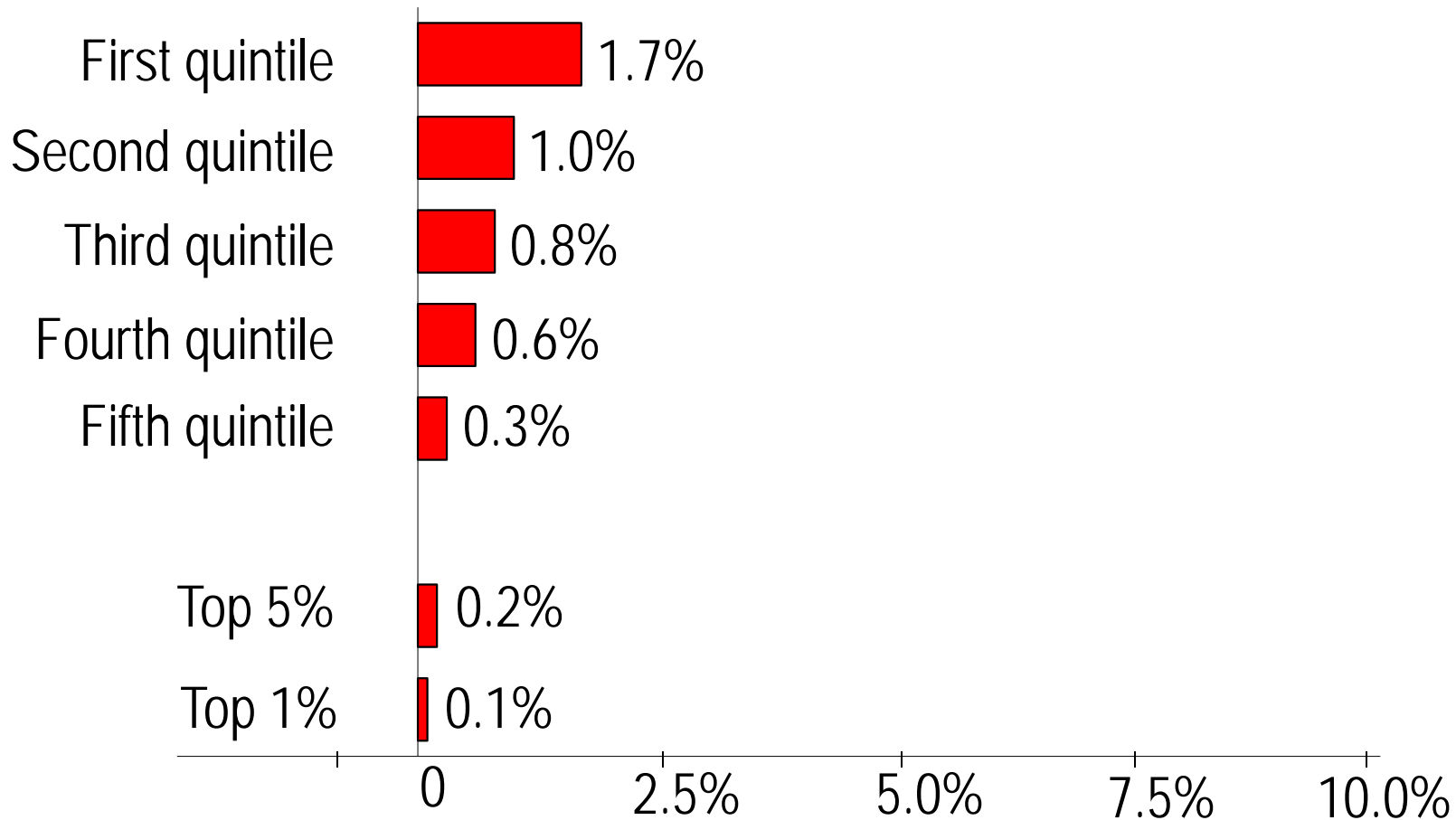
Alcoholic Beverage Excise Taxes

- Taxes are per unit of the beverage
- Tax rates vary by beverage type,
 - \$5.03/gallon for distilled spirits;
 - \$.30/gallon for table wine;
 - \$.15/gallon for strong beer; and
 - \$.08/gallon for 3.2 beer

Alcoholic Beverage Excise Taxes

- The tax is generally unrelated to alcoholic content or price, although higher rates apply to wines with higher alcoholic content
- \$77 million in FY 2010

Effective excise tax rates (fuels, cigarette, and alcohol)



Motor Vehicle License

- Tax base is base value of passenger vehicles
- Tax rate is 1.25% of base value
- Tax reduces as vehicle ages under statutory depreciation schedule
- \$35 minimum applies when vehicle is 11 years old

Motor Vehicle License

- Revenues are dedicated to highway user trust fund
- \$515.4 million in FY 2010

MinnesotaCare Taxes

- Tax base is gross revenues of health care providers
- Tax rate is 2%
- Medicare and federal employees health programs are exempt
- Revenues are used to fund the MinnesotaCare program
- \$477 million in FY 2010

Insurance Premium Tax

- Tax base is gross premiums
- Basic tax rate is 2%. Lower rates apply to some mutual companies.
- Does not apply to fraternal benefit societies
- 1.5% rate applies to life insurance
- 1% rate applies to HMOs and nonprofit health service plan corporations

Insurance Premium Tax

- Retaliatory tax applies
- Federal law allows discrimination against interstate commerce
- \$344 million in FY 2010
- Portions of the tax are dedicated –
MinnesotaCare; police and fire
pension aid

Mortgage Registry Tax

- Tax imposed on principal debt secured by mortgage of real property in state
- Rate is 0.23 percent of principal debt
- Collected by lender, paid to county treasurer where property is located
- Distribution: State 97%; County 3%
- Total FY 2009 revenue: \$71.2 million

Deed Transfer Tax

- Tax imposed when real estate is transferred (contracts for deed exempt)
- Rate is 0.33 percent of consideration
- Paid by person who transfers property, to county treasurer where property is located
- Distribution: State 97%; County 3%
- Total FY 2009 revenue: \$67.9 million

Estate Tax

Tax is based on federal law rules

- Exemption amount of \$1 million
- Base is market value of property
- Transfers to surviving spouse and charity exempt
- Rates range from 6.4% to 16%

Estate Tax

- Revenues of about \$135 million per year, but are very volatile (\$216 million in FY 2006; \$54 million in FY 2001)
- 28 states (including ND, SD, WI) have no taxes (2 more scheduled to sunset)
- Effect on domicile decisions?
- Progressive: Suits index of 0.27