



Tax Rankings & Minnesota
(Based on US Department of Commerce Data)
FY 2012

Money Matters: Number 12-13
December 2012

Cynthia Templin, Fiscal Analyst, 651-297-8405

This document provides an overview of tax rankings relative to Minnesota. The overview will also cover how tax rankings are computed, data sources, and how Minnesota compares to other states. Specifically, the issues addressed in this document are:

1. What are tax rankings on tax collections?
2. What data are used to compute tax rankings?
3. What are the major sources of tax revenue in Minnesota's tax collection portfolio?
4. How have Minnesota's state and local total tax rankings changed in recent years?
5. Which tax types in Minnesota are ranked the highest?
6. What are some caveats to consider when evaluating tax rankings?
7. How much would Minnesota taxes need to change to move Minnesota to the top or the bottom of the tax rankings?
8. Do tax rankings indicate a state's competitiveness?

Fiscal Analysis Department
Minnesota House of Representatives

1. What are tax rankings on tax collections?

Tax rankings are used as a measure of the aggregate costs for public services among states. The most current tax rankings for state and local data are available for fiscal year 2010.¹ Fiscal year 2010 tax rankings are based on state and local tax collection data from the Bureau of the Census and the Bureau of Economic Analysis both within the U.S. Department of Commerce.²

Most tax rankings are developed based on: (1) tax per capita; or, (2) tax as a percentage of personal income.³ Per capita rankings are calculated using the ratio of tax revenue to state population. Percentage of personal income rankings are calculated using the ratio of tax revenue to state personal income.⁴ Rankings are developed by calculating these ratios for each state as a measure for the aggregate cost of public services. For each measure, "1" indicates the highest relative tax while "50" indicates the lowest relative tax.

Figure 1. Rankings Measurements in Mathematical Terms:

$$\text{Per Capita Rankings (expressed in dollars)} = \frac{\text{Tax Revenue}}{\text{State Population}}$$

$$\text{Personal Income Rankings (expressed as a percent)} = \frac{\text{Tax Revenue}}{\text{State Personal Income}}$$

¹ Fiscal years referenced in this document are state fiscal years (July to June).

² Data for state and local tax collections data are based on state and local government finance survey data completed annually by government entities. For Minnesota, this survey is completed by the Minnesota Management & Budget Department. This document focuses on tax rankings and expenditure rankings are not discussed in this document.

³ 2010 tax rankings are based on tax collection data for FY 2010 and personal income for calendar year 2009.

Calendar year personal income for 2009 is used to match the time period in which income is earned and tax is paid.

⁴ The U.S. Bureau of Economic Analysis (BEA) defines personal income as income received by persons from all sources, and it includes income received from participation in production as well as from government and business transfer payments. Personal income is the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Personal income excludes capital gains income.

2. What data is used to compute tax rankings?

Except where noted, state rankings and state/local rankings are calculated by the Minnesota Department of Revenue using data made available from the US Department of Commerce. Table 1 provides a description of the state and local taxes and revenue sources compiled by the Bureau of the Census. Total state and local tax rankings are calculated based on the tax revenue sources listed in column 1 of Table 1. Rankings for state and local own source revenue are calculated based on the revenue sources in both column 1 and column 2 and rankings for state and local total general revenue are based on revenue sources in columns 1 to 3.

Table 1. Major Tax & Revenue Rankings Defined

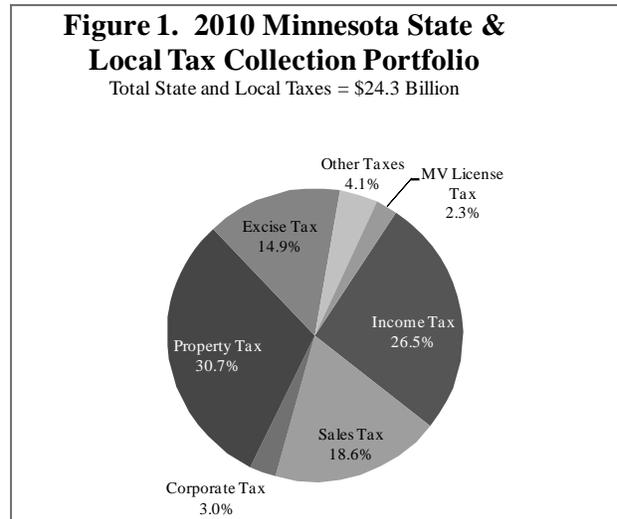
Source: State and Local Government Finances Technical Documentation, US Census Bureau

(<http://www.census.gov/govs/www/statetax.html>)

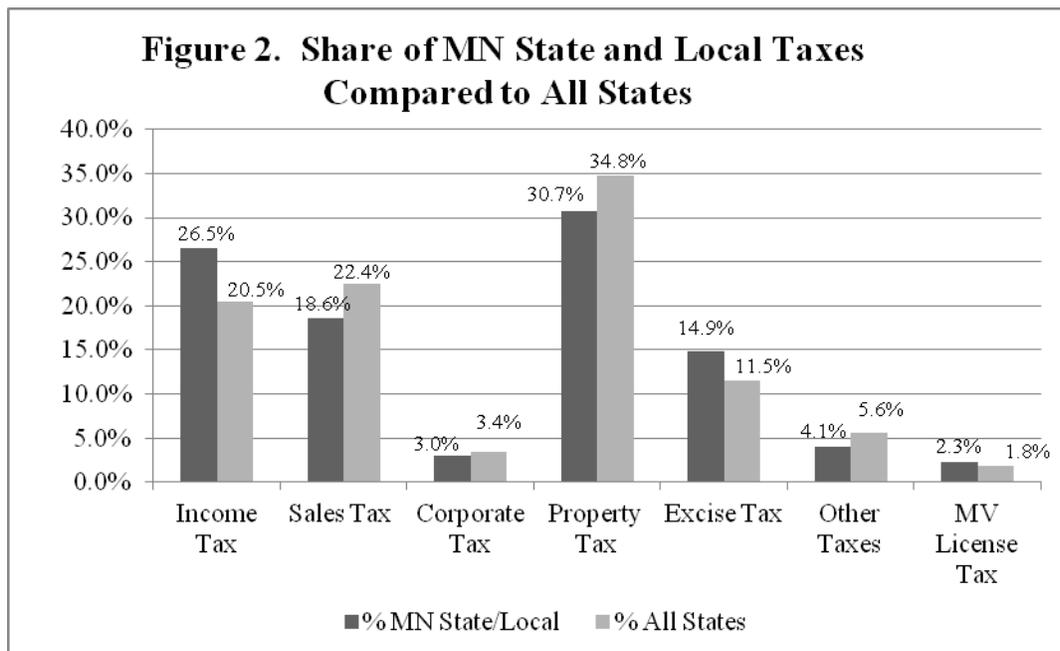
Total State & Local Taxes	Other State & Local Own Source	Intergov't Revenue	Total General Revenue <i>(Also known as "state & local revenue")</i>
Column 1	Column 2	Column 3	Column 4
Income Tax Property Tax Corporate Income Tax General Sales Selective (Excise) Sales tax: Motor Fuels Alcoholic Beverage Tobacco Products Public Utilities Pari-Mutuels Amusements Insurance Premium Other Taxes: Alcoholic Bev. License Amusements License Corporations in Gen License Hunting & Fishing License Motor Veh. Opting. License Public Utility License Occ. & Business License Other Licenses Death & Gift Taxes Doc & Stock Transfer Tax Severance Tax Motor Vehicle Licenses	Education Charges Hospital Charges Highway Charges Air Transportation Charges Parking Facility Charges Sea/Inland Port Facilities Natural Resource Charges Park & Recreation Charges Housing & Community Development Charges Sewerage Charges Solid Waste Mgmt Charges Other Charges Misc General Revenue: Interest Earnings Special Assessments Sales of Property	Federal Gov't State Gov't Local Gov't	

3. What are the major sources of tax revenue in Minnesota’s tax collection portfolio?

In FY 2010, Minnesota collected \$24.3 billion from state and local taxes. As shown in Figure 1, Minnesota's portfolio consists primarily of these tax sources: individual income taxes (26.5 percent), corporate franchise income taxes (2.9 percent), sales taxes excluding motor vehicle license tax (18.6 percent), excise taxes⁵ (14.9 percent), and property taxes (30.7 percent). About 93.6 percent of tax revenue in Minnesota is raised from these five sources.



Similarly, total tax revenue from the same five sources by all states combined is 92.6 percent. Of the five taxes, Minnesota relies more on income taxes and excise taxes relative to other states as shown in figure 2. Conversely, Minnesota is less reliant on tax collections from sales, corporate and property taxes relative to other states.

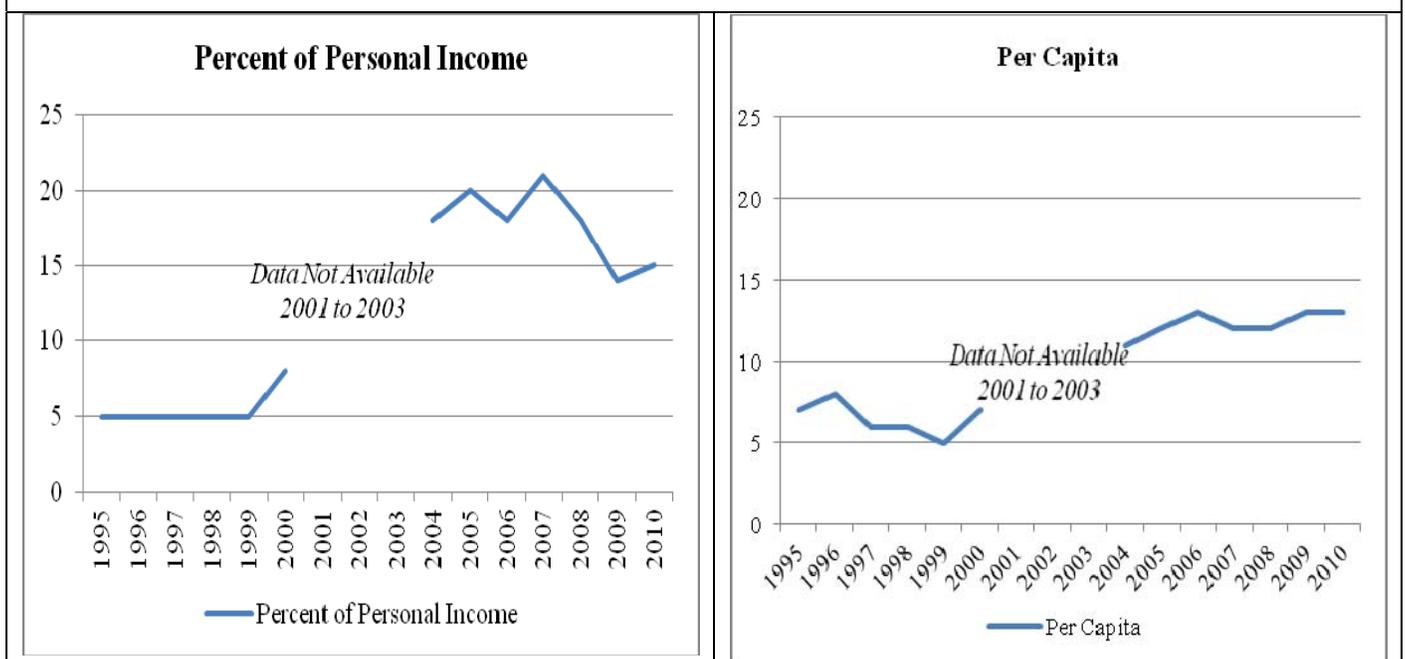


⁵ As shown in Table 1, excise taxes include motor fuels, alcoholic beverages, tobacco products, public utilities, pari-mutuels, amusements, and insurance premiums.

4. How has Minnesota's state and local total tax ranking changed over the years?

Chart 2 provides a historical perspective of how Minnesota's ranking for state and local taxes has changed from 1995 to 2010. It should be noted again that state and local total tax rankings exclude several other important sources of revenue, such as fees and charges, miscellaneous revenue (such as interest income) and intergovernmental revenue including federal funds. As noted in Table 1, state and local taxes include only the tax revenues listed in column 1.

Chart 2. Historical Rankings for Minnesota State and Local Total Taxes, 1995 to 2010



Source: Minnesota Department of Revenue Website, State and Local Tax Collections for Minnesota. Data for 2001 and 2003 was not collected by the U.S. Census. Also, this data shows general sales tax and use tax with motor vehicle sales tax and does not adjust for the sales tax rebate. General sales taxes are shown before rebates.

The data in chart 2 is missing for 2001 and 2003. This data is missing because data for 2001 and 2003 was not collected by the U.S. Census. In terms of other adjustments, DOR updates these tax rankings for adjustments in state population and state personal income when corrections are published by the U.S. Census.

Between 1995 and 2004, Minnesota's total taxes rankings for both measures, percent of personal income and tax per capita, were in the top ten. After 2004, Minnesota's tax rankings dropped out of the top ten.

In 2010, Minnesota ranked 15th highest in total state and local taxes as a percentage of income and 13th highest in total state and local taxes per capita. At 11.3 percent of state personal income, Minnesota was 5.6 percent higher than the national average (10.7 percent of personal income). State and local taxes per capita (\$4,588) exceeded the national average (\$4,105) by

11.7 percent. In summary, these 2010 state and local rankings for total taxes indicate that Minnesota continues to be out of the top of the rankings for this category but still above the national average for state and local tax burden per capita and state and local tax burden as a percentage of income.

5. Which Tax Types in Minnesota are ranked the highest?

Of the five major taxes in Minnesota's tax revenue portfolio, state and local individual income taxes are ranked the highest in state and local taxes and state taxes. Table 2 shows Minnesota's 2010 tax rankings for: (1) state and local taxes; and (2) state only taxes. For each grouping, tax rankings are displayed for total taxes and by tax type.

Table 2. 2009-10 Minnesota Tax Rankings in Detail Overall and by Tax Type

	2009 State & Local Taxes	
	Tax as a % of Income	Tax Per Capita
Total Taxes	15	13
Individual Income Taxes	8	8
Corporate Income Taxes	20	15
Total General Sales		
General sales tax ⁶	33	28
General sales tax + MVST	28	21
Property Taxes	26	21
	2010 State Taxes	
	Tax as a % of Income	Tax Per Capita
Total Taxes	9	8
Individual Income Taxes	6	6
Corporate Income Taxes	17	13
Total General Sales		
General sales tax	19	16
General sales tax + MVST	16	10
Property Taxes	12	9

In the tax rankings from the US census, Motor Vehicle Sales Tax (MVST) is included in the aggregate total for general sales tax except in six states (Minnesota, New Mexico, North Dakota, Texas, Vermont & Virginia) and the District of Columbia. Table 2 shows the tax rankings as reported by the US census with MVST included in the aggregate total for general sales tax for these six states and the District of Columbia.

In 2010, Minnesota was in the top ten for individual income tax both as a percentage of income and in terms of taxes per capita. Minnesota ranked 8th highest in state and local individual income tax as a percentage of income and 8th highest in state and local individual income taxes per capita. At 3.0 percent of state personal income for state and local taxes, Minnesota was

⁶ General Sales Tax Rankings excluding MVST were computed by Minnesota House of Representatives Fiscal Staff, September 2010 for Table 2.

35.9 percent higher than the national average (2.2 percent of personal income). State and local income taxes per capita (\$1,216) exceeded the national average (\$841) by 44.5 percent.

Local governments do not levy income taxes in Minnesota, but 14 states reported local income tax revenue in 2010.

Table 2-1 and Table 2-2 compare the tax rankings for individual income tax and corporate income taxes for state and local taxes combined and state only taxes in FY 2009-10 with the rankings for these two tax types in neighboring states. Minnesota's rankings for individual income tax and corporate income tax are in the top twenty.

Table 2-1. 2009-10 Individual Income Tax Rankings: Minnesota and Neighboring States

Individual Income Tax		Measurement	Rank	% of National	Rank for Neighboring States			
					IA	ND	SD	WI
2009 State & Local	Dollars Per Capita	\$ 1,216.22	8	144.50%	20	41	----	14
	Percent of Personal Income	3.0%	8	135.95%	21	41	----	12
2010 State Only	Dollars Per Capita	\$ 1,216.22	6	159.40%	16	40	----	11
	Percent of Personal Income	3.0%	6	149.98%	17	40	----	9

*NOTE: Percent of national average includes all states (even those without the tax). Percent of state average includes only those states with the tax. South Dakota does not collect income tax at the state or local level.

Table 2-2. 2009-10 Corporate Franchise Income Tax: Minnesota and Neighboring States

Corporate Franchise Income Tax		Measurement	Rank	% of National	Rank for Neighboring States			
					IA	ND	SD	WI
2009 State & Local	Dollars Per Capita	\$ 135.92	15	98.09%	39	19	45	11
	Percent of Personal Income	0.3%	20	92.29%	41	19	46	12
2010 State Only	Dollars Per Capita	\$ 135.92	13	114.43%	38	17	43	9
	Percent of Personal Income	0.3%	17	107.67%	40	16	44	11

*NOTE: Percent of national average includes all states (even those without the tax). Percent of state average includes only those states with the tax.

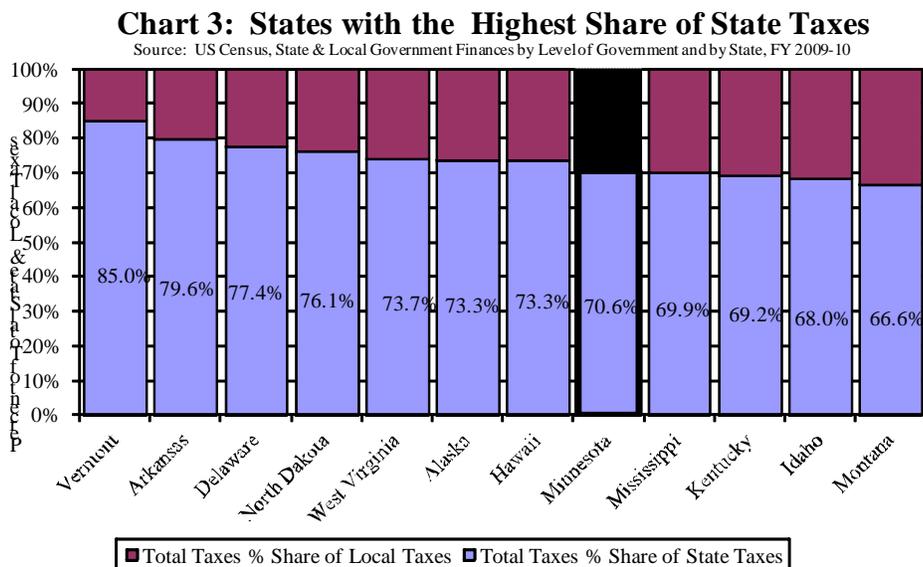
6. What are some caveats to consider when evaluating tax rankings?

a. Rankings are more comprehensive if they include both state *and* local government taxes

Minnesota's share of state-only taxes is high, so Minnesota's rankings based on *state taxes alone* are generally higher than rankings based on *state and local taxes combined*. In FY 2010, Minnesota state taxes accounted for 70.6 percent of the total, while local governments (including school districts) accounted for 29.4 percent. Minnesota's share of state taxes is about 27.9 percent above the national average.

Tax rankings for various tax types also differ greatly depending on whether the rankings include local taxes as well as state taxes. For example, Minnesota has no local income taxes, but a few states collect significant amounts of income tax at the local level. Similarly, Minnesota uses

local sales taxes only sparingly, while many states raise a large share of local tax revenue from local sales taxes.



b. Tax rankings based on U.S. Census data can be based on taxes per capita or on taxes as a percentage of income. Rankings vary greatly depending on which measure is used.

Per capita income varies considerably among the states, from a low of \$29,899 in Mississippi to a high of over \$52,705 in Connecticut. The national average per capita income is \$38,016.

Minnesota is a high-income state with a per capita income of \$40,728. In 2010, Minnesota scored the 12th highest per capita income in the nation. If revenues or expenditures are measured in dollars per capita, Minnesota's rank largely reflects Minnesota's high income.

Although rankings based on taxes per capita provide useful information, it is useful to present rankings based on taxes as a percentage of income as well. To provide the full picture, both sets of rankings should be considered.

c. Taxes are but one form of state revenue. Rankings based on more inclusive measures of revenue – including fees and federal funds – are also useful.

For total state and local taxes, Minnesota ranked 15th for taxes as a percent of income. In comparison, Minnesota ranks 18th for state and local own-source revenue (taxes plus fees) and 21st for total general revenue (taxes, fees, intergovernmental revenue) as a percent of income.

For total state and local taxes per capita, Minnesota ranked 13th. For state and local own source revenue per capita and total general revenue per capita, Minnesota ranked 12th and 11th respectively.

d. Tax rankings and how they are reported can be inconsistent. Adjustments to sales taxes on motor vehicles and sales tax rebates are needed to ensure consistency.

In the case of sales tax on motor vehicles, tax revenue is usually reported as a general sales tax but not by Minnesota and six other states and the District of Columbia (DC). The US Commerce

Department also ignores sales tax rebates. The rankings published by the Minnesota Department of Revenue adjust motor vehicle sales tax data for Minnesota and the other six states and DC so that it is included as general sales tax, rather than as a selective sales tax, so that it is comparable to other states. Sales tax collections were also reduced by the amount of each year's sales tax rebate. These adjustments were made to ensure consistency and greater accuracy. In reviewing these national tax rankings, other states may be making similar adjustments that have not been picked up in the tax rankings prepared by the Minnesota Department of Revenue.

7. How much would Minnesota taxes need to change to move Minnesota to the top or the bottom of the tax rankings?

Tax policy changes ultimately impact the amount of revenue collected. The amount of revenue collected changes the per capita measure and percentage of income measure for each state and its ranking relative to other states. Table 4 shows where Minnesota's rankings are relative to the highest and the lowest ranked states for total taxes and by tax type for state and local taxes combined.

Table 4: FY 2009-10 High and Low State & Local Tax Rankings compared to Minnesota

<i>State & Local Tax Rankings</i>	<i>State</i>	<i>Per Capita</i>		<i>State</i>	<i>% Income</i>	
		Rank	Ratio		Ran	Ratio
Total Taxes						
	Alaska	1	\$8,638	Alaska	1	20.7%
	Idaho	51	\$2,763	South Dakota	51	8.4%
	<i>Minnesota</i>	<i>13</i>	<i>\$4,588</i>	<i>Minnesota</i>	<i>15</i>	<i>11.3%</i>
Income Tax						
	New York	1	\$2,190	New York	1	4.7%
	Tennessee	44	\$27	Tennessee	44	0.1%
	<i>Minnesota</i>	<i>8</i>	<i>\$1,216</i>	<i>Minnesota</i>	<i>8</i>	<i>3.0%</i>
Corporate Tax						
	Alaska	1	\$901	Alaska	1	2.2%
	Ohio	47	\$23	Ohio	47	0.1%
	<i>Minnesota</i>	<i>15</i>	<i>\$136</i>	<i>Minnesota</i>	<i>14</i>	<i>0.6%</i>
Sales Tax						
	Washington	1	\$1,760	Washington	1	4.3%
	Alaska	47	\$479	Alaska	47	1.1%
	<i>Minnesota</i>	<i>20</i>	<i>\$979</i>	<i>Minnesota</i>	<i>28</i>	<i>2.7%</i>
Property Tax						
	DC	1	\$3,078	Wyoming	1	6.2 %
	Alabama	51	\$538	Alabama	51	1.7%
	<i>Minnesota</i>	<i>21</i>	<i>\$1,408</i>	<i>Minnesota</i>	<i>26</i>	<i>3.5%</i>

8. Do tax rankings indicate a state's competitiveness?

Tax rankings provide “big picture” information about the aggregate cost of public services. Or stated another way, tax rankings reveal information about the overall tax system and its structure. Tax rankings do not provide information about the distribution of the tax burden or tax incidence and therefore provide limited information about the competitiveness of a state's tax system compared to other states.

For more information, contact Cynthia Coronado Templin at 651-297-8405 or Cynthia.Templin@house.mn.

Appendix A: 2009 Personal income data (dollars in thousands) as 9/20/07

Appendix A: 2009 Personal Income (dollars in thousands) as of September 25, 2012 from the Bureau of Economic Analysis (BEA) at <http://www.bea.gov/regional/spi/>.

SA1-3 Personal income summary		
Personal income (thousands of dollars)		
Bureau of Economic Analysis		
State or DC		
Fips	Area	2009
00000	United States	11,852,715,000
01000	Alabama	154,187,126
02000	Alaska	29,851,568
04000	Arizona	212,873,282
05000	Arkansas	91,793,885
06000	California	1,516,676,660
08000	Colorado	204,624,615
09000	Connecticut	188,419,089
10000	Delaware	34,505,512
11000	District of Columb	40,326,374
12000	Florida	687,337,410
13000	Georgia	326,021,698
15000	Hawaii	54,193,971
16000	Idaho	47,890,553
17000	Illinois	522,945,597
18000	Indiana	214,210,507
19000	Iowa	112,144,947
20000	Kansas	107,608,668
21000	Kentucky	137,085,778
22000	Louisiana	161,978,361
23000	Maine	47,840,170
24000	Maryland	271,728,830
25000	Massachusetts	323,127,857
26000	Michigan	328,942,142
27000	Minnesota	216,267,510
28000	Mississippi	88,801,396
29000	Missouri	213,630,239
30000	Montana	32,829,417
31000	Nebraska	69,675,059
32000	Nevada	96,430,236
33000	New Hampshire	55,826,562
34000	New Jersey	430,956,339
35000	New Mexico	65,585,583
36000	New York	902,384,482
37000	North Carolina	321,295,391
38000	North Dakota	26,181,372
39000	Ohio	403,526,926
40000	Oklahoma	126,704,010
41000	Oregon	133,907,191
42000	Pennsylvania	496,663,667
44000	Rhode Island	42,630,954
45000	South Carolina	144,342,563
46000	South Dakota	30,786,997
47000	Tennessee	212,580,279
48000	Texas	907,630,187
49000	Utah	86,544,337
50000	Vermont	24,074,284
51000	Virginia	340,255,644
53000	Washington	276,727,871
54000	West Virginia	57,221,819
55000	Wisconsin	208,962,872
56000	Wyoming	23,977,213
91000	New England	681,918,916
92000	Mideast	2,176,565,204
93000	Great Lakes	1,678,588,044
94000	Plains	776,294,792
95000	Southeast	2,722,901,350
96000	Southwest	1,312,793,062
97000	Rocky Mountain	395,866,135
98000	Far West	2,107,787,497

Legend / Footnotes:

Geographic Note-- Estimates prior to 1950 are not
 All dollar estimates are in current dollars (not adjusted) <http://www.bea.gov/iTable/iTable.cfm?ReqID=70&step=1&isuri=1&acrdn=4>
 Last updated: September 25, 2012; revised estimates

Appendix B: 2010 State & Local Rankings, Rankings published by the MN Department of Revenue as of October 2012.

These rankings can be found at:

http://www.revenue.state.mn.us/research_stats/Pages/Tax-Rankings.aspx

Rankings from the Minnesota Department of Revenue are subject to change due to updated tax or income data.