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Cut Minnesota's Income Taxes

STATE POLICYMAKERS SHOULD:

- Cut Minnesota's income tax rates

Minnesota's budget surplus is a historic opportunity

Minnesotans are some of the most heavily taxed citizens in the United States. Evidence shows that these taxes slow economic growth and job creation, push residents out and deter others from coming here, and do not even produce the offsetting benefit of a higher quality of life.

Minnesota's state government should cut income tax rates. But how?

Using revenue and spending forecasts from Minnesota Management and Budget's November 2022 Budget and Economic Forecast and the Department of Revenue's (DoR) estimates of the revenue effects of tax rate changes – their Budget Options for November 2022 – we can offer suggestions on how the state government could leave the excess money it is forecast to take from the state's citizens in their pockets.

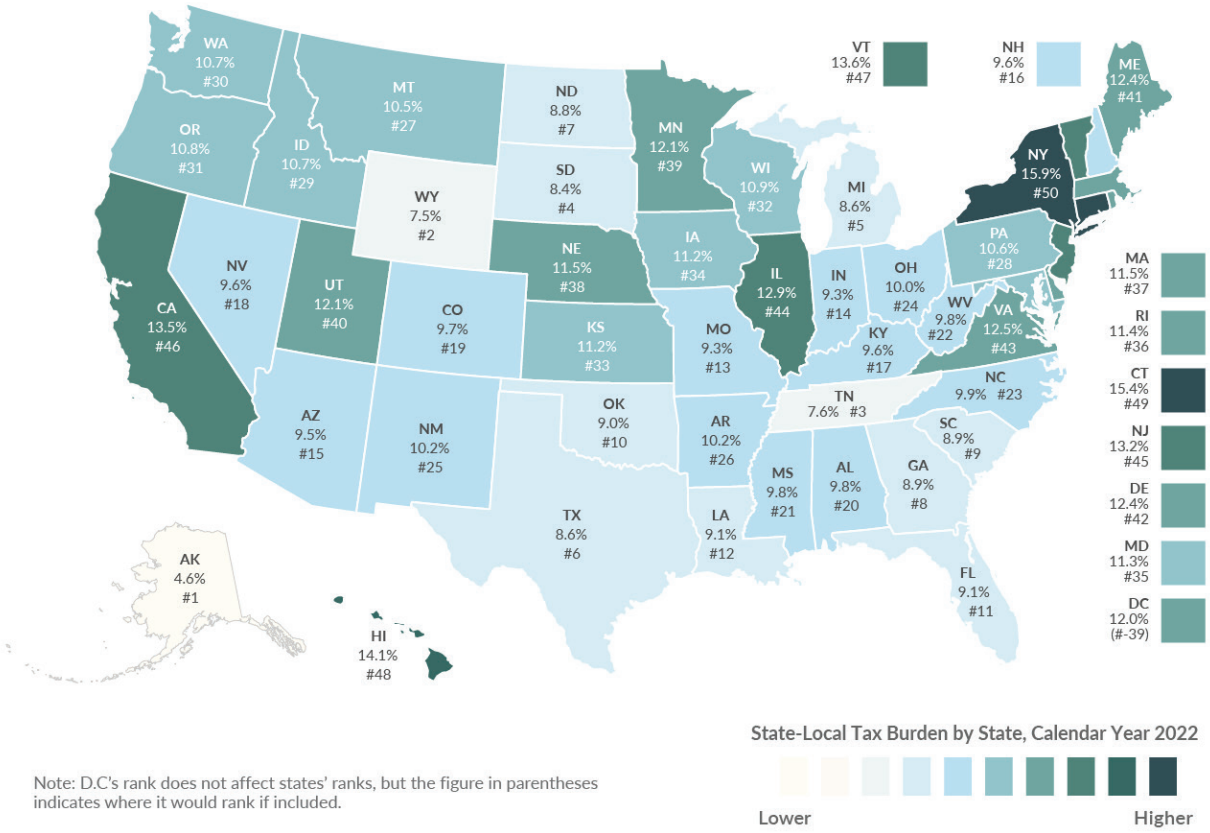
How much can we cut by?

According to the November 2022 Budget and Economic Forecast, the 'structural' budget surplus is forecast to be $6.3 billion in the 2024-25 biennium and $8.4 billion in the 2026-27 biennium, or $3.2 billion and $4.2 billion annually. This is the amount of revenue that can be cut without cutting spending.

We will outline two ways this can be done.

FIGURE 1

State-Local Tax Burdens by State, Calendar Year 2022



Note: D.C's rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Source: Tax Foundation calculations.

A uniform cut across all rates

One way would be to cut all four income tax rates by the same percentage point amount.

A 1.4 percentage point cut in each rate, for example, would reduce income tax revenues by $3.0 billion annually. This would leave a surplus of $153 million in each of 2024 and 2025 and $1.2 billion in each of 2026 and 2027. In the latter biennium, then, tax rates could be cut even further, to 1.9 percentage points below the current rate in each bracket, and still leave a surplus of $130 million.

Concentrating cuts in the lowest rate

Another option is to concentrate the cut on the lowest income tax rate, 5.35 percent on income up to $20,525 annually if you are married and filing separately or $41,050 is you're married and filing jointly.

If we cut this rate to 4.1 percent, revenues would fall by $3.1 billion, which would leave a surplus of $47.5 million in each of 2024 and 2025. If we then eliminated the bottom rate entirely in the 2026-2027 biennium, this would still leave a surplus of $149 million: indeed, we could also afford to cut the next rate up by 0.1 percentage points as well and still have a surplus of $74 million.

Conclusions

Our proposals are, then:

1) A cut in all Minnesota's state income tax brackets of 1.4 percentage points from current rates in the 2024-25 biennium (to 3.95 percent, 5.40 percent, 6.45 percent, and 8.45 percent) rising to 1.9 percentage points below current rates in the 2026-27 biennium (to 3.45 percent, 4.90 percent, 5.95 percent, and 7.95 percent).
2) A cut in Minnesota's bottom rate of state income tax to 1.25 percent in the 2024-25 biennium followed by its total elimination in the 2026-2027 biennium and further cut of the current 6.80 percent tax rate to 6.70 percent. There is no proposed change in the brackets.

Minnesota's high taxes are an impediment to its economic growth and standard of living. The forecast surplus represents an opportunity to cut them which should be seized. ★

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