Approved: March 22, 1999
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson David Adkins at 9:00 a.m. on February 16, 1999 in Room 519-S of the Capitol.

All members were present except: Rep. Howell - excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Mary Shaw, Committee Secretary

Conferees appearing before the committee: April Holman, Kansas Legislative Research Department

Others attending: See attached.

The Chairman announced plans to work on the tax relief act for 1999 in the following day's meeting. Committee questions and discussion followed.

The Chairman introduced April Holman, Kansas Legislative Research Department, who distributed the Minnesota Incidence Report from 1997 (Attachment 1) and the Texas Tax Exemptions and Tax Incidence Report from 1999 (Attachment 2).

The Chairman opened the public hearing on:

The Fiscal Note was distributed for **HB 2127** (Attachment 3).

HB 2127 - Income tax credit for contributions to qualified endowments

Representative Adkins gave the committee a brief overview of the purpose of sponsoring **HB 2127**. He explained that this bill came to his attention as a result of a law in Michigan and a law that this is particularly modeled after is a law in Montana. He distributed copies of a report from the Governor's Task Force on Endowed Philanthropy from Montana (Attachment 4). Representative Adkins noted that often charitable giving is focused on on-going or special projects and often times these organizations find it most difficult to develop the capacity to fund their core functions. These kinds of core functions which provide permanence for the organizations are often times funded through an endowment with those organizations. It is difficult to attract dollars to support endowments for these organizations because generally those that are giving charitably want to support some on-going project or expense.

Questions and discussion followed.

The Chairman closed the public hearing on **HB 2127**.

The Chairman opened the meeting to bill introductions.

The Chairman explained that there is a request for a bill introduction from the Insurance Commissioner and the bill is intended to clarify some of the provisions of the law previously passed involving privilege fees and taxes.

The Chairman recognized Representative Sharp who made a motion on behalf of the Insurance Commissioner, and seconded by Representative Gilbert, to introduce the bill as described above to clarify some of the provisions of the law previously passed involving privilege fees and taxes. Motion carried.

The meeting was adjourned at 9:45 a.m.

The next meeting is scheduled for February 17, 1999.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

HOUSE TAXATION COMMITTEE
GUEST LIST
DATE: Feb 16, 1999

George Welch	Barbee & Assoc
Dave Gordon	Johnson County
Marcia Ross	Sedgwick County
Hugo Peterson	Ks Taxpayers Network
Hal Hudson	NFIB/Kansas
Natalie Bright	KCCI
Bernie Koch	Wichita Chamber
Greg Brown	Mid-Am Lumbermen
Tom Bruno	Allen & Assoc.

1997 Minnesota
Tax Incidence Study

Who pays Minnesota's household and business taxes?
March 1997

MINNESOTA Department of Revenue

House Taxation
2-16-99
Attachment 1

MINNESOTA Department of Revenue

Tax Research Division
Mail Station 2230, St. Paul, MN 55146-2230
(612) 296-3425 or TDD (612) 297-2196

March 1, 1997

To the Members of the Legislature of the State of Minnesota:

I am pleased to transmit to you the fourth Minnesota Tax Incidence Study undertaken by the Department of Revenue in response to Minnesota Statutes, Section 270.0682 (Laws of 1990, Chapter 604, Article 10, Section 9).

The tax incidence study estimates how the burden of state and local taxes was distributed across income groups in 1994. It includes 98 percent of Minnesota taxes paid, those paid by business as well as those paid by individuals. The study answers the important question: "Who pays Minnesota's taxes?" It reports detailed information on the household characteristics and tax burdens of Minnesota taxpayers. Results are summarized both by housing status (homeowners and renters) and by type of household (retired persons, single-parent families, two-parent families with children). The study also examines how the distribution of the tax burden changed between 1994 and 1996, reflecting both law changes and the growth of income and property values.

The information presented here can be used to evaluate the fairness of Minnesota's tax system. It should also be valuable in considering any future changes in Minnesota's tax structure.

Minnesota Statutes, Section 3.197, specifies that a report to the Legislature must include the cost of its preparation. The approximate cost of preparing this report was $75,000.

Sincerely,

James L. Girard

James L. Girard
Commissioner

1997 Minnesota Tax Incidence Study

Who pays Minnesota's household and business taxes?

Minnesota Department of Revenue
Tax Research Division

March 1997

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EXECUTIVE SUMMARY

This report shows the distribution of 1994 Minnesota state and local taxes in relation to taxpayer income. It answers the question, "Who pays Minnesota's taxes?" The major objective of this report is to provide taxpayers and policymakers with important information on the equity or fairness of the overall distribution of Minnesota taxes. The tax incidence study also estimates the effect of law changes and economic growth on the distribution of Minnesota taxes between 1994 and 1996. This is the fourth biennial tax incidence study prepared in response to the statutory requirement adopted by the 1990 legislature.

Scope of the Study

Nine categories of taxes are included in the incidence study:

- Individual and corporate income taxes
- Sales and use taxes, including sales tax on motor vehicles
- Property taxes for homeowners, renters, and businesses
- Excise taxes on tobacco, alcohol, and gasoline
- Insurance premiums taxes
- Motor vehicle registration taxes
- Gambling taxes
- MinnesotaCare taxes
- Mortgage and deed taxes

This report includes taxes with an initial impact on businesses, such as the corporate franchise tax and the sales tax on business purchases, as well as taxes imposed directly on individuals. The study includes $8.6 billion of state taxes, (99 percent of all state taxes) and $3.9 billion of local taxes (95 percent of all local taxes). Together, the $12.5 billion of total state and local taxes on individuals and businesses in this study accounts for 98 percent of all Minnesota taxes collected in 1994.

In this report, tax burdens are measured by effective tax rates -- the ratio of taxes paid to a taxpayer's comprehensive money income. Effective tax rates are reported for taxpayers at different income levels. All taxpayers are ranked by income level and are then grouped by population deciles; each population decile includes 10 percent of the state's households. For example, the first decile includes

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the 10 percent of Minnesota households with the lowest incomes; the tenth decile includes the 10 percent of households with the highest incomes. The pattern of effective tax rates by income level describes the distribution of the tax burden. If effective tax rates fall as income rises, the burden of a tax is *regressive*; if effective tax rates are constant across income levels, a tax is *proportional*. A tax is *progressive* if effective tax rates rise with income levels.

The comprehensive money income measure used in this study includes both income subject to the Minnesota individual income tax and nontaxable sources of income such as public assistance payments, tax-exempt interest, and nontaxable social security and pension income. Importantly, the study covers the entire population of taxpayers in the state, including low income individuals and families who do not have to file tax returns.

The *incidence* of a tax identifies the final resting place of the tax burden. Incidence can be quite different from the initial impact of a tax, which is usually prescribed by statute in terms of who is legally required to pay the tax. Incidence differs from initial impact when the tax is ultimately shifted to others. For example, landlords may shift a significant part of the local property tax to renters in the form of higher rents, or the corporate franchise tax may be partly absorbed by workers through lower wages.

The results of an incidence study are sensitive to the economic assumptions about who ultimately pays each type of tax. This report describes the incidence assumptions used to estimate how Minnesota taxes with an initial impact on businesses are shifted to major taxpayer groups: Minnesota consumers, Minnesota workers, Minnesota landowners and investors, and nonresident taxpayers. Taxes paid by each Minnesota group are then assigned to individual taxpayers to determine the overall distribution of state and local taxes paid by Minnesota residents.

1994 Distribution of State and Local Taxes

The major findings in this study are summarized in *Table 1* and highlighted in *Figures 1 through 3*. The results show that the state and local tax system had some progressivity between the second and sixth deciles and some regressivity between the sixth and tenth deciles. Effective tax rates rose from 12.3 percent in the second decile (and 11.8 percent in the third decile) to 13.2 percent in the sixth decile; effective tax rates then decreased to 13.0 percent in the seventh decile, remained at that level through the ninth decile, and then fell to 12.6 percent in the tenth decile.

Table 1
Minnesota Effective Tax Rates by Population Decile
All Taxpayers

Decile	Income Range	Income Tax		Consumer Sales Tax	Consumer Excise Taxes	Total State Taxes		
		Individual	Corporate			Individual	Business	Total
First	$6,384 & Under	-0.4%	0.8%	4.0%	2.1%	7.2%	3.8%	11.1%
Second	6,384 - $9,881	-0.0	0.6	3.1	1.4	5.6	3.0	8.5
Third	9,881 - 14,594	0.7	0.5	2.9	1.2	5.8	2.5	8.3
Fourth	14,594 - 19,609	1.7	0.5	2.8	1.1	6.7	2.3	9.0
Fifth	19,609 - 25,421	2.4	0.5	2.6	0.9	7.0	2.1	9.1
Sixth	25,421 - 32,108	3.1	0.4	2.4	0.8	7.2	2.0	9.2
Seventh	32,108 - 40,785	3.5	0.4	2.2	0.7	7.4	1.9	9.3
Eighth	40,785 - 52,073	4.1	0.4	2.1	0.6	7.7	1.8	9.4
Ninth	52,073 - 70,567	4.7	0.4	1.9	0.5	7.9	1.6	9.6
Tenth	70,567 & Over	5.7	0.3	1.3	0.2	7.8	1.4	9.2
Total		4.2%	0.4%	1.9%	0.6%	7.5%	1.8%	9.3%

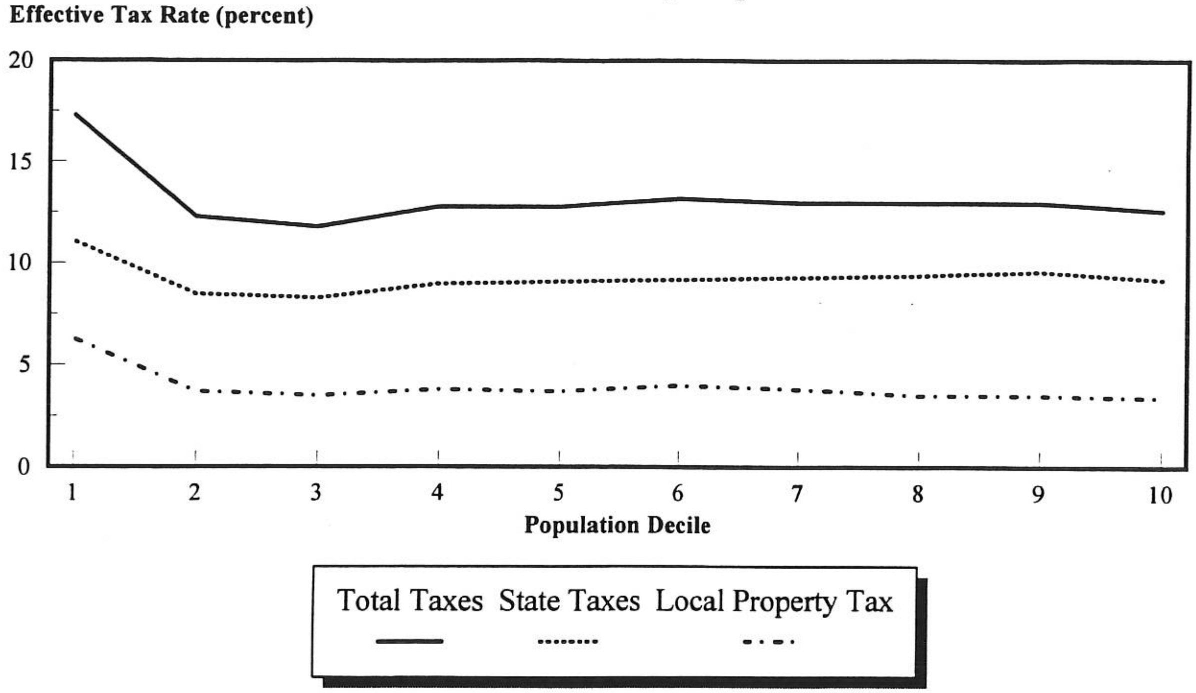
Decile	Net Local Property Taxes		
	Residential	Business	Total
First	2.9%	3.2%	6.3%
Second	1.9	1.8	3.7
Third	1.8	1.6	3.5
Fourth	1.9	1.7	3.8
Fifth	2.1	1.4	3.7
Sixth	2.3	1.6	4.0
Seventh	2.3	1.3	3.8
Eighth	2.2	1.2	3.5
Ninth	2.2	1.2	3.5
Tenth	2.0	1.3	3.4
Total	2.1%	1.4%	3.6%

Total State and Local Taxes		
Individual	Business	Total
10.3%	7.1%	17.3%
7.5	4.8	12.3
7.6	4.2	11.8
8.7	4.0	12.8
9.3	3.6	12.8
9.6	3.6	13.2
9.9	3.2	13.0
10.0	3.0	13.0
10.2	2.8	13.0
9.8	2.7	12.6
9.7%	3.2%	12.9%

Note: Effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily business losses. Residential property taxes exclude taxes on cabins which are in total property taxes. Total state taxes include taxes not shown separately.

The Suits Index, a summary measure of the average degree of progressivity or regressivity across all deciles, was -0.01. This suggests that the tax system overall was very slightly regressive, with the progressivity between the second and sixth deciles largely offsetting the regressivity between the sixth and tenth deciles. However, effective tax rates showed some variation by income level. Aside from the high tax rates in the first decile (discussed below), it is the pattern of first rising and then falling tax rates that is most noticeable in *Figure 1*.

Figure 1
Effective Tax Rates for 1994
State and Local Taxes by Population Decile



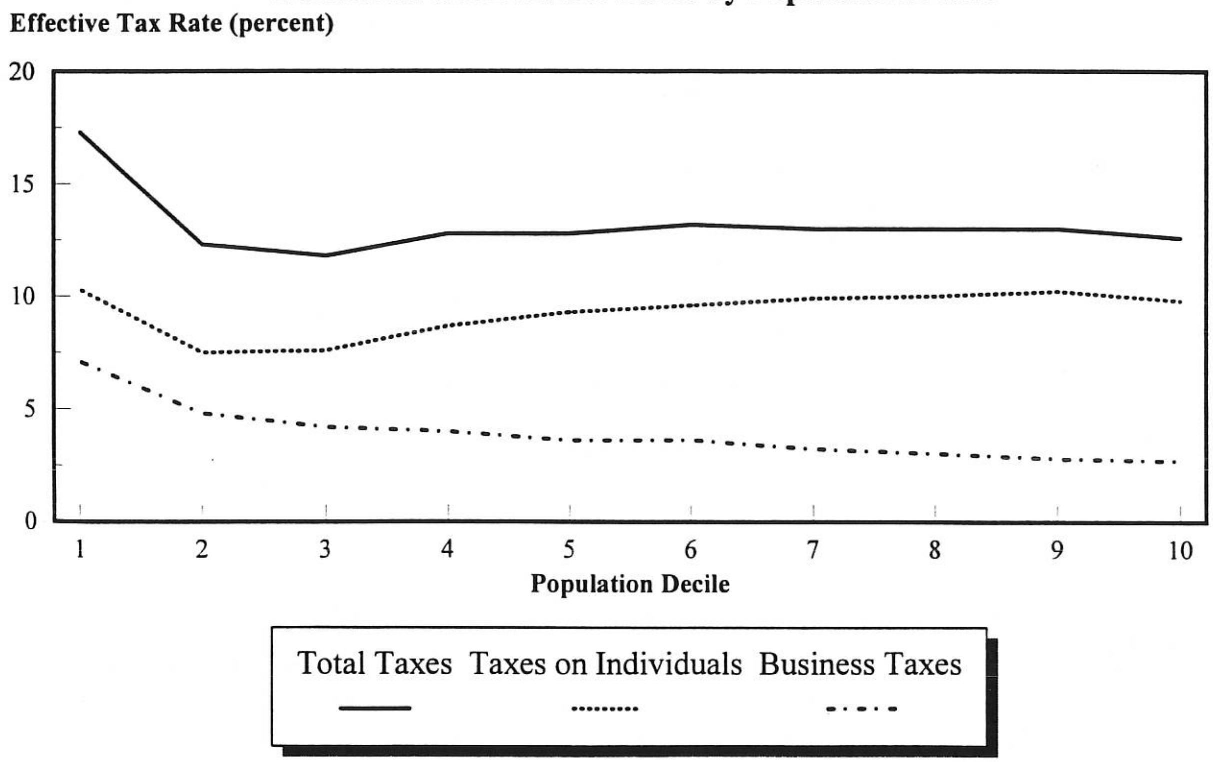
NOTE: Effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily business losses.

Overall, Minnesota residents paid an estimated 12.9 percent of their 1994 total income is state and local taxes; the effective tax rate was 9.3 percent for state taxes and 3.6 percent for local taxes. Taxpayers in the second through tenth deciles pay 98 percent of the taxes included in the study. Because the information for the first decile includes data anomalies and measurement limitations discussed in the study, effective tax rates for the first decile should be viewed with caution.

As shown in *Figure 1*, state tax burdens and local tax burdens were distributed quite differently. Total state taxes (individual and business combined) were progressive, with effective tax rates rising fairly steadily from 8.5 percent in the second decile to 9.6 percent in the ninth decile before falling to 9.2 percent in the tenth decile. In contrast, local property taxes (net of refunds), showed some progressivity between the second and sixth decile but were regressive between the sixth and tenth deciles.

Figure 2 indicates that Minnesota state and local taxes on businesses are regressive, with effective tax rates falling from 4.8 to 2.7 percent between the second and tenth deciles. However, taxes on individuals largely offset regressive business taxes, producing a more nearly proportional overall tax burden distribution, except at the highest and lowest income levels.

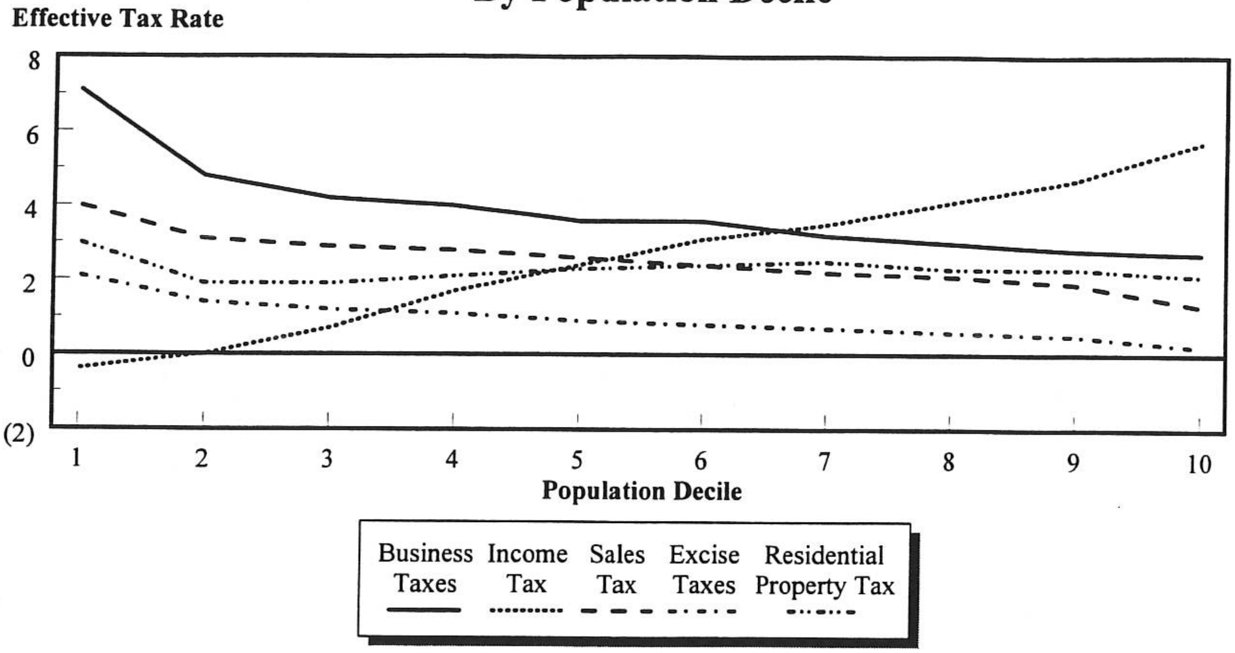
Figure 2
Effective Tax Rates for 1994
Individual and Business Taxes by Population Decile



NOTE: Effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily business losses.

The tax distributions in *Figure 3* highlight the role of the individual income tax in balancing Minnesota's state and local tax burden distribution. The individual income tax is significantly progressive with effective tax rates steadily increasing from a *negative* 0.4 percent in the first decile to 5.7 percent in the tenth decile. As is discussed in this report, the regressivity of sales, excise and business taxes are largely offset by Minnesota's relatively heavy reliance on the progressive income tax.

Figure 3
1994 Effective Tax Rates by Tax Type
By Population Decile



NOTE: Effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily business losses.

The distribution of the individual income tax burden reported in *Table 1* shows the important impact the Minnesota working family credit has in increasing the progressivity of the income tax. The combination of the refundable working family and child and dependent care credits more than offsets the total income tax liability in the first two deciles; this explains the negative tax rates for individual income tax in the first two deciles.

Most states have regressive state and local tax systems. Information here suggests that Minnesota's taxes are more equitably distributed than in most states. These comparisons do not indicate, however, whether state and local taxes in Minnesota are too high or too low.

Table 2 indicates the shares of the $10.3 billion in total state and local taxes paid by Minnesota taxpayers in 1994 by decile; excluded from this total are $2.2 billion of taxes exported to nonresidents. Taxpayers in the top decile paid 36.1 percent of the total tax burden and just over one-half of the individual income tax burden; these taxpayers received 37.0 percent of money income. Taxpayers in the first two deciles paid 3.9 percent of all taxes and received 3.3 percent of household

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income; almost all of their tax burden was from property taxes and taxes on consumption imposed directly on individuals or passed through from taxes imposed initially on businesses.

Table 2
Shares of 1994 Minnesota Income and Taxes by Population Decile

Decile	Percent of Income	Individual Income Tax	Consumer Sales Tax	Consumer Excise Tax	Residential Property Taxes	Other Taxes on Individuals	Business Taxes	Total Taxes
First	1.1%	-0.1%	2.3%	4.3%	2.1%	2.2%	3.4%	1.8%
Second	2.2	-0.0	3.5	5.6	1.9	2.7	3.3	2.1
Third	3.3	0.6	4.9	6.9	2.7	3.8	4.3	3.0
Fourth	4.6	1.9	6.7	9.0	4.2	5.8	5.8	4.5
Fifth	6.0	3.4	8.1	10.0	6.0	7.7	6.7	6.0
Sixth	7.7	5.6	9.5	10.6	8.3	9.1	8.8	7.9
Seventh	9.8	8.2	11.2	12.1	10.7	11.7	9.8	9.9
Eighth	12.4	12.0	13.3	13.4	13.0	14.2	11.6	12.5
Ninth	16.1	17.9	15.9	13.7	16.4	17.6	14.4	16.3
Tenth	37.0	50.5	24.5	14.5	34.6	25.2	31.8	36.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Amount ($ Millions)	$80,148	$3,370	$1,544	$447	$1,706	$723	$2,533	$10,323

Effective Tax Rate Projections for 1996

This study estimates the impact of both legislative law changes and economic growth on effective tax rates between 1994 and 1996. It is impossible to replicate the full incidence study for 1996, and demographic changes were ignored in constructing these projections. Despite some serious limitations, however, these projections capture some important trends.

Between 1994 and 1996, the overall effective tax rate is estimated to have risen by 0.2 percentage points, from 12.9 percent to 13.1 percent. Effective tax rates increased for the individual income tax and homeowner property taxes; effective tax rates fell for business property taxes and especially for rental housing. There were few significant legislative changes, so the higher effective tax rates are primarily the

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result of economic growth. Household income grew by an estimated 9 percent over the two years, substantially in excess of inflation. Increases in real incomes (above the rate of inflation) automatically raise effective tax rates for the income tax, due to its progressive structure. Changes in effective tax rates for property taxes reflected differences in the rates of growth in market value. Between 1994 and 1996, homestead property values rose more than twice as rapidly as business property values, which failed to keep up with inflation.

In summary, the projections suggest that the rapid increase in household income, combined with a relatively high rate of growth in the market value of homeowner property (and lower rates of growth for business property), resulted in higher overall effective tax rates and a slightly less regressive tax structure.

Tax System Objectives

The results of this study focus attention on fairness in the distribution of Minnesota state and local tax burdens. Fairness refers to both vertical equity (how tax burdens vary with the level of income) and horizontal equity (how tax burdens vary for taxpayers with comparable ability to pay). In addition to fairness, there are other desirable tax-system objectives or characteristics to consider in evaluating the overall performance of Minnesota's tax structure. The tax system should be understandable, efficient, competitive and reliable. The Department of Revenue's *Model Revenue System for Minnesota (1992)* discusses each of these objectives in greater detail.

Understandable tax laws are important in achieving voluntary compliance; simplification of the tax structure is one method of enhancing such understanding. Efficiency includes the objectives of reducing economic distortions created by taxation, maximizing clarity and accountability in tax and spending decisions, and minimizing both taxpayer compliance costs and administrative costs of collecting taxes. Efficiency is enhanced by using taxes with broad bases and competitive tax rates. Interstate tax competition for businesses and jobs may constrain a state's ability to raise tax rates relative to neighboring states. The objective of reliability has several important dimensions, including stability and sufficiency. A balanced use of income, sales and property taxes provides greater revenue stability over the economic cycle and sufficient growth in taxes over time to finance necessary government expenditures.

A significant insight from the information and results presented in this report is the importance of considering state and local taxes as a single system when analyzing the equity of Minnesota's tax distribution. The highly progressive state income tax, for example, provides an important balance to regressive sales, excise and property taxes. Any specific policy recommendation for changing the distribution of Minnesota's state and local taxes should be evaluated in terms of the overall tax system and the multiple tax policy objectives.

Summary

This report provides important information on the level and distribution of overall tax burdens in Minnesota. Its unique methodology includes both its matching of income data for specific individuals from a number of different data sources and its consistent framework for analyzing tax shifting. The study includes 98 percent of Minnesota state and local taxes paid by individuals and businesses. An explanation of the various components of the analysis, including assumptions and methodology, is provided in the main sections of the report. A detailed analysis of the results is provided in Chapter 6.

The results presented in this report should prove valuable to policymakers considering future changes in Minnesota's state and local taxes. This information can be used to evaluate changes in the equity of specific taxes, as well as the overall distribution of the tax burden. In addition to the equity issue, the results of the study are useful for addressing other tax policy issues, including the balance between the state and local tax systems.

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CHAPTER 1

INTRODUCTION

This study provides estimates of the distribution of state and local taxes among Minnesota households in 1994. These estimates are based on a stratified random sample of almost 48,000 taxpayers representing over 2.1 million households. The sample is "blown up" to represent the total population, and effective tax rates are reported as a percent of total household income for groups of taxpayers. In determining effective tax rates, taxes are calculated as a percentage of a household's comprehensive money income. Chapter 2 discusses taxes included in the study, and describes the overall Minnesota tax structure in 1994.

Chapter 3 explains how income is defined in this study. It also compares this study's definition of a household with the definition used by the Census. Chapter 4 describes how the household database was developed. The database consists of four types of data: (1) demographic information about each household (such as household size, household type, housing status, and home value); (2) the household's total income (by source); (3) the household's estimated expenditures on taxable items; and (4) estimated taxes paid on the household's income, purchases, and property. In some cases this tax information was obtained directly from tax records or other reported sources; in other cases, it was estimated based on a household's income, size, and other household characteristics.

Chapter 5 outlines how the study allocates the burden (or "incidence") of each tax among Minnesota residents. In some cases (such as the sales tax on consumer purchases), a tax legally paid by business is assumed to be fully shifted to consumers in higher prices. In other cases (business property taxes and sales taxes on purchases by business), the extent of shifting depends on the nature of the business and the magnitude of Minnesota tax rates relative to those levied in other states. In most cases, the tax burden is shared among the industry's owners, consumers, and workers. A full explanation of the logic used in allocating the burden of such business taxes is provided in Chapter 5.

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Chapter 6 summarizes the results of the tax incidence study. The tax burden on each household is estimated by combining the information in the database (from Chapter 4) with the study's incidence assumptions (from Chapter 5). Dividing Minnesota's households into ten deciles, from lowest to highest household income, this chapter shows how the total state and local tax burden (and that of individual taxes) varies with income. Results are presented both by population decile and by income decile. The Suits index is calculated as a measure of the regressivity (or progressivity) of tax burdens. An adjustment for the federal tax offset is discussed at the end of Chapter 6. The potential effect of the federal tax offset is shown, and the absence of such an adjustment elsewhere in this study is explained.

Chapter 7 provides a more detailed look at how tax burdens vary for subgroups of taxpayers. It provides a description of the households in each decile, showing how household type and housing status vary with income. It also provides detailed results for six types of households -- single parent families, married couples with children, married couples without children (retired and not retired), and single-person households (retired and not retired).

Chapter 8 discusses how the estimated impact of economic and tax law changes between 1994 and 1996 has affected the distribution of state and local tax burdens in Minnesota. Tax burdens for 1996 are estimated for each household in the 1994 incidence study sample. The estimated 1996 tax burdens reflect both growth in household income and changes in tax law. A table showing the new distribution of effective tax rates is reported in Chapter 8.

Several appendices provide more detailed information. Appendix A provides a detailed list of the income and tax data items included in the incidence study database. Appendix B includes detailed tables on the incidence results summarized in Chapter 6. Appendix C includes detailed tables on the household characteristics and tax burdens by household type summarized in Chapter 7. Appendix D contains the legislative mandate for this study.

CHAPTER 2

MINNESOTA STATE AND LOCAL TAXES IN 1994

Minnesota collected $12.8 billion in state and local taxes in 1994.[1] Approximately two-thirds were collected at the state level; local governments collected one-third of the total, primarily from property taxes. This study estimates how the burden of those taxes was distributed among the residents of Minnesota, with the primary emphasis on the distribution of tax burdens by income level. The study estimates the regressivity (or progressivity) of the total tax system and each separate tax. Tax burdens are also estimated for subgroups of the population, such as retired persons, single-parent families, homeowners, and renters.

The coverage of this study is summarized in *Table 2-1*. It includes taxes on individuals and businesses accounting for over 98 percent of total state and local tax collections (99 percent of state collections and 95 percent of local collections).

Table 2-2 shows the distribution of 1994 total tax revenue included in this study by major type of tax. Taxes on income (individual and corporate) accounted for 32.9 percent of total collections. Taxes on consumption (sales tax, excise taxes, insurance premiums tax, gambling taxes, and MinnesotaCare taxes) combined for 31.9 percent of total collections. Taxes on property (including second homes, the motor vehicle registration tax, and mortgage registration and deed transfer taxes) accounted for 35.2 percent of the total.

Included in *Table 2-2* is the estimated distribution of state and local taxes by taxpayer category, either individual households (resident or nonresident) or businesses. This distribution indicates the initial impact of the taxes by taxpayers legally liable to pay the tax (income and property taxes) or by type of purchaser (consumer taxes).[2] For example, over 50 percent of the general sales tax is paid on purchases by Minnesota households, 3.8 percent on purchases by nonresidents and 45.7 percent on purchases by businesses.

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[1] Collection amounts are based on calendar year 1994. Property tax collections are for taxes payable in 1994, and property tax refunds are those based on 1994 incomes.

[2] As explained in Chapter 5, the taxes initially imposed on businesses (an estimated 38.3 percent of total collections in *Table 2-2*) may ultimately be shifted to consumers, renters, workers or investors. The effective tax rates reported in this study are after the shifting has occurred. *Table 5-2* provides estimates of the portion of the taxes initially imposed on businesses that is ultimately borne by Minnesota residents.

Table 2-1
Minnesota State and Local Tax Collections in 1994
($ Millions)

State		Local		Total State and Local
Included		**Included**		**Included**
Individual income tax	$3,504	Gross property taxes (after credits)		
Corporate franchise tax	623	Homestead property taxes	$1,466	
General sales and use tax	2,612	Property taxes on second homes	105	
Sales tax on motor vehicles	342	Rental property taxes (residential)	449	
Motor fuels excise taxes	492	Other business property taxes (including farming)	2,037	
Alcoholic beverage excise taxes	55	Subtotal	$4,057	
Cigarette & tobacco excise taxes	187			
Insurance premiums tax	151	Property tax refunds	-166	
Gambling taxes	59			
MinnesotaCare taxes	107	Total	$3,891	$12,539
Mortgage and deed taxes	86			
Motor vehicle registration tax	430			
Total	$8,648			
Omitted		**Omitted**		**Omitted**
Estate and gift taxes	$43	Local sales taxes	$74	
Mining taxes	3	Gross earnings taxes	35	
Other taxes	11	Mineral taxes	81	
		Other taxes	3	
Total	$57	Total	$193	$250
Total Tax Collections	$8,705	Total Tax Collections	$4,084	$12,789

Note: Income tax includes $27 million in net income tax reciprocity payments from Wisconsin.

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Table 2-2
1994 State and Local Tax Collections By Type of Tax and Taxpayer Category ($ Millions)

Tax Category	Collections: Total	Collections: Percentage Distribution[1]	Percentage by Taxpayer Category: Individuals: Resident	Individuals: Nonresident	Businesses	Total
Taxes on Income						
Individual income tax	$3,504	27.9%	96.0%	4.0%	0.0%	100.0%
Corporate franchise tax	623	5.0	0.0	0.0	100.0	100.0
Total income taxes	$4,127	32.9%	81.5%	3.4%	15.1%	100.0%
Taxes on Consumption						
General sales and use tax	$2,612	20.8%	50.5%	3.8%	45.7%	100.0%
Sales tax on motor vehicles	342	2.7	65.4	0.0	34.6	100.0
Motor fuels excise tax	492	3.9	43.9	16.1	40.0	100.0
Alcoholic beverage excise taxes	55	0.4	89.6	10.4	0.0	100.0
Cigarette and tobacco excise taxes	187	1.5	97.0	3.0	0.0	100.0
Insurance premiums tax	151	1.2	78.3	0.0	21.7	100.0
Gambling taxes	59	0.5	97.0	3.0	0.0	100.0
MinnesotaCare taxes	107	0.9	97.0	3.0	0.0	100.0
Total consumption taxes	$4,005	31.9%	56.6%	4.9%	38.5%	100.0%
Taxes on Property						
Local						
Homeowners (gross)	$1,466	11.7%	100.0%	0.0%	0.0%	100.0%
Rental property (gross)	449	3.6	0.0	0.0	100.0	100.0
Property tax refunds received	(166)	(1.3)	100.0	0.0	0.0	100.0
Residential recreational (cabins)	105	0.9	80.0	20.0	0.0	100.0
Commercial and industrial	1,407	11.2	0.0	0.0	100.0	100.0
Farms (other than residence)	249	2.0	0.0	0.0	100.0	100.0
Other business property	381	3.0	0.0	0.0	100.0	100.0
State						
Motor vehicle registration tax	430	3.4	68.5	0.0	31.5	100.0
Mortgage and deed taxes	86	0.7	76.0	0.0	24.0	100.0
Total property taxes	$4,407	35.2%	39.6%	0.5%	59.9%	100.0%
Total Taxes	$12,539	100.0%	58.8%	2.9%	38.3%	100.0%

[1]Percent of collections included in this study.

Taxes on Income

Individual Income Tax

Minnesota enacted the state income tax in 1933 with initial rates ranging from 1 percent to 5 percent. In 1994, state income tax rates ranged from 6 to 8.5 percent with the top rate beginning at taxable incomes of $50,031 for single filers and $88,461 for married filing jointly. Since 1987, federal taxable income has been the starting point in computing the Minnesota tax, and the Minnesota tax structure has incorporated the federal personal exemptions, standard deduction, and itemized deductions.

In computing Minnesota taxable income in 1994, a small number of adjustments were made to federal taxable income. The graduated tax rates were applied to taxable income to calculate 1994 gross income tax. This gross tax was then reduced by several tax credits (working family credit, dependent care credit, and income tax paid to other states) to yield net income tax liability.[3] The working family credit, expanded in 1993, is now equal to 15 percent of the federal earned income credit. The working family credit provided over 207,000 Minnesota low-income households with over $30 million in tax relief in 1994. The dependent care credit provided another $12 million of tax relief to over 37,000 Minnesota low-income households.

Individual income tax collections totaled $3,504 million in 1994, accounting for 27.9 percent of total state and local tax revenue.

Corporate Franchise Tax

Minnesota also enacted the state corporate income tax in 1933. As with the individual income tax, major changes in Minnesota corporate taxation followed the 1986 Federal Tax Reform Act. In 1987, the corporate income and bank excise taxes were replaced by a corporate franchise tax based on federal taxable income. In addition, the base of the tax was broadened and the tax rate reduced.

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[3] See Minnesota Department of Revenue, *Minnesota Tax Handbook* (1996 edition) for a more detailed description of each state tax and recent tax law changes.

In computing Minnesota taxable income in 1994, a number of adjustments were made to federal taxable income. For corporations with operations or sales in other states, only a portion of total income is taxable in Minnesota. That portion is calculated by an apportionment formula based on the Minnesota shares of the corporation's property, payroll, and sales. In apportioning corporate income to Minnesota, the sales factor is weighted 70 percent and payroll and property are each weighted 15 percent.[4]

In 1994, Minnesota taxable income was subject to a flat 9.8 percent tax rate; corporate franchise tax collections totaled $623 million, accounting for 5 percent of total tax revenue. For tax year 1994, over 50,000 corporations filed a state tax return.

Taxes on Consumption

A wide range of purchases by consumers and businesses are subject to taxation in Minnesota. The general retail sales tax is imposed on the purchase of tangible products and selected services. In addition, the purchases of specific products, such as cigarettes and gasoline, are subject to separate excise taxes. Insurance premiums taxes are applied to purchases of personal and business insurance. Taxes on some forms of gambling (pull-tabs, bingo, and horse racing) and the MinnesotaCare taxes on medical services are also taxes on consumer expenditures. In total, consumption taxes accounted for $4,005 million of state and local collections in 1994 (31.9 percent of all taxes).

General Sales Tax and Sales Tax on Motor Vehicles

The sales tax was first enacted in 1967 at a rate of 3 percent. The rates in effect during 1994, including a 0.5 percent statewide county option tax, were as follows:

6.5%	-	General rate
9.0%	-	Liquor and beer
12.7%	-	Short-term vehicle rental
2.5%	-	Farm machinery and logging equipment
5.5%	-	Replacement capital equipment (industrial firms)

[4] Domestic unitary reporting is used, and federal taxes are not deductible in computing Minnesota corporate taxes. The apportionment formula weights sales more heavily than in most states, with tax incidence implications that are discussed in Chapter 5.

The tax base is the sales price of tangible personal property and taxable services sold in the state. A complementary use tax is imposed on property purchased outside the state but used or consumed in Minnesota. Major exemptions from the tax base in 1994 included food consumed at home, clothing, prescription drugs, residential heating fuels, water services, vehicle repairs, and motor fuels. While motor vehicles are also exempt from the sales tax, they are subject to a separate sales tax on motor vehicles at the general sales tax rate.

The sales tax base was significantly expanded in the late 1980s. Many services became taxable for the first time, including parking, laundry and dry cleaning, lawn and garden services, detective and security services, pet grooming, motor vehicle cleaning, building and residential cleaning, health clubs and tanning salons, interstate telephone service, club dues, and garbage collection. Most purchases by state government became taxable in 1987, and most purchases by non-school local governments became taxable in 1992.

Many purchases by businesses are subject to the sales and use tax or the sales tax on motor vehicles. A general exemption exists for purchases of materials consumed in agricultural and industrial production (such as fuels and chemical ingredients) and for products purchased for resale by wholesalers or retailers. Capital equipment (except for replacements) purchased by industrial firms is also exempt from tax. Nevertheless, many business purchases are taxed. For 1994, replacement capital equipment purchased by industrial firms and all capital equipment purchased by non-industrial companies were generally subject to tax. Business spending on meals, entertainment, hotels and motels, motor vehicles, and office supplies were also generally subject to tax.

The general sales and use tax raised $2,612 million in 1994. Combined with the sales tax on motor vehicles ($342 million), they accounted for 23.5 percent of total state and local tax collections in 1994.

Excise Taxes

The state gasoline tax, first adopted in 1925 at a rate of 2 cents per gallon, has been levied at a rate of 20 cents per gallon since 1988. The cigarette tax was first levied in 1947 at 3 cents per pack. The tax rate has been 48 cents per pack since 1992. Since 1987, excise tax rates on alcoholic beverages have been $2.40 per barrel of 3.2 percent beer and $4.60 for strong beer, $5.03 per gallon of liquor, and from $0.30 (under 14 percent) to $3.52 (over 24 percent alcohol) per gallon for wine. These three excise taxes accounted for a total of $734 million in taxes, raising 5.8 percent of total state and local tax revenue in 1994.

Insurance Premiums Tax

Like most states, Minnesota levies a 2 percent tax on most insurance premiums written in Minnesota.[5] All types of insurance are taxed, including both personal insurance (life, automobile, home, health and accident) and business insurance (business property and liability). In 1994 business insurance accounted for an estimated 21.7 percent of total premiums tax collections (see *Table 2-2*). The remainder was levied on personal insurance premiums paid by (or on behalf of) Minnesota residents. In 1994, insurance premiums taxes accounted for 1.2 percent of total state and local tax revenue.

Gambling Taxes

Minnesota levies a tax on gross receipts from several forms of gambling, including pull-tabs, tipboards, bingo, raffles, paddlewheels, and horse racing. These taxes raised $59 million in 1994, or 0.5 percent of total state and local tax revenues.[6]

MinnesotaCare Taxes

Medical care in Minnesota is generally subject to a 2 percent tax. The tax is levied on the gross revenues of hospitals and health care providers. Sales of prescription drugs and medical supplies are also subject to this tax. Nursing homes and home health care services are exempt from tax, as are payments by Medicare, medical assistance, and the MinnesotaCare program.

MinnesotaCare taxes raised $107 million in 1994, or 0.9 percent of total state and local tax revenue. All revenue is deposited in the Health Care Access Fund to finance health care subsidies for low-income uninsured households.

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[5] The rates vary from 1.0 percent on small mutual property and casualty companies to 3 percent on surplus line agents, and there is an additional fire marshall tax on some insurance. Fraternal organizations and health maintenance organizations, among others, are exempt, and no tax is paid on self-insured plans even if administered by an insurance company.

[6] Minnesota cannot tax casino gambling on Indian reservations. The sales tax on lottery tickets (about $20 million) is included in the sales tax totals. Other state revenue received from lottery operations is not included in this study because lottery profits are not considered to be tax revenues.

Taxes on Property

Minnesota's property tax classification system was instituted in 1913 with only four classes of property. Over time, the number of property tax classes has grown dramatically. Numerous law changes have been adopted almost yearly in recent decades to modify credits, exemptions, tax rates and brackets for different classes of property, and to provide different levels of property tax relief. Today, the Minnesota property tax system is probably the most complex in the nation.

Under a property classification system, property of the same value is legally taxed at very different rates. In 1994, property tax class rates ranged from 0.45 percent to 4.6 percent of market value, depending upon the property's classification. For example, residential homesteads had a class rate of one percent on the first $72,000 of market value and 2 percent on the portion of the market value that exceeded $72,000. The highest class rate (4.6 percent) applied to most commercial and industrial property. To determine the actual property tax on a specific property, market value is multiplied by the class rate to determine tax capacity, which is then multiplied by the local tax rate.

As shown in *Table 2-3*, the class rate structure for residential homesteads results in higher tax rates on higher-valued homes. The owner of a $120,000 house, for example, paid taxes equal to 1.8 percent of market value, compared to 1.28 percent for a $60,000 home. In 1994, the taxes paid on a $120,000 home were 2.8 times those on a $60,000 home; the taxes on a $360,000 home were over 10.8 times those on a $60,000 home. *Table 2-3* also shows how class rates varied for different types of property. Apartments and commercial and industrial property valued at $120,000 were taxed more than 2.3 times as heavily as homes of equal value.

Public utility equipment is subject to tax in Minnesota, as in most other states. Since 1971, however, Minnesota has not levied a property tax on other business machinery, equipment, fixtures, or inventories. Some or all of these are taxed in 38 other states. Educational facilities, religious and charitable organizations, Indian lands, cemeteries, and household personal property are also exempt from taxation.

In 1994, homeowners (including farm homes and cabins) paid 39 percent of gross local property taxes; rental housing accounted for 11 percent, and other business property (including farm property) accounted for 50 percent.[7]

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[7] These are the percentages of gross property tax, before subtracting any property tax refunds received by homeowners and renters.

Table 2-3
Property Tax on Homes of Different Value and on Different Classes of Property

Value of Home	Taxes Paid in Taxing Jurisdiction with Average Local Tax Rate: Percent of Market Value	Total Tax	Ratio of Tax to Tax on $60,000 Home
$ 60,000 home	1.28%	$ 768	1.0
$120,000 home	1.80	2,160	2.8
$360,000 home	2.31	8,316	10.8

Type of Property	Percent of Market Value	Total Tax	Ratio of Tax to Tax on $120,000 Home
$120,000 home	1.80%	$2,160	1.0
$120,000 rented duplex	2.95	3,540	1.6
$120,000 apartment building (4 units)	4.36	5,232	2.4
$120,000 commercial or industrial building	4.19	5,028	2.3
$120,000 public utility machinery	5.90	7,080	3.3

Property Tax Refunds

In 1994, homeowners and renters received a total of $166 million in property tax refunds from the state. The refunds were of two types. First, the "regular" property tax refund was based on the relationship between property taxes and household income. This refund was limited to those with household incomes under $61,930 for homeowners and under $36,120 for renters, with larger refunds generally paid to those with lower income. The second refund was "targeted" to those whose property taxes had increased by more than 12 percent (and more than $100) in 1994, regardless of income. Total property tax refunds equaled 8 percent of total taxes paid on residential property.

Motor Vehicle Registration Tax

Minnesota's annual motor vehicle registration tax is a tax on property. In 1994, the general tax was $10 plus 1.25 percent of the market value of the vehicle. Vehicles over 10 years old (or worth less than $2,000) paid a minimum fee of $35.

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A total of $430 million was collected in taxes. An estimated 31.5 percent of this tax was paid on business vehicles (including apportioned taxes on large trucks); the other 68.5 percent was paid by individual Minnesota residents.

Mortgage and Deed Taxes

Minnesota mortgages are subject to a registration tax equal to 23 cents per $100 of principal debt. When real estate is sold, the seller pays a deed transfer tax of $1.65 per $500 received in payment. These taxes raised $86 million in 1994, equal to 0.7 percent of total state and local tax revenues. Approximately 24 percent of the tax was paid on business properties, with 76 percent paid by homeowners.

CHAPTER 3

MEASUREMENT OF HOUSEHOLD INCOME

An appropriate measure of income is critical to any study of tax incidence. By definition, a tax incidence study compares taxes paid to some measure of a household's economic well-being or ability to pay. In this study, tax burdens are expressed as ratios of taxes paid to a broad measure of household money income. This comprehensive measure of money income includes not only income taxable on income tax returns but also nontaxable income, such as public assistance payments, tax-exempt interest, and nontaxable social security and pension income.

Definition of Income

The definition of income should be as consistent as possible with the public's perception of economic well-being. Households with equal incomes should be viewed as being equally well off, and those with higher incomes should be considered consistently better off than those in lower income groups. This argues for a comprehensive definition of income. An incidence study using too narrow a definition of income would overstate the ratio of taxes to income; it might also give a distorted picture of the regressivity or progressivity of the tax system.

Four distinct issues must be addressed in choosing an income measure:

1. Should income be restricted to money income or should it include non-monetary income, such as employer-provided fringe benefits or in-kind government benefits (e.g., food stamps)?

2. What is the appropriate accounting period for measuring income?

3. How should households be defined?

4. Should the income distribution be adjusted for family size in measuring ability to pay?

Conceptually, the broadest measure of a household's income is referred to by economists as the Haig-Simons (H-S) definition of income. According to this definition, income is the amount that a family consumes in a year plus the net increase or decrease in the inflation-adjusted (real) value of their assets. This definition, widely accepted by economists, reflects economic well-being because it is the amount the family could consume this year without reducing its net worth or wealth. Due to formidable challenges in estimating components of this broad income concept and the public's difficulty in understanding the concept, the income measure used in this study is more narrowly defined.[8]

Comprehensive income in this study includes only monetary sources of income. Capital gains and pension benefits are included when realized, not as they accrue, with no adjustment made for the impact of inflation on asset values. As shown in *Figure 3-1*, the derivation of money income begins with federal adjusted gross income (AGI), the broadest income tax concept of income. Various forms of nontaxable income are added to AGI in deriving comprehensive money income, as discussed in the following sections.

Figure 3-1
Computation of Money Income

Federal Adjusted Gross Income (AGI) →

Add:
1. Public Assistance Payments
2. Workers' Compensation (Periodic)
3. Tax-Exempt Interest
4. Deduction for Self-Employed Health Insurance
5. Nontaxable Social Security
6. Nontaxable Pensions, Annuities and IRA Distributions

↓

Money Income

[8] For a detailed discussion of alternative approaches to defining comprehensive income, see *Minnesota Tax Incidence Study*, November 1993, Chapter 3.

Adjusted Gross Income (AGI)

The federal government and many states use this measure of income as the starting point for determining individual income tax liabilities. Federal AGI is defined as total money income from all taxable sources less certain expenses incurred in earning that income. The major taxable sources of income include (but are not limited to) the following:

- Wages and salaries
- Income from business
- Gains from the sale of capital assets
- Interest, rents, royalties, and dividends
- Alimony
- Annuities and pensions
- Prizes and awards
- A portion of social security payments
- Unemployment compensation

Many sources of cash income are statutorily excluded from the federal income tax, including cash received in the form of welfare benefits, interest on most state and local bonds, and most social security benefits. In addition, federal AGI is limited as a comprehensive income measure because it excludes the income of "nonfilers", those taxpayers whose income falls below the reporting threshold.

According to extrapolations from the incidence study database, 84 percent of the state's households (as defined later in this chapter) filed state individual income tax returns. Adding those who filed for a property tax refund (but who filed no income tax return) increased household coverage to 90 percent. Only 10 percent of households filed neither an income tax return nor a property tax refund claim. As explained below, a substantial proportion of the income of these nonfilers was obtained from other state and federal sources of income.

Additions to AGI

As shown in *Figure 3-1*, income from a number of sources is added to AGI in deriving a comprehensive measure of Minnesota money income. These include: public assistance payments, the wage replacement portion of workers' compensation, tax exempt interest, nontaxable social security, and nontaxable pensions, annuities, and IRA distributions.

Table 3-1 summarizes the components of 1994 Minnesota total money income as measured in this study. The data source for each component of income is also identified. Federal AGI made up over 89 percent of the $80.1 billion in total money income. Nontaxable social security benefits were the largest source of additional money income, representing 5.8 percent of the total.

Due to data limitations, this study underestimates total money income. Three particular omissions should be noted. First, only a portion of wage and salary and other income could be added to other sources of income, such as public assistance and social security benefits, for taxpayers who filed neither an income tax nor a property tax refund return.[9] This results in an understatement of money income and an overstatement of tax burdens for the lowest income groups. Second, veterans benefits are excluded (except for those reported on property tax refund returns). Third, no adjustment is made for money income not reported on income tax returns or other administrative records (the "underground economy").

Income Not Included in Money Income

Minnesota money income excludes many forms of income that would be included in the broadest income measure based on the Haig-Simons definition. It excludes all non-monetary forms of income (food stamps, housing subsidies, Medicare and Medicaid benefits, employer-provided fringe benefits, and imputed rent for homeowners). It includes capital gains and pension income only when realized, not when accrued. No adjustment is made for depreciation deductions in excess of economic depreciation, nor is a deduction made for the portion of interest income that represents inflation.

The Accounting Period: Annual or Lifetime Income?

Income received in a single year can be a misleading measure of economic well-being. Individual households may have unusually high or low income in a particular year due to business losses, unemployment, or the sale of capital assets.

[9] As shown in Table 3-1, this study does include some additional income information on the nonfiler group, including social security, dividend, pension, interest and wage income. This data was derived from income tax administration information.

Because of such transitory income, a snapshot of the income distribution in a single year shows more income inequality than a time exposure over several years. In addition, income varies over a household's life cycle. For these reasons, annual income may not be an accurate measure of a household's long-term economic well-being.

Table 3-1
Components of Total Household Income
1994 Tax Incidence Study
($ Millions)

Group	Source of Income	Amount
Individual income tax filers (1,803,900 households)	Federal Adjusted Gross Income	$71,491
	Nontaxable Interest	699
	Nontaxable IRA Distributions	369
	Nontaxable Pension and Annuity Payments	1,323
	Nontaxable Social Security Benefits	2,585
	Self-Employed Health Insurance Deduction	25
	Minnesota Additions to Income	126
	Public Assistance Payments [1]	119
	Workers' Compensation Benefits	77
	Total Household Income	$76,814
Property tax refund filers who do *not* file an individual income tax return (133,480 households)	Federal Adjusted Gross Income	$257
	Nontaxable Social Security Benefits	895
	Public Assistance Payments [1]	167
	PTR Additions to Income	61
	Total Household Income	$1,380
Individuals that do not file either type of return (211,440 households)	Public Assistance Payments [1]	$184
	Workers' Compensation Benefits	42
	Unemployment Benefits	16
	Social Security Benefits	1,191
	Dividend Income	21
	Pension Income	285
	Interest Income	85
	Wages	130
	Total Household Income	$1,954
Total Population (2,148,820 households)	**Total Household Income**	$80,148

[1] Public Assistance includes Aid to Families with Dependent Children (AFDC), Minnesota Family Investment Plan (MFIP), Refugee Cash Assistance, Minnesota Supplemental Aid (MSA), General Assistance (GA), Family General Assistance (FGA), Emergency Assistance (EA), and Special Needs payments.

In spite of these shortcomings, there are two strong reasons why this study uses annual rather than lifetime income. First, an adequate record of the income of individual households over a longer period is rarely available. Consequently, state incidence studies have always used an annual accounting period. Second, an annual perspective may be preferred because taxes are paid out of a household's current income, not out of what might be earned in the future. If the purpose of an incidence study is to make policy decisions regarding current ability to pay taxes, then it is reasonable to use annual rather than lifetime income.

Definition of a Household

The definition of a household should be consistent with the average citizen's use of the term. As a result, this study combines dependents who file their own income tax return with the taxpayers who claim them as dependents to form a single household. Just over 11 percent of all individual income tax returns are filed by persons claimed as dependents on someone else's tax return. The most common situation is a student working part-time and claimed as a dependent on the parent's tax return. If not combined into a single household, these part-time workers would be treated as separate, low-income individuals in the study, with misleading results.

An additional adjustment was made in cases where income information for nonfilers was initially reported separately for each member of a family (e.g., spouses having separate social security payment records). Available state agency files containing name and address information were used to combine such individuals into household units wherever possible. This adjustment provides a more accurate picture of such households.

Incidence Households Compared to Census Households

By extrapolating from the incidence database, the tax incidence study estimates a total of 2,148,820 Minnesota households in 1994, with a median income of $25,421. In contrast, the U.S. Census reports a total of 1,711,000 Minnesota households in 1994, with a median income of $33,644. Census households average 2.6 persons, while the incidence study households average 2.1 persons. This section explains the differences between the numbers presented in this study and those reported by the Census.

The Census defines a household to include all persons who live together in a housing unit. The precise Census definition is:

> A household includes all the persons who occupy a housing unit . . . in which the occupants live and eat separately from any other persons in the building and which has direct access from the outside of the building or through a common hall. The occupants may be a single family, one person living alone, two or more families living together, or any other group of related or unrelated persons who share living arrangements.

In contrast, the incidence study defines a household as an actual or potential income tax filer and all dependents, even if not living under the same roof.

There are three basic reasons why Census and incidence households differ. First, some Census households are not counted as incidence study households. For example, a full-time college student living in an apartment and claimed as a deduction on a parent's tax return is a Census household but would be combined with the parents in the incidence study. Second, Census households often contain two or more incidence households. For example, three single persons sharing an apartment would be counted as one Census household but might be three incidence households. Third, individuals living in "group quarters" are not part of any Census household, but some are defined as a household in the incidence study. Examples include a financially independent college student living in a college dorm, or a nursing home resident not claimed as a dependent on someone else's tax return. As a result, the incidence study reports 26 percent more households than the Census, and the median household income in the incidence study is only 76 percent of that reported by the Census.

Detailed computer analysis of the 5 percent Minnesota sample from the 1990 Census helps explain why the incidence study has an extra 438,000 households. Using income tax rules to define dependents, 1990 Census households were reshaped into incidence study households, and the total was then adjusted for the general growth in Minnesota households between 1990 and 1994. *Table 3-2* shows how the number of households increased when the Census households were redefined as incidence study households. The 401,000 increase shown on the table explains almost all of the 438,000 additional households in this study.

Table 3-2
Additional Households Added to the Census Totals
Using the Incidence Study Definition

Adult children	159,100
Parents	8,600
Other relatives	36,500
Total relatives	204,200
Unmarried partner	53,000
Other unrelated persons	94,900
Total unrelated persons	147,900
Group quarters persons in incidence study	
Elderly (mostly in nursing homes)	47,200
Others	15,300
Total from group quarters	62,500
Less Census household heads who are claimed as dependents elsewhere	(13,600)
Net increase in households	401,000

Most of the difference in the number of households occurs because many Census households have been split into two or more incidence households. An additional 62,500 incidence households (mostly elderly) would not be included as Census households because they were living in group quarters. Most of these are elderly persons living in nursing homes. If these persons have social security, pension, or other income and are not claimed as a dependent on someone else's income tax return, they were generally counted as incidence households. These groups can account for all but 37,000 of the 438,000 extra incidence households. The remaining difference may be explained in several ways. Some of the additional households are married persons living together but filing separate tax returns. Others are college students who could have been (but were not) claimed as dependents on another's tax return. An unknown number are married couples who filed no tax returns and were counted as two single-person households due to lack of information.

In summary, the incidence study's population is consistent with the Census. The lower median income in this study occurs largely because the same total income is spread over a larger number of households. The incidence definition of a household is more appropriate than the Census definition when describing the distribution of the tax burden.

Those who are neither Renters nor Homeowners

The incidence study database divides the population into homeowners (including owners of mobilehomes), renters, farmers, and "others." The fourth category -- neither homeowners nor renters -- includes 289,000 households. Most are single persons living with relatives in a homeowner household. In such cases, the entire property tax burden was assigned to the homeowner; the second household is assumed to pay no property tax.[10] Although the second incidence household might be considered to have paid part of the homeowner property tax, it is not possible to link the two households using available information (nor would it be clear how to split the tax between them).

Most of the non-renter/non-owner households were single persons in the lower income deciles, reflecting the characteristics of such persons in the Census data. Those living in group quarters (including nursing homes) were also included in this category. None of them would have been considered a separate household in the Census.

Differences in Household Size

In this study, households are divided into income classes with no adjustment for household size to reflect lower ability-to-pay for larger households with the same income. For example, all households with incomes between $40,000 and $50,000 are considered as a group, whether the household consists of a single person or a family of four. In the incidence study sample, low-income households are mainly single-person households, while almost all high-income households include two or more individuals.

[10] If a home is owned jointly, the property tax is split equally among all owners.

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Summary

The definition of income used in this study includes all identifiable forms of cash income received in a single year, including nontaxable sources of income. It is less comprehensive than the Haig-Simons definition of income because it includes no non-monetary benefits as income, measures capital gains and pensions when they are received (not when they accrue), and makes no adjustment for the impact of inflation on asset values. Nevertheless, it is a comprehensive definition of money income and is consistent with the public's perception of ability to pay.

The definition of household in this study varies from that used by the Census. There are 26 percent more households than reported by the Census, and median income is considerably lower as a result. Despite the difference in definition, the count of incidence households is consistent with Census data. The definition used here is more appropriate when describing the distribution of the tax burden.

CHAPTER 4

THE INCIDENCE STUDY DATABASE

The 1994 incidence study database includes detailed information on income and taxes for a stratified random sample of 47,923 Minnesota households. This sample is then "blown up" to represent all 2,148,820 Minnesota households. Individual income tax and property tax refund returns filed with the Department of Revenue were the primary sources of information and were supplemented with data on nontaxable income obtained from alternate sources. The additional nontaxable income information provides a more accurate measure of total income, particularly for low-income households who did not meet tax filing requirements.

The use of social security numbers to merge income data from different sources for specific individuals is a unique and important aspect of this study. Income data was matched, for example, with property tax and market value information for individual homeowners. Because of these "hard matches", the need to impute estimated values of income and tax variables to households in the database was minimized.

This chapter describes the steps involved in building the incidence study database and how the database was used to calculate each household's state and local tax burden.

Income Sources

The incidence study database was developed in three steps. First, data was taken from state and federal income tax returns. Second, additional data was taken from property tax refund returns. Third, additional income (social security, unemployment compensation, workers' compensation, and public assistance) was added from other sources. Each of these steps is described more fully in this section.

Individual Income Tax

Individuals are required to file a state income tax return if they file a federal income tax return. In 1994, single persons were required to file a return if their gross income was $6,250 or more; for married couples, the filing threshold was $11,250. A large majority of the working population in Minnesota file income tax returns, providing a wealth of information on income and family characteristics. For tax year 1994, over 2 million individual income tax returns were filed by Minnesota residents, who paid $3.4 billion in income tax. These income tax filers in the sample represented 84 percent of the state's households.

In addition to taxable sources of income, individual income tax returns contain information on some forms of nontaxable income. These include tax-exempt interest, nontaxable individual retirement account (IRA) distributions, nontaxable pension and annuity income, and nontaxable social security benefits. As explained in the previous chapter, all of these untaxed forms of income are included in the measure of money income.

The 1994 individual income tax sample developed by the Tax Research Division was used as the initial source of data for all income tax filers. It includes approximately 23,000 returns (about 1 percent of the filer population), selected randomly based on income levels. The number of sample records in the incidence study database is fewer, however, than the full sample; nonresidents are excluded, and filers claimed as dependents on another tax return are combined with that return to form one household.

Property Tax Refund

Since 1975, Minnesota has had a property tax refund (PTR) program which reduces property taxes for both homeowners and renters. Homeowners and renters are eligible for regular property tax refunds based on the relationship of the property tax paid on a homestead or rental unit to total household income. Refunds vary depending on the actual ratio of taxes to income, but they generally decline as income increases.[11]

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[11] There is also a special "targeting" property tax refund for homeowners with large annual increases in property taxes, regardless of income. For 1994, a total of $4.7 million in targeting refunds was received by 60,900 households. Both property tax refunds are included in calculating net property tax in this study, but the numbers in the following paragraph refer only to the regular refund.

In 1994, homeowners and renters were eligible for refunds if income was less than $61,930 for homeowners and $36,120 for renters. In that year, 495,000 regular PTR returns were filed, 244,000 for homeowners and 251,000 for renters. A total of $161.3 million of refunds was received, of which $86.7 million (54 percent) was received by renters.

The regular PTR is based on total household income. In addition to federal AGI, PTR filers must report nontaxable forms of money income such as workers' compensation, untaxed social security benefits, veterans' benefits, and public assistance payments. PTR returns include nontaxable income and cover a substantial portion of the households who file no income tax return. They provide valuable information (including wage income) for many of the state's low income residents.

Information from the PTR returns was added to income tax information in two steps. First, for those in the income tax sample who also filed for a property tax refund, information from the PTR return was added to their existing income tax database record. This added information included nontaxable income sources reported on the PTR return, as well as property tax information. Second, new database records were added for a 5 percent random sample of PTR filers who filed no income tax return. Together, PTR and income tax filers represented 90 percent of the state's households.

Other Sources of Income Data

Additional sources of information were used to identify social security payments (including Supplementary Security Income), workers' compensation, unemployment compensation, and public assistance income (Aid to Families with Dependent Children, Minnesota Family Investment Plan, Refugee Cash Assistance, General Assistance, Family General Assistance, Minnesota Supplemental Aid, Emergency Assistance, and Special Needs payments).[12] In each case, social security numbers were used to match payments to specific households.

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[12] Data on public assistance payments was obtained from the Minnesota Department of Human Services. Information on workers' compensation and unemployment compensation was obtained from the Department of Labor and Industry and the Department of Economic Security, respectively. Only the cash portion of workers' compensation representing wage replacement was included in income; payments for medical care and one-time indemnity payments were excluded.

A two-step approach was used to allocate this additional income to households. First, payments received by individuals in either the income tax sample or the PTR sample were added to their existing database records. Second, new database records were added for a random 10 percent sample of those who received payments from one or more of these sources, but who filed neither income tax nor PTR returns. These nonfiler records represented 10 percent of all Minnesota households. Although the money income of this population is understated somewhat (as explained in Chapter 3), the database captures the largest part of their income.[13]

In its completed form, the 1994 incidence study sample has 47,923 household records. It includes a stratified random sample of 20,105 income tax filers, a five percent random sample of 6,674 PTR filers who did not file income tax returns, and a ten percent random sample of 21,144 nonfiler households. All income data was matched using social security numbers to include all available information on money income, both taxable and nontaxable. This sample was then "blown up" to represent a total of 2,148,820 Minnesota households.

Tax Calculations

A variety of sources were used to determine the taxes paid by each household in the sample. In some cases, tax amounts were imputed based on income level, family size, sources of income, and other household characteristics. This section describes what sources were used and how tax burdens were estimated.

Individual Income Tax

Income tax payments were available directly from the 1994 income tax sample.

Homestead Property Tax

The property tax for homeowners was derived from a unique data set that includes the market value of every residential homestead in Minnesota. Counties provide this data to the state annually, along with the social security numbers for

[13] Detailed information is available from the Tax Research Division on the sources of income data and the composition of the household sample.

owners of homestead property, as required by law. From this information, property tax amounts were calculated for each homestead based on the local tax rate where the property is located.

These homestead property tax amounts were added to the appropriate sample records in the incidence study database by matching social security numbers. Any property tax refund received by a homeowner was taken from the household's PTR return, and the household's net property tax was calculated by subtracting the property tax refund from the gross property tax. For farms, the study estimated residential property taxes using the average tax on a farm "house, garage, and one acre" in the township; the remaining farm property tax (approximately 84 percent) was treated as a business tax. For farm homesteads, the property tax refund was also divided into residential and business components[14].

Property Tax on Rental Housing

The total property tax paid on a rental unit was determined by one of two methods. First, for those filing a property tax refund, the property tax paid on the rental unit was listed on the PTR return. For PTR filers, therefore, the actual property tax on the rental unit was known.[15]

For renters who did not file a property tax refund return, a rental property tax amount was imputed. Detailed Minnesota data from the 1990 Census of Housing was used to estimate the total number of renters and to impute rent amounts for an additional 310,000 rental households who did not file a property tax refund. The estimated rent was based on household income, family type, age, household size, and location (metro or non-metro). The fraction of rent that landlords pay in property tax was estimated using information submitted by landlords (used in administering the property tax refund program). For the imputed renters, property taxes were estimated to range from 16 to 21 percent of rent.[16] These renters represented 56 percent of all rental households in Minnesota.

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[14] The residential portion of the refund was estimated based on the ratio of the township's average tax on the "house, garage, and one acre" to the average tax on the first 320 acres.

[15] The database includes the full amount of the tax paid on the household's rental unit. The landlord, however, is not able to shift all of the existing property tax to the renter in higher prices. Based on the incidence assumptions in Chapter 5, only part of the property tax is ultimately assigned to renters.

[16] Rental data was estimated from the U.S. Census Public Use Microdata Sample for Minnesota, a 5 percent sample of Minnesota households which includes rent and detailed information about the household. MacDonald (1994) estimates that rental property taxes on unsubsidized housing units averaged 16.6 percent of rent in Minnesota in 1992.

There are a substantial number of households in the sample who are classified as neither renters nor homeowners. These include senior citizens living with relatives, adult children living at home (but not claimed as dependents on an income tax return), and some unrelated persons living with a homeowner. These households, an estimated 13 percent of all Minnesota households, are assumed to pay no property taxes.[17]

General Sales Tax and Excise Taxes

Purchases subject to sales and excise taxes were estimated using a detailed state input-output model. The Minnesota Consumption Tax Model estimates total purchases from 112 Minnesota business sectors. Taxable purchases made by Minnesota residents are separated from taxable purchases by business and visitors. Multiplying taxable purchases by the applicable tax rate gives the total Minnesota tax paid by resident consumers on each of the 112 product categories.

The total tax paid by consumers on purchases of each type of product is distributed among individual households using consumer expenditure data from the Bureau of Labor Statistics' *1992 Consumer Expenditure Survey* (CES). Detailed information from this survey was used to estimate each household's share of taxes paid on each of 16 product groups, based on the household's size, family type, age, and income. The CES estimate of expenditures for each product category was added to each incidence study household record.[18]

Miscellaneous Taxes

The consumer share of the motor vehicle registration tax was estimated from data provided by the Minnesota Department of Transportation. The registration tax is 1.25 percent of a vehicle's value, except for vehicles valued under $2,000 (or over 10 years old), which pay a flat $35 fee. This tax was allocated based on household expenditures on motor vehicle purchases (gross before trade-in), as estimated from the CES.

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[17] A more complete discussion of these households (and the relationship between the Census definition of a household and the definition used in this study) is found in Chapter 3.

[18] Statistical analysis of CES public use computer tapes provided separate estimates for nine different household types. Additional information on the mechanics of this process is available from the Tax Research Division.

Minnesota collects a 2 percent insurance premiums tax on almost all insurance policies written in the state. Although this tax (like other sales and excise taxes) is collected by businesses, this study assumes that the tax is fully shifted to insurance buyers in higher prices. The taxes paid on each type of consumer insurance (personal auto, life, homeowner, accident, and health) were estimated from collections data. The taxes each household paid on purchases of personal auto, life, and homeowner insurance tax were estimated using CES data. Taxes on accident and health insurance were estimated based on a national survey that showed how health insurance premiums varied by income level. The burden of workers' compensation insurance taxes was allocated in relation to wage and salary income (subject to a minimum and maximum).[19]

The property tax levied on seasonal recreational property ("cabins") is not included in the homeowner property taxes discussed earlier. The relationship between property taxes on cabins and household income was estimated from special property tax refund returns filed in 1991 (the only year such property qualified for a refund). An average property tax on cabins was allocated to all homeowners, varying by income level.

The distribution of gambling taxes was estimated using a 1994 survey conducted by the Minnesota State Lottery. That survey showed that the pattern of spending on pulltabs by income level was similar to that for the lottery, for which more detailed estimates were presented.

MinnesotaCare taxes were distributed in proportion to the sum of health insurance (including the share paid by employers) and out-of-pocket medical costs. Estimates of the distribution of these costs, by decile, were adapted from Hollahan and Zedlewski (1992) and the Consumer Expenditure Survey. Separate estimates were made by family type (singles, couples, families with children) and

[19] Health insurance data was adapted from Hollahan and Zedlewski (1994). The tax on insurance purchased by employers as part of employee fringe benefits is assumed borne by employees. By raising the cost of these fringe benefits, the tax reduces either cash wages or other fringe benefits. The tax on workers' compensation premiums was allocated to all workers with wages exceeding $2,000 per year, with a floor for those earning less than half the state's average wage and a cap for those earning more than 150 percent of the state's average wage. This reflects the structure of medical and wage-replacement benefits provided by workers' compensation in Minnesota.

age (elderly, non-elderly). This study assumes that these taxes were borne by consumers in higher costs for medical care and insurance[20].

The mortgage registration tax of 23 cents per $500 of principal was distributed in proportion to mortgage interest paid in 1994. The deed transfer tax of $1.65 per $1,000 of value was distributed in proportion to the market value of homes.

Business Taxes

Taxes legally imposed on businesses may be borne by the owners, shifted to consumers in higher prices, or shifted to workers in lower wages. This study's estimates of the distribution of the tax burden among these groups are explained in the next chapter. Given an estimate of the dollar amount of tax paid by consumers, workers, or owners, that tax was then allocated among individual households using income and consumption information from the database, as explained in Chapter 5.

Summary

The incidence study database includes individual records for about 48,000 households. The data content of each record is described in Appendix A. Each record includes the household's cash income as obtained from income tax returns, property tax refund returns, and other sources, all matched by social security numbers. Household income includes all taxable income plus almost all forms of nontaxable cash income (including tax-exempt interest, public assistance, untaxed social security income, and workers' compensation). Property taxes for homeowners (again identified by social security number) were obtained from a special data set. Finally, an estimate of each household's expenditures on a variety of items (including rent) was drawn from the Consumer Expenditure Survey, the Census of Housing, and other sources.

This unique database makes it possible to estimate income and taxes for each household. When blown up to match the total state population, it provides a detailed description of the distribution of both income and state and local tax burdens among Minnesota residents.

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[20] The MinnesotaCare program includes cost containment measures, and it also reduces the cost of uncompensated care for uninsured patients. However, this study considers the MinnesotaCare taxes in isolation. For a more complete analysis, see Cline (1992).

CHAPTER 5

TAX INCIDENCE ANALYSIS

Introduction

Economists commonly distinguish between the initial "impact" of a tax and its "incidence." The initial impact of a tax is on the taxpayer legally liable to pay the tax, while the incidence of a tax is the final resting place of the tax after any "shifting" has occurred. For example, the initial impact of the insurance premiums tax is on the insurance company, which is legally liable to pay the tax. Consumers may eventually pay some or all of the tax, however, in the form of higher prices for insurance. The incidence of the tax may be on consumers, not the insurance company. Similarly, the impact of the property tax on manufacturing property is on the manufacturer, but the actual incidence may fall partly on consumers (in higher prices) or on workers (in lower wages).

This study measures the distribution of tax burdens among households after any such shifting has occurred. As outlined in *Figure 5-1*, determining the distribution of household tax burdens can be viewed as a three-step process. Step 1 is the collection of data about the initial impact of Minnesota taxes. This step includes compiling information on tax collections by sector, and other estimations, such as the amount of sales tax paid by tourists or on business purchases of capital equipment. Step 2 uses economic theory to estimate how much of the burden of each tax is "shifted" from the initial taxpayer to others. For each tax, Step 2 estimates how much of the tax burden falls on consumers (in higher prices), labor (in lower wages), and capital (in lower rates of return). The portion of the tax burden shifted to nonresidents is also estimated in Step 2. Step 3 combines the incidence assumptions from Step 2 with information on the characteristics of individual households (from the study's database described in Chapter 4) to estimate the tax burden falling on each of Minnesota's two million households. Each dollar of tax is "allocated" either to a specific Minnesota household or to nonresidents.

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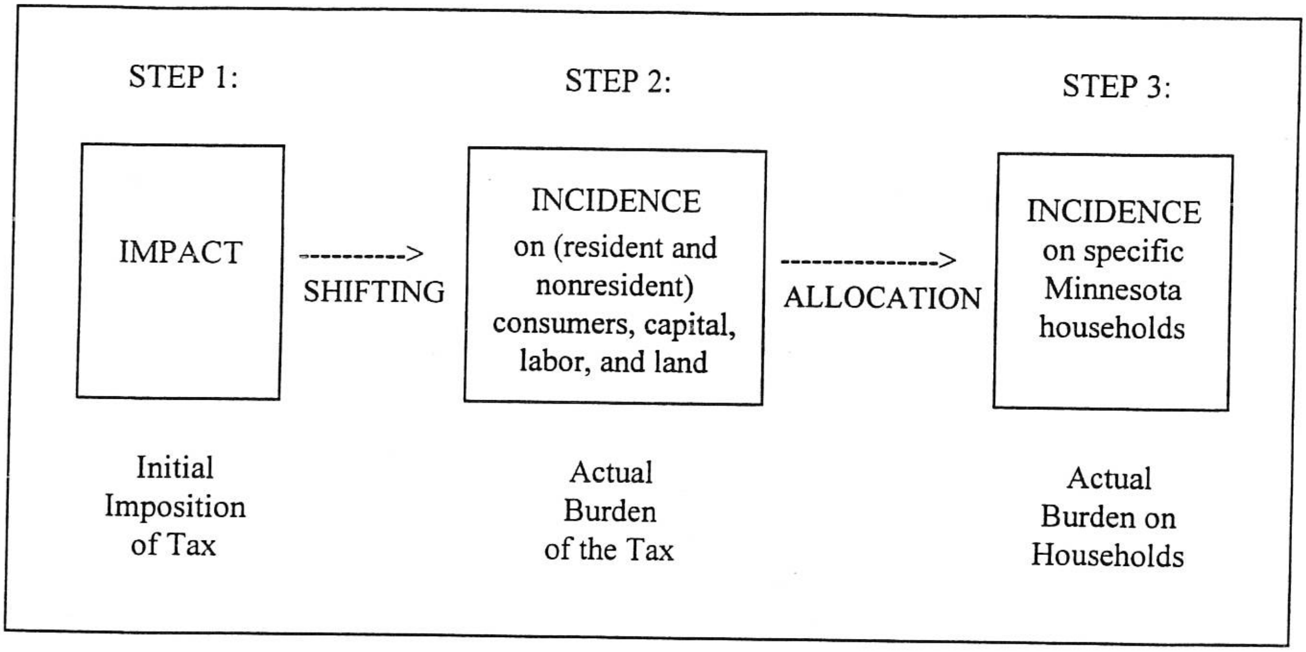
Figure 5-1
Estimating Tax Incidence



For example, consider the business property tax. Step 1 obtains data on total tax collections from each business sector (such as manufacturing, farming, apartments, and public utilities). Step 2 uses economic theory and information about the nature of each business sector to estimate how much of each sector's property tax is borne by Minnesota consumers, Minnesota workers, Minnesota owners of capital, and nonresidents. Step 3 allocates the resident tax burden to specific Minnesota households, based on information about each household's total income, income sources, household size, and housing status (owner or renter).

The results of any incidence study are significantly determined by the study's incidence assumptions. This chapter explains both the incidence assumptions used in this study (Step 2) and the method of allocating tax burdens to specific households (Step 3).[21] This study's incidence assumptions are summarized as follows:

[21] A more detailed discussion of the incidence assumptions is provided in the *Minnesota Tax Incidence Study*, November 1993, Chapter 5 and Appendix A.

1. Incidence of Taxes on Households

- The personal income tax is paid by individual taxpayers, and the incidence is the same as the initial impact of the tax.
- Taxes on purchases by consumers (sales, excise, insurance premiums, gambling, and MinnesotaCare taxes) are borne by consumers of the taxed items.
- The property tax on homeowners is borne by the homeowner.
- The motor vehicle registration tax on vehicles owned by households is borne by the owner of the vehicle.
- Mortgage registration and deed transfer taxes on homes are borne by homeowners.

2. Incidence of Taxes on Business

Taxes on business property, business purchases, and corporate income are partially shifted to consumers and workers. (If fully shifted to consumers, the taxes are classified as taxes on households.) The amount of tax shifting varies by tax and by business sector, depending on the scope of the product market (local or national) and the magnitude of Minnesota's tax rates compared to those in other states.

The rationale for this study's incidence assumptions is discussed in the next two sections. First, taxes on households are discussed. The incidence of business taxes, which is discussed next, is much more complex. Many issues are unsettled, and a wide variety of approaches have been used in previous incidence studies. As a result, this section provides an extended discussion of the methodology underlying this study's approach to business tax incidence.

Taxes on Households

Individual Income Tax

To shift a tax, the individual or business legally liable to pay the tax must alter its economic behavior because of the tax. For example, if a tax on wages reduces after-tax pay, workers may reduce the number of hours worked. This could lead to higher before-tax wages, which would shift a part of the tax to employers or consumers. This study assumes that the burden of the individual income tax is not amenable to shifting through increases in either wages or interest rates. This assumption is correct if both total hours worked and savings rates are unresponsive to after-tax returns and the package of public spending and taxes in Minnesota (compared to other states) does not cause significant emigration. Given this assumption, the state income tax burden equals each household's tax liability, as listed in the study's database.

Taxes on Consumer Purchases

Sales and Excise Taxes. This study, like most other incidence studies, assumes that businesses legally liable for sales and excise taxes on final products and services will be able to raise product prices by the full amount of the tax, leaving wages and the return to capital unchanged. Therefore, the tax burden is fully shifted to consumers in higher prices. The sales and excise tax burdens were allocated in proportion to each household's consumption of taxed items, as estimated in the study's database.

Insurance Premiums Taxes. The insurance premiums tax equals a flat percentage of the premium paid on selected types of insurance. This tax was assumed to raise insurance premiums by the full amount of the tax, so its burden was distributed in proportion to each household's purchase of insurance subject to the tax. For auto, life, and household insurance, the tax burden allocation was in proportion to expenditures as estimated from the Consumer Expenditure Survey.

The premiums tax on insurance provided through employers (most health and workers' compensation) was assumed borne by the employee. By raising the cost of these fringe benefits, the tax either reduced cash wages or other fringe benefits. The tax on health insurance premiums was assigned according to the distribution of total health insurance premiums. In Minnesota, workers' compensation policies are purchased from private insurers. Given the structure of medical and wage replacement benefits, the premium per employee was assumed to increase with wages, subject to a minimum (for workers earning less than half the average state wage) and a maximum (for those earning more than 150 percent of the average state wage).

Gambling Taxes. Gross receipts taxes on pulltabs, tipboards, bingo, raffles, and horse racing were assumed to be borne by the bettor. A recent survey by the Minnesota Lottery (1994) provided substantial information about how gambling varies by income level. The pattern of expenditures on pulltabs (the primary source of revenue) was similar to that for the lottery, so the more detailed distributional information about lottery expenditures was used to distribute these gambling taxes.

MinnesotaCare Taxes. The 2 percent gross receipts tax on most medical bills (including hospital, physician, dental, and laboratory services along with prescription drugs) was assumed to be paid by consumers in higher out-of-pocket medical costs or higher costs for insurance (except for Medicare premiums)[22]. The higher costs of employer-provided health insurance were assumed to be borne by households in reduced wages or other fringe benefits. MinnesotaCare taxes were distributed in proportion to the sum of the cost of health insurance plus out-of-pocket costs for medical services and prescription drugs.

Property Taxes on Non-Business Property

Homeowner Property Taxes. The homeowner is both the owner and consumer of housing. As a result, the homeowner bears the full tax burden, regardless of how the burden is split between consumers and owners. The tax burden on the household was assumed to be the total property tax paid on the homestead, as identified in the incidence study database. Similarly, the property tax on cabins was assumed borne by the owners.

Motor Vehicle Registration Tax. The registration tax on motor vehicles owned by households was assumed to be fully borne by the owner. The tax is generally proportional to the market value of the vehicle. Lacking data on the distribution of vehicle stock by income level, this study used the distribution of vehicle purchases (before subtracting trade-in) as an approximation. The tax burden was allocated in proportion to the average gross vehicle expenditures by households of the same size and income level.

Mortgage Registration and Deed Transfer Taxes. The homeowner portion of these taxes was assumed to be borne by the owner of the home. Given a lack of information about the identity of those buying homes or obtaining mortgages in 1994, the burden of the mortgage registration tax was distributed over all mortgage holders (in proportion to mortgage interest paid in 1994); the deed transfer tax burden was distributed over all homeowners (in proportion to the estimated market value of the home).

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[22] The MinnesotaCare program includes cost control measures to hold down prices, and it also reduces the cost of uncompensated care provided for uninsured patients. In this study, however, the impact of MinnesotaCare taxes is considered in isolation. For a more complete analysis of the distributional impact of the program, see Cline (1992).

Adjustment for Burdens on Nonresident Households

The proportion of the total receipts from each of these taxes that was allocated to Minnesota households is shown in *Table 2-2* (in Chapter 2). For the general sales and use tax and the excise taxes, the Minnesota household share was estimated by the Minnesota Consumption Tax Model. For the other taxes (insurance premiums tax, property tax on cabins, gambling taxes, MinnesotaCare taxes, motor vehicle registration tax, and mortgage and deed taxes), the total burden on Minnesota households was defined as total collections minus the estimated taxes paid by business and nonresident visitors and tourists.

Some incidence studies reduce state and local tax burdens to reflect the "federal tax offset." State income taxes and homeowner property taxes are both deductible in calculating federal income tax liability, so households paying these Minnesota taxes will pay less in federal income tax (if they itemize deductions). A portion of these deductible taxes is sometimes considered to be shifted to the federal government in lower federal tax revenue. Although no such adjustment is included in this study's general results, the impact of such an adjustment (and the arguments for and against it) are presented in Chapter 6.

Taxes on Business

Introduction

This study includes over $4.8 billion in business taxes, as summarized in *Table 5-1.* These business taxes (including rental property taxes) account for over 38 percent of Minnesota's state and local tax revenue. Business taxes include both taxes on capital (structures, capital equipment, and land) and taxes on business purchases of short-lived intermediate inputs (such as gasoline and restaurant meals).

This study estimated the incidence of each of these business taxes. While the initial impact of these taxes is on business, they are partially shifted forward to consumers in higher prices or backward to labor in lower wages. Much of the tax is paid by nonresidents, either as consumers of goods and services produced in Minnesota or as owners of capital and land located in Minnesota. This section summarizes how this study estimated the incidence of business taxes, and how business tax burdens were allocated to Minnesota households.

Table 5-1
1994 Minnesota Taxes on Businesses
($ Millions)

Taxes on Capital	
Rental property taxes	$ 449
Other business property taxes	2,037
Corporate franchise tax	623
Sales tax on capital equipment	503
Vehicle registration tax	136
Insurance premiums tax on business property insurance	22
Mortgage and deed taxes	21
Taxes on Intermediate Products	
Sales tax on non-capital purchases	$809
Motor fuels excise tax	197
Insurance premiums tax on business non-property insurance	11
Total Business Taxes	$4,808

The Conceptual Structure

The following six principles define this study's approach to estimating the incidence of Minnesota's existing business taxes.

1. *Capital moves to where it earns the highest return.* If a tax on capital in a single state (or industry) reduces the after-tax rate of return, investors will move their capital to lower-tax locations (or industries). As production falls, prices will rise or costs (including wages) will fall until the after-tax rate of return is again equal to the after-tax rate of return elsewhere. Only the average tax on all forms of capital in all states -- a tax which owners of capital cannot avoid -- will be fully borne by capital so long as capital is free to move in search of the highest rate of return.

2. *Minnesota's taxes do not occur in isolation.* Every state levies business taxes. The incidence of a tax levied at the same rate in all states differs greatly from the incidence of a tax levied only in Minnesota. For example, a

one percent tax levied on business capital in only Minnesota will be largely shifted to consumers and workers; capital is unlikely to bear much of the final burden due to the ease of capital movement. In contrast, if all states impose the identical one percent tax on the value of all business capital, investors cannot escape the tax. Such a "national" tax on capital is much more likely to be borne by capital, reducing the after-tax rate of return on capital throughout the nation.

This distinction between a single-state tax and a nation-wide tax is crucial to the results of this study. The incidence of a particular Minnesota tax on business depends on how Minnesota's tax rate compares to those of other states. If, for example, a particular Minnesota business tax rate is 10 percent above the national average, the incidence of this 10 percent "Minnesota differential" will differ greatly from the incidence of the remainder of the tax.

3. *Minnesota's tax structure evolved over time.* In describing the incidence of existing business taxes, this study assumes that businesses, consumers, and workers have fully adjusted to tax differences across states.

4. *Some businesses, depending on their market, can shift Minnesota business taxes forward to consumers in higher prices.* Given time for full adjustment, the ability to shift taxes forward to consumers depends on the nature of the product being sold. Some producers, such as restaurants, compete only with other Minnesota companies; tax increases would affect all restaurants equally, and prices would rise to cover this higher cost. In contrast, a higher Minnesota tax on manufacturers is much harder to shift to consumers because firms compete in a national market. Therefore, Minnesota manufacturers cannot raise prices to cover higher state taxes. In this study, producers of "local market products" are assumed to pass tax differentials on to consumers but producers of "national market products" cannot.

5. *A tax that reduces the competitiveness of Minnesota businesses will be borne by immobile resources -- those either unable or unwilling to leave the state.* If capital is mobile and prices cannot be increased (due to competition), the burden of business taxes will reduce payments to inputs that are geographically tied to the state, including labor and land.

6. *An increase in taxes reflects an increase in state and local government spending.* This study assumes that workers do not move between Minnesota and other states in response to changes in state taxes, because tax changes are offset by expenditure changes, leaving the net benefits to Minnesota taxpayers unchanged. In other words, labor (along with land) is assumed to be immobile. In contrast, changes in taxes on business income are assumed not to be offset by changes in benefits from government expenditures.

In summary, these six concepts have guided this study's approach to estimating the incidence of Minnesota's existing business taxes. The study provides an answer to the question: What is the burden of Minnesota taxes on Minnesota residents, in a multistate context where Minnesota's taxes coexist with those of other states, assuming that producers and consumers have fully adjusted to existing tax rate differences?

Allocation of Business Taxes

The six concepts discussed above are used in this section to determine the allocation of business taxes among the four major taxpayer categories: Minnesota consumers, capital and labor, and nonresidents. The methodology used in this step is discussed in detail before the results are presented.

Several major features of the tax incidence approach used in this study are important to keep in mind. First, this study emphasizes the importance of Minnesota tax rates relative to those in other states. In estimating the incidence of existing business taxes, it is the relative tax rate that matters, not the absolute level of taxes. The incidence of a property tax on manufacturers, for example, depends on how heavily other states tax such property.

Second, this study emphasizes the difference between the incidence of existing business taxes and the incidence of an incremental increase in those taxes. Much of an existing business tax is matched by taxes in other states. The incidence of an increase in such a tax (unmatched by increases in other states) would be quite different. The tax incidence results in this study measure the distribution of existing taxes, not the distribution of increasing Minnesota taxes relative to other states.[23]

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[23] The distributional impact of proposals for changes in business taxes can only be determined using incremental incidence analysis.

Third, this study estimates the burden of business taxes after businesses, consumers, and workers have fully adjusted to them in the long run. For example, relatively high tax rates on capital may reduce wages of Minnesota workers through less capital investment. This long-term perspective is appropriate for estimating the incidence of existing taxes.

Allocation of Business Taxes: An Example

To understand the allocation approach used in this study, suppose that Minnesota levied a $120 million tax on capital -- manufacturing equipment, for example. The owners of that capital are legally liable for the tax, but who would bear the ultimate burden? The first step in answering this question is to determine how shifting spreads the tax to capital owners, consumers and labor.

Allocating the Burden Among Capital, Consumers, and Labor

For each of the business taxes on capital, the tax paid by a particular economic sector is divided into three parts:

- The portion representing the *national average tax rate on all capital.*
- The portion representing the *national sector differential.*
- The portion representing the *Minnesota sector differential.*

This 3-part division of the tax is based on the answers to three questions. The approach is summarized in *Figure 5-2*, using the example of a $120 million property tax on capital in the manufacturing sector.

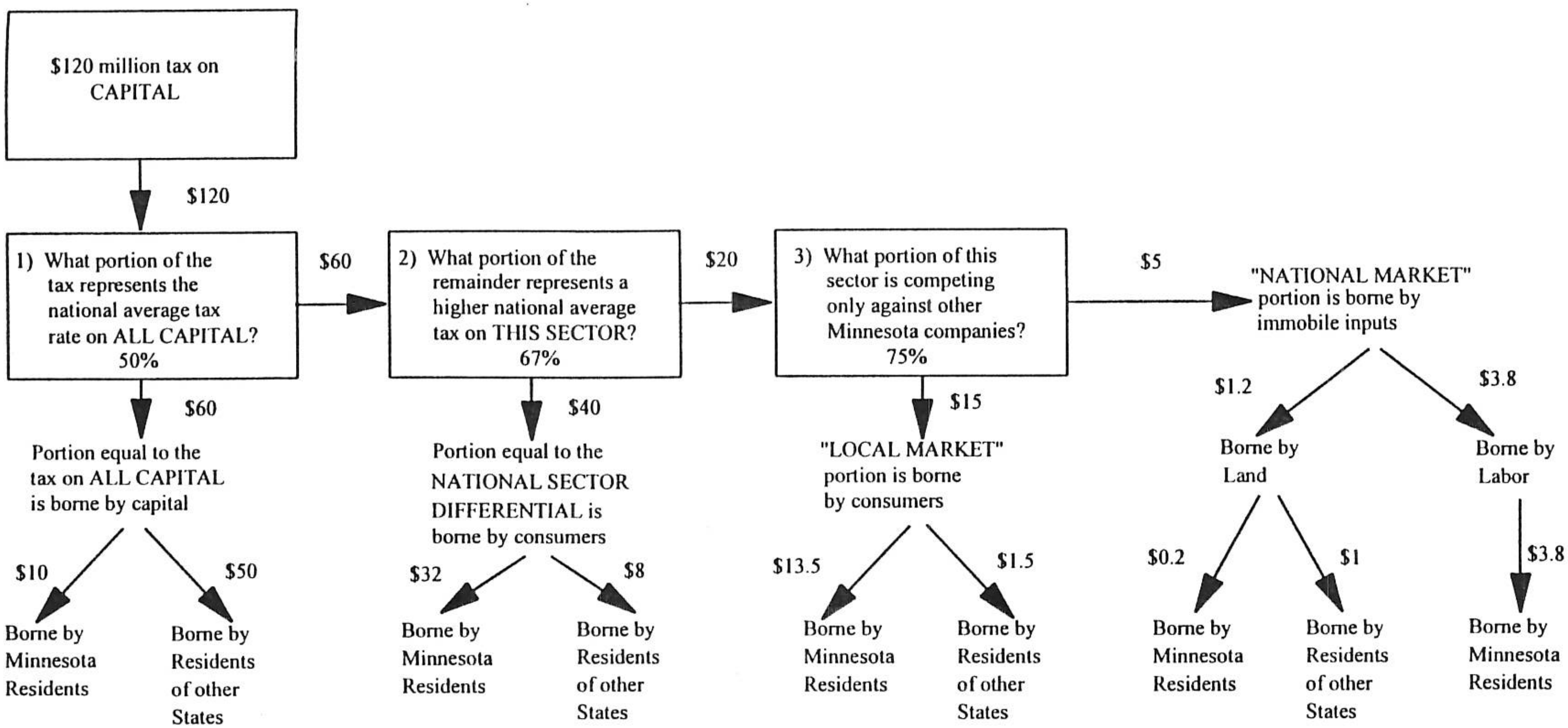
Question 1. What portion of this $120 million Minnesota tax represents the national average tax on all capital? If all states levied an identical tax on *all* forms of capital, capital would be unable to shift that tax to others and the entire burden would be borne by capital.[24] Given the variation in rates among the states, it is the "average national tax rate on capital" which is borne by capital owners.

The average tax rate on all capital is measured in this study as the average state tax rate on all capital -- total tax revenue (in all states) divided by the total national stock of capital. If the Minnesota tax rate on a particular sector is equal to the

[24] This result follows from the assumption that national savings rates are unresponsive to changes in after-tax rates of return.

Figure 5-2

Incidence of a Hypothetical $120 Million Tax on Capital



Summary of Tax Incidence
($ Millions)

Taxpayer Category	Total	Minnesota Residents	Residents of Other States
Capital*	$61.2	$10.2	$51.0
Consumers	55.0	45.5	9.5
Labor	3.8	3.8	0.0
Total	$120.0	$59.5	$60.5

*Capital includes land

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national average tax rate on all capital, then the tax will be borne entirely by the owners of capital; if the Minnesota tax rate exceeds the national average tax rate the remainder of the Minnesota tax would be shifted either forward to consumers or backward to labor and other immobile inputs.[25]

For each particular tax on capital, this study estimates the average national tax rate on all capital. If the Minnesota tax rate on a particular form of capital is twice the national average (as is assumed hypothetically in *Figure 5-2*), then the burden of the first half of the tax is assumed to fall on capital. What happens to the remaining half ($60 million) depends on the answers to the next two questions.

Question 2. What portion of the remaining $60 million in taxes on capital equipment represents a higher national average tax on this particular sector? Because capital taxes are levied at different rates on different forms of capital, some forms of capital are taxed in all states at a higher rate than all capital. For example, commercial property is taxed at a considerably higher rate than manufacturing property, and both are taxed more heavily than agriculture. In this example, suppose the national tax rate in the manufacturing sector is 1.67 times as high as the national average tax on all capital. This 67 percent higher-than-average tax rate difference for the manufacturing sector is referred to as its "national sector differential."

Despite these heavier taxes, however, the after-tax rate of return in manufacturing cannot remain lower (with mobile capital) than the rate of return available in other sectors. As firms adjust by reducing output, the portion of a tax on capital equal to this "national sector differential" is borne entirely by consumers in the form of higher prices. For each tax on capital, this study estimates the average national tax rate on capital invested in each sector. The share of the Minnesota tax representing the "national sector differential" is allocated to consumers of products produced in Minnesota. (See *Figure 5-2.*)

[25] If the Minnesota tax is *less* than the national average tax on all capital, then the entire Minnesota tax is borne by capital. (From a national perspective, this capital bears all of the Minnesota tax plus some of the tax from other states, but we are only interested in determining who pays the Minnesota tax.)

1-60

The remaining tax (if any) is the "Minnesota sector differential" -- the amount by which Minnesota's tax rate on capital invested in this sector exceeds the national average tax rate in this sector. To determine who bears the burden of this "Minnesota differential," it is necessary to answer the third question.

Question 3. What portion of this sector's producers compete only against other Minnesota producers in "local markets"? For products sold in local markets, the Minnesota differential will result in higher prices to consumers.

In contrast, prices for products that compete in national markets (including most manufactured products) are determined nationally. A "Minnesota sector differential" on producers of such national market products cannot usually be shifted to consumers, so that the burden of the tax must fall on immobile resources, land and labor. This study assumes that immobile labor and landowners share the burden of any Minnesota sector differential for national market products in proportion to their relative shares in production.[26]

In summary, to allocate the burden of taxes among capital owners, consumers, and labor, this study divides the tax into three parts (the percentages refer to the example in *Figure 5-2*):

1. The portion representing the "national average tax on all capital" is borne by capital (50 percent).

2. The portion representing the "national sector differential" is borne by consumers (33 percent).

3. The portion representing the "Minnesota sector differential" is borne by:

   - Consumers for products sold in "local markets" (13 percent);
   - Labor and landowners for products sold in "national markets" (4 percent).

This approach requires an estimate, for each tax, of the national average tax on all capital. For each tax and each sector, it requires an estimate of the Minnesota differential -- the excess of Minnesota taxes over the national average for that sector. The study also needs to estimate, for each sector, the extent to which its products are sold in local as opposed to national markets.

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[26] For the major sectors of the economy, this ratio is 95 percent labor and 5 percent land. We assume that the burden on land falls only on business owners of land. If labor is immobile and government expenditures rise in line with taxes, there will be no downward pressure on the value of *residential* land.

Allocating the Burden between Minnesota Residents and Nonresidents

Exported Tax Burden. A large amount of capital located in Minnesota is owned by nonresidents. For the portion of any tax borne by capital and land, much of the burden will fall on residents of other states. This study assumed that nonresidents own 90 percent of the stock in corporations subject to Minnesota tax, and 20 percent of most noncorporate businesses (but only 5 percent of non-homestead residential property). As such, in sectors which are predominantly corporate, most of the burden falling on capital was exported.

Consumers located in other states will pay some of the "national sector differential" on Minnesota firms that is shifted forward in higher prices. In addition, nonresident visitors bear some of the tax shifted to in-state consumption. For each sector, this study estimated the proportion of sales made to (1) out-of-state consumers and (2) visitors.

The burden on labor (in the form of reduced wages) was assumed to fall entirely on Minnesota residents.

Imported Tax Burden. Both Minnesota consumers and Minnesota owners of capital and land located in other states pay taxes to other states. However, taxes that Minnesota residents pay to other states are ignored here; this study estimates and analyzes the incidence of Minnesota taxes on Minnesota residents.

Federal Tax Offset. In estimating the incidence of existing Minnesota taxes, this study makes no adjustment for the "federal tax offset" due to the deductibility of Minnesota business taxes in calculating federal taxable income. Given the "multistate" approach taken in this study, the federal tax offset is most likely to be quite small. All 50 states levy business taxes. Since approximately one-third of *every* state's business taxes are offset by a reduction in federal revenues, the federal government has essentially replaced this lost tax revenue through higher federal tax rates. A state's "net" federal tax offset would be its "gross" federal tax offset minus the state's share of those increased federal tax payments. As a result, the net offset for the average state would be zero; with above average business taxes, Minnesota's would be positive. However, given the offset's small and uncertain size, this study simply assumes it is zero.

The same argument also applies to the federal tax offset for non-business taxes (the individual income tax, homeowner property tax, and motor vehicle registration tax) deductible in calculating federal individual income tax liability; the net offset for the average state is again zero. Given the multistate perspective of this study, no federal tax offset for household taxes is included either. For informational purposes, however, the impact of the federal tax offset for non-business taxes is presented in Chapter 6.

Taxes on Intermediate Business Inputs

The incidence of a tax on short-lived intermediate business inputs like gasoline, business meals, lodging, or liquor, is different from the incidence of a tax on capital. While a uniform national tax on all capital would be borne by capital, a uniform national tax on business purchases of gasoline, for example, would not. It would almost certainly be shifted forward to consumers in higher prices. Taxes on short-lived intermediate products raise the cost of production, but they do not raise the cost of capital.

As a result, the approach to the incidence of such taxes skips the first of the three questions asked about capital taxes. The tax on intermediate business purchases is divided into only two parts:

1. The portion representing the "average national tax rate" on this sector is shifted forward to consumers in higher prices.

2. The portion representing the "Minnesota differential" is borne by:
   a. Consumers for products sold in "local markets;"
   b. Labor and landowners for products sold in "national markets."

Distribution by Taxpayer Categories

A description of the incidence results for the distribution of each business tax to consumers, capital and labor (both residents and nonresidents) is provided in this section. The business tax allocators used to estimate the business tax burden for specific Minnesota households are discussed at the end of this chapter.

Business Property Taxes

The burden of the business property tax falls on property owners ("capital"), consumers, and labor. Capital's share of the tax burden is generally equal to the

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sum of two parts -- the land share plus the national tax on all capital.[27] The consumers' share of the tax burden equals all of the national sector differential plus the Minnesota differential for products sold in local markets. For products sold in national markets, the Minnesota differential is borne largely by labor (with capital bearing the small portion of the burden that falls on land).

Minnesota property tax rates are generally higher than the national average, but the Minnesota differential varies considerably by type of property. A recent Minnesota Taxpayers Association survey of business property taxes in all 50 states was used to estimate the Minnesota differential. The survey showed that, for apartments, Minnesota's total property tax was approximately 2.5 times the national average. For commercial and industrial property taxes, the Minnesota differential varied substantially depending on the type of business. Minnesota does not tax machinery and equipment, business fixtures, or inventories. In contrast, 35 states taxed machinery and equipment in 1994, 38 states taxed business fixtures, and 12 states taxed business inventories. As a result, the Minnesota differential was very high for a company with only land and buildings; it was much lower for a company with substantial personal property and inventories. For the typical Minnesota commercial business, Minnesota's property tax exceeded the national average by 77 percent. For a typical Minnesota industrial business, Minnesota's property tax exceeded the national average by only 14 percent.[28]

As shown in the first section of *Table 5-2*, Minnesota consumers bore an estimated 34 percent of business property taxes in higher prices and rents. Minnesota capital bore 24 percent of the burden, and 2 percent was borne by Minnesota labor in lower wages. The remaining 40 percent was borne by nonresidents.

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[27] The exception is public utilities, where the land share of the tax was assumed to be shifted to consumers. Utility prices were regulated in 1994, guaranteeing an after-tax rate of return equal to a fixed proportion of the national average return on all capital. Capital still bears the share of the tax representing the national tax rate on all capital, however, because the property tax reduces the national rate of return.

[28] Minnesota Taxpayers Association (1996) presented effective tax rates in the largest city, representative suburb, and representative town for all 50 states. This study uses a weighted average (40 percent city, 40 percent suburb, 20 percent town) to estimate the Minnesota differential. The property mix for a typical Minnesota company was estimated using data from the U.S. Commerce Department (adjusted for Minnesota's industrial mix). The property mix used here differs substantially from that assumed in the Minnesota Taxpayers Association study.

Table 5-2
Distribution of Business Tax Burden by Taxpayer Category

	Percent Borne by Minnesota Taxpayers			Percent Exported
	Consumers	Labor	Capital	
Business Property Taxes				
Commercial	37%	4%	15%	44%
Manufacturing	3	0	9	88
Rental Housing	65	0	29	6
Public Utility	57	4	2	37
Farm	0	0	100	0
All Sectors	34%	2%	24%	40%
Sales Tax on Business Inputs				
Construction	80%	0%	8%	12%
Services	69	0	10	21
Retail	50	0	13	37
Manufacturing	12	13	4	71
Wholesale	51	1	5	43
Transportation and Comm.	42	7	4	47
Finance	65	3	5	27
Utilities	11	0	9	80
Mining	2	18	8	72
Agriculture	23	0	42	35
All Sectors	54%	3%	9%	34%
Corporate Franchise Tax				
Commercial	52%	8%	3%	37%
Manufacturing	12	9	3	76
Public Utility	49	8	3	40
Mining	5	17	3	75
All Sectors	39%	8%	3%	50%
Other Business Taxes				
Motor Fuels	63%	0%	0%	37%
Motor Vehicle Registration	36	9	12	43
Insurance Premium	21	0	19	60
Mortgage and deed taxes	19	0	35	46

Note: Sectors listed by amount of tax paid (highest to lowest).

The tax burden on nonresidents was highest in manufacturing (88 percent) and commercial property (44 percent). Nonresidents bore the burden either as owners of Minnesota companies or as consumers. A very high proportion of the burden on business owners was borne by nonresidents in sectors where ownership was largely corporate, because stock ownership was widely dispersed throughout the nation. Noncorporate owners (sole proprietors, partnerships, and S corporations) were more likely to be local. The tax borne by consumers was also shifted partly to nonresidents -- both to consumers who purchased Minnesota products in their home states and to those who visited Minnesota. The national sector differential was exported to nonresidents to the extent those products were sold out of state. The out-of-state proportion of sales was high for manufacturing and farms; it was negligible for rental housing and low for the commercial and public utility sectors. The visitor share of in-state sales was significant only for the commercial sector.

The burden on Minnesota capital was greatest in sectors that were capital intensive and locally owned (farming and rental housing). The Minnesota consumer share was highest in sectors where the Minnesota differential was high and the products or services were sold in local markets (public utilities, rental housing, and commercial). Labor would bear a significant burden only in sectors where the Minnesota differential was large and producers competed in a national market. The Minnesota differential was low, however, for sectors competing primarily in a national market (manufacturing and farming). As a result, labor had no more than 4 percent of the total burden in any sector.

This study treated taxes on apartments and other rental housing as business taxes. Individuals who invest their capital in rental housing, like those investing elsewhere, are assumed to respond to differences in after-tax rates of return. As with other business property taxes, part of the property tax on rental housing represents a tax on land, and part of it represents the average national tax on all capital. This study assumed that these portions of the rental property tax were borne by capital owners.

An estimated 65 percent of existing rental housing taxes were shifted to renters in higher rents, with landlords paying the remaining 35 percent. The assumption that existing rental property taxes were partially borne by landlords follows from the multistate approach used in this study. If the average national property tax rate on all capital is borne by the owners of capital, this will be the case for rental property the same as for manufacturing or commercial property.[29]

[29] In sharp contrast, an increase in rental property taxes, unmatched by increases in other states, would be expected to be borne almost completely by renters through the Minnesota differential.

Farm property taxes are levied almost entirely on land. Nationally, property tax rates on non-land capital in the farming sector are below the average taxes on all capital. As a result, the national sector differential is negative. Given the lack of a positive national sector differential and the fact that farm product prices are set in a national market, none of the property tax can be shifted to consumers. As a result, farm property taxes were assumed to be borne entirely by farm owners.

Sales Tax on Business Inputs

Two distinct kinds of business purchases are fully or partially subject to Minnesota sales tax: purchases of capital equipment (including motor vehicles) and purchases of non-capital intermediate inputs. Non-capital inputs include things such as general office supplies, business services, meals and entertainment and hotel charges. Construction materials purchased by the construction industry are also intermediate inputs, but the tax on construction materials is assumed to be fully shifted forward in higher prices for buildings, so it is treated as a tax on capital.

Total sales taxes paid by business were estimated using the Minnesota Consumption Tax Model, an input-output model of the state economy. The model estimated the dollar value of purchases of capital goods and intermediate purchases by firms in each of the 112 industries. The Minnesota sales tax was applied to the taxable portion of those purchases (based on the identity of the product and the purchasing company), yielding an estimate of total sales taxes paid by each industry. The estimated total 1994 sales tax paid by Minnesota businesses (45 percent of all sales taxes) was:

Taxes on capital	
Capital equipment	$ 503 million
Construction materials	221 million
Taxes on other intermediate inputs	588 million
Total sales tax on business	$1,312 million

The incidence of the sales tax on business inputs was estimated separately for each of the 112 industries. The sales tax on capital equipment applies only to equipment purchased in the current year, only a fraction of businesses' total equipment. Therefore, the tax rate (as a proportion of the value of a company's total capital) is higher in industries which replace equipment more rapidly. Effective tax rates on capital were calculated for each industry by dividing current year taxes by the sector's total stock of capital.

For the tax on capital inputs, the tax was divided into three parts: the national tax on all capital, the national sector differential, and the Minnesota differential. This process was essentially the same as for the property tax (discussed earlier) except that there is no land share with the sales tax. Since the tax on other intermediate inputs is not a tax on capital, it was divided into only two parts -- the average national sector tax and the Minnesota differential.

Capital's share of the tax burden is approximately equal to the national tax on all capital. The consumers' share of the tax burden equals all of the national sector differential plus the Minnesota differential for products sold in "local markets." For products sold in "national markets," the Minnesota differential is borne largely by labor (with capital bearing a small portion of the burden shifted backward to landowners).

In 1994 Minnesota consumers bore 54 percent of the business sales tax in higher prices. Minnesota capital bore 9 percent of the burden, and 3 percent was borne by Minnesota labor in lower wages. The remaining 34 percent was borne by nonresidents. *(See Table 5-2.)*

The Corporate Franchise Tax

The corporate franchise tax is a tax on the return to capital in the corporate sector. In estimating the incidence of this tax, as with other taxes levied on capital, this study divided the tax into three parts -- the average national tax rate on all capital (corporate and noncorporate), the national sector differential, and the Minnesota differential. For corporations, incidence was estimated separately for four sectors -- manufacturing, commercial, public utilities, and mining.

The national average (state) corporate tax rate in 1994 was 7 percent.[30] The corporate tax is levied on a relatively small share of total national capital. Corporations own only 36 percent of all privately-owned, tangible, non-land capital, so the average tax rate on all capital was only 0.36 times 7 percent, or 2.52 percent. The first 2.52 percentage points of Minnesota's corporate income tax was therefore assumed to be borne entirely by owners of capital.[31]

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[30] The details of how the national average rate is calculated are presented in *Minnesota Tax Incidence Study*, November 1993, Chapter 5.

[31] The incidence of the 7 percent average state tax on corporate income is assumed to be the same as a 7 percent national tax on corporate income. This partial tax on capital lowers the return on all capital, corporate and non-corporate, as capital moves in search of the highest rate of return. Given the assumptions of competitive markets and a national capital stock unaffected by taxes, the tax is borne by all capital.

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Minnesota's 1994 corporate tax rate, at 9.8 percent, was 40 percent higher than the national average state tax rate. However, this overstates the relative magnitude of the Minnesota tax for two reasons: first, the Minnesota apportionment formula is different from that used elsewhere, reducing the effective tax rate for the average taxable corporation; and second, Minnesota has no "throwback rule," used in about half of all states to increase the size of their tax base. After both adjustments, the estimated percent by which Minnesota's effective corporate tax rate for each sector exceeded the national average in 1994 was reduced to:

Manufacturing	12%
Commercial	39
Public Utilities	37
Mining	30

As shown in *Table 5-2*, Minnesota consumers bore 39 percent of the corporate income tax in higher prices. Minnesota capital owners bore 3 percent of the burden, and 8 percent was borne by Minnesota labor. The remaining 50 percent was borne by nonresidents.

Other Business Taxes

Motor Fuels Excise Tax (Business Purchases). The tax on motor fuels is a tax on a non-capital intermediate product. As such, the average national tax rate is shifted to consumers and the Minnesota differential is shifted either to consumers (local market goods) or to labor and land (national market goods). In 1994, Minnesota fuel taxes were approximately equal to the national average. An estimated 37 percent of the tax burden fell on nonresidents, with the remaining 63 percent falling on Minnesota consumers in higher prices.

Motor Vehicle Registration Tax (Business Vehicles). Business paid an estimated 31.5 percent of annual motor vehicle registration taxes in Minnesota in 1994, including 15 percent of registration fees for automobiles, vans, and pickups, 100 percent for heavy trucks and buses, and 50 percent for utility trailers. Minnesota registration fees for automobiles and pickups were substantially above the national average. This study assumed registration fees for business (and personal) automobiles and pickups exceeded the national average by over 200 percent, while heavy truck registration fees were about 30 percent above the national average.

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The $135 million in motor vehicle registration fees paid by business were allocated among eleven sectors in proportion to each sector's share of automobile and truck purchases. For each sector, as with other taxes on capital, the tax was separated into three parts -- the national average tax on all capital, the national sector differential, and the Minnesota differential.

As shown in *Table 5-2*, Minnesota consumers were estimated to bear 36 percent of the tax in higher prices. Minnesota capital owners bore 12 percent of the burden, and 9 percent was borne by Minnesota labor. The remaining 43 percent was borne by nonresidents.

Insurance Premiums Tax (Business Insurance). The insurance premiums tax is a flat percentage tax (generally 2 percent) levied on the value of insurance premiums written in Minnesota. Tax rates vary little among states, and Minnesota's tax rate is equal to the national average. As a result, we assume the tax raises the price of insurance policies by the amount of the tax. In its impact, it is the same as a sales tax on insurance premiums.

Taxes on business insurance accounted for 22 percent of insurance premium tax revenues in 1994. Incidence was estimated in the same way as the incidence of the sales tax on business inputs. The tax base consists of two parts -- insurance on commercial property (fire, theft, auto) and other business insurance (malpractice, liability). The tax on property insurance (66 percent of the business total) was treated as a tax on capital, while the tax on other business insurance (34 percent) was considered a tax on a non-capital intermediate product. Most of the tax burden (60 percent) fell on nonresidents, with 21 percent borne by Minnesota consumers and 19 percent by Minnesota owners of capital.

Mortgage and Deed Taxes. Minnesota's mortgage and deed tax rates were below the national average rates (state and local combined), so the Minnesota differential is zero. The tax was divided into two parts -- the average tax on all capital and the national sector differential. The tax was levied primarily on commercial property, with small amounts on the rental housing and farm sectors. About 35 percent of the tax was borne by Minnesota capital owners and 19 percent by Minnesota consumers, with the remaining 46 percent borne by nonresidents.

Business Tax Allocators

After estimating the share of Minnesota business taxes borne by Minnesota owners of capital and land, consumers, and labor, the final step was to allocate those taxes to specific households based on each household's characteristics contained in the database records. In most cases, the study allocated to each household the average tax burden for households with the same characteristics. *Figure 5-3* summarizes the allocators used in this final step.

Figure 5-3
Business Tax Allocators

Allocator	Used to Distribute Tax Borne By:
Dividend income	Corporate owners
Noncorporate capital ownership	Noncorporate owners
Total consumer expenditures	Consumers
Labor income	Workers
Farm income	Farmers using their own land
Farm rents	Farmers leasing their land

Burden on Consumers. Taxes shifted forward to consumers were allocated to consumers based on their share of total consumer expenditures, as estimated from the *1992 Consumer Expenditure Survey*. Total expenditures for a particular household were estimated based on household income and size.

Burden on Renters. Households filing for property tax refunds report the property tax paid on their housing unit (calculated by their landlord). The renter's burden was assumed to equal 65 percent of this reported tax. For renter households not filing for a property tax refund, the renter's tax burden was estimated in three steps. First, the 1990 Census of Housing's 5 percent sample of Minnesota households was used to estimate each household's rent, based on income and other household characteristics. Second, a recent study of the ratio of property tax to rent was used to estimate the total property tax paid on the rental housing unit.[32] Third, the property tax burden borne by the renter was assumed to equal 65 percent of the total tax.

[32] MacDonald (1994).

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In 1994, approximately 93,000 Minnesota households lived in subsidized housing. These renter households generally paid rent equal to 30 percent of their income. Property taxes increased the cost of the government subsidy, but they could not change the amount of rent paid by the subsidized household. As a result, the property tax burden for these households was assumed to be zero. To adjust for the presence of households living in subsidized housing, 93,000 households matching the demographic and income characteristics of the subsidized housing population had their rental property tax burden set to zero.[33]

Burden on Corporate Capital. The burden on corporate capital was allocated to households in proportion to taxable dividends received. This allocator was used to estimate the total income received by owners of corporate stock, both as dividends and as capital gains on appreciated stock. Although dividends received may not be a good measure of corporate ownership for particular individuals, the decile-by-decile distribution of dividend income should match the distribution of corporate capital fairly closely.

Burden on Noncorporate Capital. Noncorporate business capital includes capital owned by sole proprietors, partnerships, and S corporations. This study used a variety of information from Schedules C and E to develop a reasonable estimate of each household's ownership of noncorporate capital.[34] The construction of this measure guaranteed that: (1) households with large business losses are assigned some capital ownership (based on either claimed depreciation or the size of claimed losses); and (2) the shares of capital ownership imputed to those with sole proprietor income, rental income, and partnership and S corporation income are roughly proportional to each income source's aggregate share of claimed depreciation.

Burden on Farmers. Rental land accounts for about one third of Minnesota farm land. Approximately half of all farm property taxes were paid on rented land, reflecting higher classification rates on non-homestead farms. Therefore about half of the farm property tax burden was allocated in proportion to farm income (reported on Schedule F), with the rest allocated in proportion to farm rents (reported on Schedule E).

[33] Most of these households lived in housing units paying reduced property taxes, while others lived in buildings paying the regular rate. Total property taxes on all 93,000 housing units were estimated at $52 million.

[34] See *Minnesota Tax Incidence Study*, November 1993, pp. 71-72 for a detailed discussion of the method used to measure the distribution of noncorporate capital by income level.

Burden on Labor. The burden on labor (through lower wages) was allocated based on each household's share of earned income, defined as the sum of wages and salaries plus three-quarters of sole proprietor income.

Estimating the Impact of a *Change* in Business Taxes

This study estimates the burden of existing business taxes at current levels. *The results presented here do not apply to changes in the level of business taxes.* As explained in this chapter, the first step in the incidence analysis was to divide existing business taxes into three parts: the national average tax on all capital, the sector differential, and the Minnesota differential. In contrast, a change in business taxes in Minnesota (unmatched by changes elsewhere) would consist of only one part: the Minnesota differential. As a result, distribution of the burden would be much different.

Compared to the results presented in this study, the incidence of an increase or decrease in Minnesota business taxes would fall:

- less on nonresidents,
- less on Minnesota owners of capital,
- more on Minnesota consumers, and
- more on Minnesota labor.

Illustrations of the magnitude of these differences were presented in the 1993 edition of this study (Appendix B).

Summary

This chapter explains the methodology for allocating tax burdens to each of the 48,000 households in the Minnesota tax incidence sample. Some tax payments (including individual income taxes, homeowner property taxes and property tax refund amounts) were taken directly from tax records. Other tax burdens were distributed based on estimated patterns of expenditures on the taxed items. For business taxes, the allocation process was more complex. The chapter explains how portions of the business tax burden were assigned to Minnesota consumers, workers, and business owners and how those estimated burdens were allocated to specific households in the database.

When the tax incidence sample is scaled to match the Minnesota population, it provides an estimate of the 1994 tax burden on Minnesota households by income level and family type. The results are presented in the following chapter.

CHAPTER 6

SUMMARY OF RESULTS

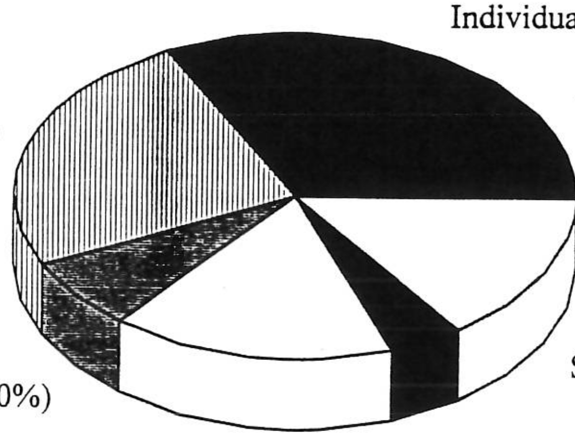
This section examines the state and local tax burdens imposed on Minnesota taxpayers in 1994. All major taxes are included, those paid by businesses as well as those paid directly on households. The taxes included account for 98 percent of Minnesota state and local tax revenue in 1994. Only Minnesota taxes paid by residents are included in these results; Minnesota taxes paid by nonresidents and taxes paid by Minnesota residents to other states are excluded. For business taxes, the study estimates the extent to which they are shifted forward to Minnesota consumers in higher prices or backward to Minnesota workers in lower wages or to owners of capital in lower returns. The incidence results for the entire system of state and local taxes in Minnesota are reported both in terms of the overall distribution of tax burdens and by tax type.

The Total Tax Burden

For 1994, Minnesota residents paid a total of $10.32 billion in taxes while earning $80.1 billion in total money income.[35] Minnesota residents thus paid 12.9 percent of their total income in state and local taxes. As shown in *Figure 6-1*, the individual income tax accounted for almost one-third of the total tax burden on Minnesota residents. Residential property taxes and the consumer sales tax (including sales tax on motor vehicles) were 16.5 percent and 15 percent of the total, respectively. The three consumer excise taxes (on alcohol, tobacco, and gasoline) accounted for 4.3 percent, while other taxes on individuals (insurance, motor vehicle registration, gambling, MinnesotaCare, mortgage and deed, and property tax on cabins) amounted to 7 percent. Business taxes made up for the remaining 24.5 percent of total state and local taxes paid by Minnesota residents.

[35] Minnesota residents paid $10.3 billion out of a total of $12.5 billion of state and local taxes included in the study. The difference of $2.2 billion is exported to other states, i.e., paid by nonresidents. Business taxes accounted for 82 percent of all exported taxes, $1.8 billion out of the $2.2 billion total. The amounts for other taxes exported were: individual income tax, $140 million; consumer sales tax, $99 million; consumer excise taxes, $91 million; rental property tax, $65 million; and other taxes, $26 million.

Figure 6-1
Distribution of Minnesota
State and Local Tax Burdens by Tax



*Consumer portion.
**Excludes seasonal recreational property.

To summarize the distribution of tax burdens by income level, the population of Minnesota households was divided into ten equal-sized groups or *deciles* of households ranked by household income levels. By definition, the first decile includes the 10 percent of households with the lowest income levels and the tenth decile includes the highest-income 10 percent of households. There were approximately 215,000 taxpaying households in each population decile.

Examining the distribution of total tax burden by population decile (ranked by income level), one finds that taxpayers in the top decile (incomes of $70,567 and over) bore 36.1 percent of the total tax burden while having 37 percent of total income. (See *Table 6-1*). By tax type, taxpayers in the top decile paid half of the individual income tax, 24.5 percent of the consumer sales tax, 14.5 percent of the consumer excise taxes, 34.6 percent of the net residential property tax, 25.2 percent of other individual taxes, and 31.8 percent of business taxes.

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Table 6-1

Distribution of Households, Income and Taxes, by Population Decile
($ Thousands)

Population Decile	Income Range	Number of Households	Total Household Income	Individual Income Tax	Consumer Sales Tax	Consumer Excise Taxes	Residential Property Taxes[1]	Other Taxes on Individuals[2]	Business Taxes[3]	Total Taxes
First	$6,384 & Under	214,882	$868,492	-$3,374	$36,042	$19,074	$36,497	$15,665	$86,153	$190,057
Second	6,384 - 9,881	214,882	1,745,621	-671	54,723	24,985	32,595	19,373	83,321	214,326
Third	9,881 - 14,594	214,882	2,618,628	19,298	75,638	30,838	46,640	27,214	109,176	308,804
Fourth	14,594 - 19,609	214,882	3,657,688	63,425	102,928	40,181	71,227	42,219	147,562	467,542
Fifth	19,609 - 25,421	214,882	4,791,448	115,555	125,213	44,476	102,775	55,509	170,870	614,398
Sixth	25,421 - 32,108	214,882	6,147,793	187,886	146,754	47,270	141,441	66,011	223,018	812,380
Seventh	32,108 - 40,785	214,882	7,814,472	275,526	173,690	54,008	182,412	84,576	247,755	1,017,967
Eighth	40,785 - 52,073	214,882	9,953,255	405,801	205,459	59,935	221,136	102,817	295,042	1,290,190
Ninth	52,073 - 70,567	214,882	12,929,235	604,835	245,917	61,232	280,370	127,411	364,192	1,683,957
Tenth	$70,567 & Over	214,882	29,621,742	1,701,839	377,610	64,837	590,797	182,550	806,158	3,723,791
Total		2,148,820	$80,148,374	$3,370,120	$1,543,974	$446,836	$1,705,890	$723,345	$2,533,247	$10,323,412
Top 5%	$92,167 & Over	107,441	$21,068,008	$1,270,346	$229,572	$33,707	$401,928	$107,104	$558,452	$2,601,109
Top 1%	$206,869 & Over	21,488	10,289,836	665,291	71,946	7,406	157,636	21,811	275,596	1,209,685

Percentage of Households, Income, and Taxes, by Population Decile

Population Decile	Income Range	Percent of Households	Percent of Income	Individual Income Tax	Consumer Sales Tax	Consumer Excise Taxes	Residential Property Taxes[1]	Other Taxes on Individuals[2]	Business Taxes[3]	Total Taxes
First	$6,384 & Under	10.0%	1.1%	-0.1%	2.3%	4.3%	2.1%	2.2%	3.4%	1.8%
Second	6,384 - 9,881	10.0	2.2	-0.0	3.5	5.6	1.9	2.7	3.3	2.1
Third	9,881 - 14,594	10.0	3.3	0.6	4.9	6.9	2.7	3.8	4.3	3.0
Fourth	14,594 - 19,609	10.0	4.6	1.9	6.7	9.0	4.2	5.8	5.8	4.5
Fifth	19,609 - 25,421	10.0	6.0	3.4	8.1	10.0	6.0	7.7	6.7	6.0
Sixth	25,421 - 32,108	10.0	7.7	5.6	9.5	10.6	8.3	9.1	8.8	7.9
Seventh	32,108 - 40,785	10.0	9.8	8.2	11.2	12.1	10.7	11.7	9.8	9.9
Eighth	40,785 - 52,073	10.0	12.4	12.0	13.3	13.4	13.0	14.2	11.6	12.5
Ninth	52,073 - 70,567	10.0	16.1	17.9	15.9	13.7	16.4	17.6	14.4	16.3
Tenth	$70,567 & Over	10.0	37.0	50.5	24.5	14.5	34.6	25.2	31.8	36.1
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Top 5%	$92,167 & Over	5.0%	26.3%	37.7%	14.9%	7.5%	23.6%	14.8%	22.0%	25.2%
Top 1%	$206,869 & Over	1.0%	12.8	19.7	4.7	1.7	9.2	4.4	10.9	11.7

NOTES:
[1] Net of renters' property tax refunds. Includes both the renter and landlord shares of rental property taxes, but excludes property tax on second homes (cabins).
[2] Other taxes include individual motor vehicle registration tax, insurance premiums tax on personal insurance, gambling taxes, MinnesotaCare taxes, mortgage and deed taxes paid by homeowners, and property tax on cabins.
[3] Excludes the property tax on rental housing.

In contrast, taxpayers in the bottom decile (incomes of $6,384 and below) bore 1.8 percent of the total tax burden and received only 1.1 percent of total income. The bottom decile taxpayers had a negative net individual income tax burden due to the refundable working family credit and the child and dependent care credit. The same households paid 2.3 percent of the consumer sales tax, 4.3 percent of the consumer excise taxes, 2.1 percent of net residential property tax, 2.1 percent of other individual taxes, and 3.4 percent of business taxes.

Table 6-2 summarizes the distribution of the total burden by tax type for each decile. Business taxes, residential property taxes, and the consumer sales tax accounted for the largest percentage of taxes paid in the lowest deciles. Because of the refundable tax credits, the income tax burden in the first two deciles was negative. In the top deciles, income tax contributed the largest share of taxes paid, with 45.7 percent of the total tax in the tenth decile coming from the income tax. Another fifth of the top decile's tax burden came from business taxes.

To evaluate the fairness or equity in the distribution of tax burdens by income level, tax burdens must be compared to the underlying distribution of income. The following section examines this relationship.

Overall Effective Tax Rates

A key measure used to analyze tax equity is the effective tax rate, which is defined as the ratio of taxes to income. Effective tax rates measure the percentage of income paid in taxes and can be compared for different levels of income. The distribution of tax burdens is characterized as progressive if the effective tax rate rises with income, proportional if it is constant for all income levels, or regressive if it falls as income rises.

Effective tax rates by tax type are reported in *Table 6-3* and in more detail in Appendix *Tables B-1 through B-4*. *Figure 6-2* shows overall effective tax rates for Minnesota's state and local tax system and summarizes the most important findings in this study. The effective tax rate is shown on the vertical axis of the figure; population deciles are shown on the horizontal axis (each decile containing 10 percent of total taxpayers).

BC-1

Table 6-2
Percent Distribution of Burden
by Tax Type within Population Deciles

Population Decile	Number of Households	Individual Income Tax	Consumer Sales Tax	Consumer Excise Taxes	Residential Property Tax (Net of Refunds)[1]	Other Taxes on Individuals[2]	Business Taxes[3]	Total Taxes
First	214,882	-1.8%	19.0%	10.0%	19.2%	8.2%	45.4%	100.0%
Second	214,882	-0.3	25.5	11.7	15.2	9.0	38.9	100.0
Third	214,882	6.2	24.5	10.0	15.1	8.8	35.4	100.0
Fourth	214,882	13.6	22.0	8.6	15.2	9.0	31.6	100.0
Fifth	214,882	18.8	20.4	7.2	16.7	9.0	27.9	100.0
Sixth	214,882	23.1	18.1	5.8	17.4	8.1	27.5	100.0
Seventh	214,882	27.1	17.1	5.3	17.9	8.3	24.3	100.0
Eighth	214,882	31.5	15.9	4.6	17.1	8.0	22.9	100.0
Ninth	214,882	35.9	14.6	3.6	16.6	7.6	21.7	100.0
Tenth	214,882	45.7	10.1	1.7	15.9	4.9	21.7	100.0
Total	2,148,820	32.7%	15.0%	4.3%	16.5%	7.0%	24.5%	100.0%
Top 5%	107,401	49.0%	8.8%	1.3%	15.5%	4.1%	21.3%	100.0%
Top 1%	21,488	55.2	5.9	0.6	13.0	2.6	22.7	100.0

NOTES:

[1] Net of renters' property tax refunds. Includes both the renter and landlord shares of rental property taxes, but excludes property tax on second homes (cabins).

[2] Other taxes include individual motor vehicle registration tax, insurance premiums tax on personal insurance, gambling taxes, MinnesotaCare taxes, mortgage and deed taxes paid by homeowners, and property tax on cabins.

[3] Excludes the property tax on rental housing.

Table 6-3
1994 Effective Tax Rates by Population Decile
(All Taxpayers)

Population Decile	Number of Households	Individual Income Tax	Consumer Sales Tax	Consumer Excise Taxes	Residential Property Tax[1]	Other Taxes on Individuals[2]	Total Individual Taxes	Business Taxes[3]	Total Taxes
First[4]	214,882	-0.4%	4.0%	2.1%	2.9%	1.6%	10.3%	7.1%	17.3%
Second	214,882	0.0	3.1	1.4	1.9	1.1	7.5	4.8	12.3
Third	214,882	0.7	2.9	1.2	1.8	1.0	7.6	4.2	11.8
Fourth	214,882	1.7	2.8	1.1	1.9	1.2	8.7	4.0	12.8
Fifth	214,882	2.4	2.6	0.9	2.1	1.2	9.3	3.6	12.8
Sixth	214,882	3.1	2.4	0.8	2.3	1.1	9.6	3.6	13.2
Seventh	214,882	3.5	2.2	0.7	2.3	1.1	9.9	3.2	13.0
Eighth	214,882	4.1	2.1	0.6	2.2	1.0	10.0	3.0	13.0
Ninth	214,882	4.7	1.9	0.5	2.2	1.0	10.2	2.8	13.0
Tenth	214,882	5.7	1.3	0.2	2.0	0.6	9.8	2.7	12.6
Total	2,148,820	4.2%	1.9%	0.6%	2.1%	0.9%	9.7%	3.2%	12.9%
Top 5%	107,401	6.0%	1.1%	0.2%	1.9%	0.5%	9.7%	2.7%	12.3%
Top 1%	21,488	6.5	0.7	0.1	1.5	0.3	9.1	2.7	11.8

NOTES:

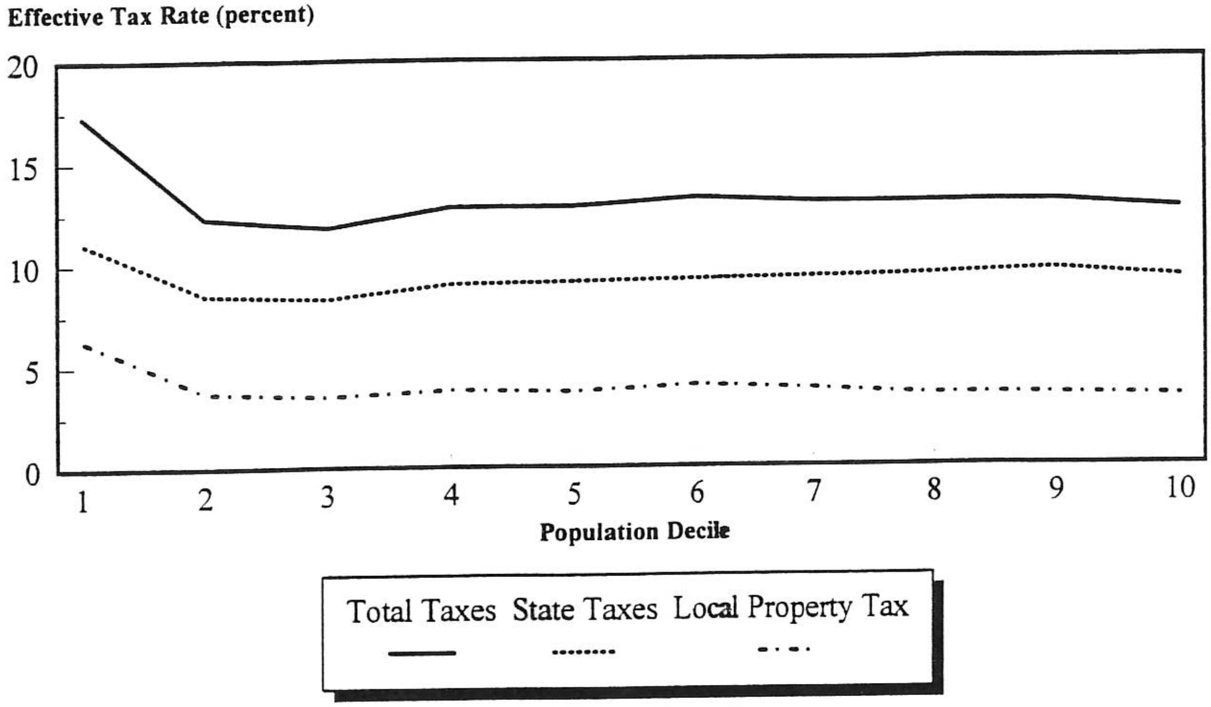
[1] Net of renters' property tax refunds. Includes both the renter and landlord shares of rental property taxes, but excludes property tax on second homes (cabins).

[2] Other taxes include individual motor vehicle registration tax, insurance premiums tax on personal insurance, gambling taxes, MinnesotaCare taxes, mortgage and deed taxes on homes, and property tax on cabins.

[3] Excludes the property tax on rental housing.

[4] As explained later in this chapter, effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily those with business losses. Unadjusted figures are reported in the tables in Appendix B.

Figure 6-2
Effective Tax Rates for 1994
State and Local Taxes by Population Decile



NOTE: Effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily business losses.

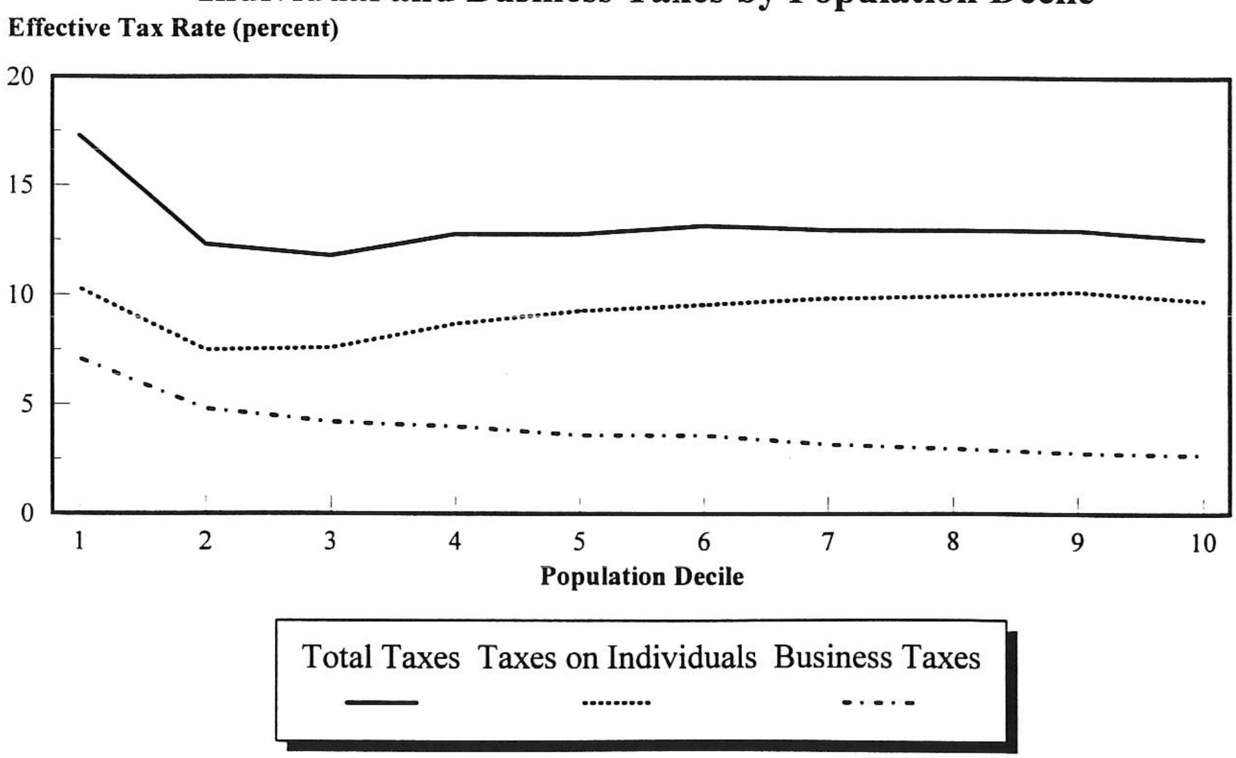
As shown in *Table 6-3* and *Figure 6-2*, the state and local tax system showed some progressivity between the second and sixth deciles and some regressivity between the sixth and tenth deciles. Effective tax rates rose from 12.3 percent in the second decile (and 11.8 percent in the third decile) to 13.2 percent in the sixth decile; effective tax rates then decreased to 13.0 percent in the seventh decile, remained at that level through the ninth decile, and then fell to 12.6 percent in the tenth decile. The Suits Index (described later in this chapter) is a measure of the average degree of progressivity or regressivity across all deciles. The Suits Index of -0.01 suggests that the tax system overall was very slightly regressive, with the progressivity between the second and sixth deciles largely offsetting the regressivity between the sixth and tenth deciles. However, effective tax rates showed some variation by income level. Aside from the high tax rates in the first decile (discussed in more detail later in this chapter), it is the pattern of first rising and then falling tax rates that is most noticeable in *Figure 6-2*.

As shown in *Figure 6-2*, state tax burdens and local tax burdens were distributed quite differently. Total state taxes (individual and business combined) were progressive, with effective tax rates rising fairly steadily from 8.5 percent in the second decile to 9.6 percent in the ninth decile before falling to 9.2 percent in the tenth decile In contrast, local property taxes (net of refunds), showed some progressivity between the second and sixth decile but were quite regressive between the sixth and tenth deciles. (See *Appendix Table B-1.*)

Effective Tax Rates by Type of Tax

As shown in *Table 6-3* and *Figure 6-3*, taxes imposed directly on individuals (state taxes on individuals plus residential property taxes) were progressive overall, effective tax rates increasing from 7.5 to 9.8 percent from the second to the tenth decile as income increased. Business taxes, however, were regressive; effective tax rates declined from 4.8 in the second decile to 2.7 percent in the tenth decile.

Figure 6-3
Effective Tax Rates for 1994
Individual and Business Taxes by Population Decile



NOTE: Effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily business losses.

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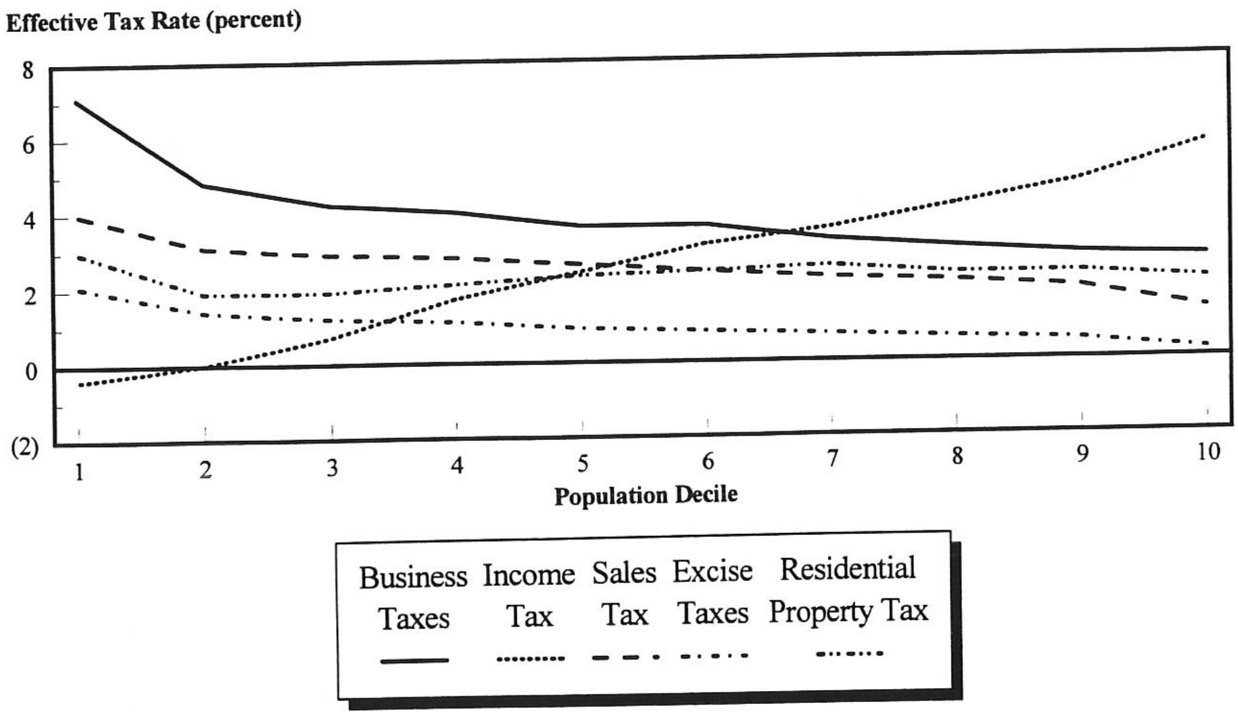
Effective tax rates by population deciles for the five major tax types included in this study are presented in *Table 6-3* and are illustrated in *Figure 6-4*. The results show that the individual income tax was very progressive, while the five remaining taxes were all regressive. Because the progressive individual income tax accounted for almost one-third of the total tax burden, it offset the regressivity of all the other state and local taxes combined. Hence, as a whole, the state and local system of taxation in Minnesota was close to proportional.

Figure 6-4
1994 Effective Tax Rates by Tax Type
By Population Decile



NOTE: Effective tax rates for the first decile reflect an adjustment to exclude small number of households with negative income, primarily business losses.

The Individual Income Tax

Because of its graduated structure and allowance of personal exemptions and deductions, the individual income tax is, by design, progressive. As seen in *Table 6-3*, effective tax rates rose significantly with increases in household income. At the low end, the effective tax rate for the income tax was -0.4 percent and 0.0 percent for the first and second deciles, respectively. It rose steadily to 5.7 percent for the tenth decile. First decile households received a refundable

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working family credit of $3,348,000 and a refundable child and dependent care credit of $263,000, which more than offset the $237,000 in positive income tax liabilities. The net effect was a $3,374,000 refund or negative tax for these households.

As shown above in *Table 6-1*, over 80 percent of the entire individual income tax burden was borne by the top three deciles (incomes of $40,785 and over), and these taxpayers accounted for 66 percent of money income. The middle four deciles accounted for most of the remaining tax, 19.1 percent, while receiving 28.1 percent of total income.

Sales Tax on Consumer Purchases

In agreement with most incidence studies, this analysis finds the consumer portion of the sales tax to be regressive, especially at low income levels. (The sales tax on business purchases is included with the business tax category.) This is because the share of income represented by taxable consumption tends to be smaller for high income households than for low income ones. Hence, tax burdens as a proportion of income tend to decline as one moves up the income scale.

The effective consumer sales tax rate for the bottom decile was 4 percent, compared to the rate for the top decile of 1.3 percent (see *Table 6-3*). Therefore, households in the bottom decile paid an effective tax rate over 3 times as large as the effective tax rate on households in the top decile. Effective tax rates for the second through ninth deciles, representing 80 percent of all taxpayers, ranged from 3.1 to 1.9 percent.

Excise Taxes on Consumer Purchases

Three excise taxes were included in this study: gasoline, tobacco, and alcohol taxes. Because each is relatively small individually, the three were combined to arrive at one aggregate measure for this analysis. Like the sales tax, the excise taxes were regressive. This is predictable, since lower income households spend a greater proportion of their income on consumer goods subject to the excise taxes. As a result, effective excise tax rates are higher for low income households than for higher income ones. As shown in *Table 6-3*, the effective tax rate for the bottom decile was 2.1 percent. It declined from 1.4 percent in the second decile to 0.5 percent in the ninth decile and 0.2 percent for the tenth decile.

Residential Property Taxes

Residential property taxes include the portion of the property tax on rental housing assumed to be borne by the landlord as well as taxes paid by both homeowners and renters. As shown in *Table 6-3*, net effective residential property tax rates, after property tax refunds, were regressive. Effective property tax rates on residential property decreased from 2.9 percent in the first decile to 2 percent in the tenth decile. The tax burdens on homeowners and renters are shown separately in Appendix B.

Homeowner Property Taxes. The property tax on owned homes, net of property tax refunds, was regressive. (See *Appendix Table B-2* for homeowner effective tax rates.) Generally, burdens declined as taxpayers moved up the income scale. The net effective property tax rate for homeowners was 4.7 percent for the second decile and gradually declined to 1.8 percent in the tenth decile.

The regressivity of homeowner property taxes was reduced by the property tax refund (PTR) program, which provides targeted relief for taxpayers whose property taxes are high relative to income. Comparing gross effective property tax rates (before refunds) to net effective rates (after refunds) shows that effective tax rates were reduced for low to moderate income taxpayers. (See *Appendix Table B-2.*) For example, the effective property tax rate for homeowners in the second decile was reduced by 1.9 percentage points (from 6.6 to 4.7 percent of income). The PTR reduction fell to 0.4 percentage points in the fifth decile.

Rental Property Taxes. This study's estimates of the property tax burden on renters are consistent with the approach used for business taxes more generally. Taxes on rental property, like taxes on other business property, are partly shifted to renters in higher rents and partly paid by property owners in lower returns. Using the methodology applied to business taxes more generally, this study estimates that a sizable portion of the 1994 rental property tax (35 percent) was borne by the investors who own rental housing; the remaining share (65 percent) was assumed to be shifted to renters in higher rents. The effective tax rate on renters was, therefore, lower than it would have been if all of the tax were passed along in higher rents.

As shown in *Appendix Table B-3*, the gross property tax burden on renters ($259 million) was regressive. Gross effective property tax rates gradually declined from 3.8 percent for renters in the second decile to 1 percent in the tenth decile.

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The pattern of net effective property tax rates (after PTR) was, however, very different. In this study, the entire amount of property tax refunds received by renter households was subtracted from the portion of the tax estimated to be borne by renters. This offset significantly reduced effective tax rates in the lower deciles. The net effective property tax rate for renters (after PTR) increased from 1.1 percent in the second through fourth deciles to 2.2 percent in the sixth decile, then fell to 0.9 percent in the top decile.

The large difference between gross and net property tax burdens on renters can be better understood by comparing the incidence assumption in this study to the incidence assumption implicit in the renter property tax refund program. In this study, renters are assumed to bear 65 percent of rental property taxes in the form of higher rents. However, the property tax refund program assumes that the entire property tax on rental property is borne by renters. For lower income renters, actual property tax refunds offset a significant portion of the property tax burden assigned to renters in this study.

As shown in *Appendix Tables B-2 and B-3*, in every decile, the net property tax burden on renters was less than the net property tax burden on homeowners after adjusting for the impact of the PTR. Only two-thirds of the rental tax was shifted forward to renters; the other third of the burden fell on the property owners. In contrast, homeowners bore the entire burden of homeowner property taxes since they were both the housing consumer and property owner.[36]

Other Individual Taxes

The "other taxes" category in *Table 6-3* includes the motor vehicle registration tax paid directly by households, the insurance premiums tax paid on personal insurance (homeowner, motor vehicle, life, health, and accident), gambling taxes, MinnesotaCare taxes, mortgage and deed taxes paid by homeowners, and the property tax on cabins. The combined burden for these six taxes was regressive.

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[36] A simple comparison of net homeowner and net renter property tax burdens is misleading. The net renter property tax burden includes only the burden on renters as consumers of housing. The net homeowner burden includes the total burden, both the burden on the housing consumer and the burden on the property owner. If property tax rates on homes and rental property were identical, then the share of the homeowner tax burden falling on the owner of the property would be the same as the share of the rental property tax falling on the owner of the rental property (here estimated to be 35 percent). Under Minnesota's class rate system, however, property tax rates on rental housing exceed those on homes. As shown in Chapter 5, the portion of a state or local tax on capital shifted forward to consumers increases with the tax rate. As a result, the consumer share of the property tax on renters is much higher than the consumer share of the property tax on homeowners.

Business Taxes

As shown in *Figure 6-1* above, business taxes were 24.5 percent of the total tax burden on Minnesota residents. Business taxes include the following:

Business property taxes (other than rental housing)
Corporate franchise tax
Sales tax paid on purchases of capital equipment and other intermediate inputs
Motor vehicle registration tax paid by business
Excise taxes paid by business (motor fuels)
Insurance premiums tax on business insurance
Mortgage and deed taxes on business property

Although the legal impact of each of these taxes falls on the business entity, each is partially shifted to consumers (in higher prices) and to labor (in lower wages). Only a portion of business taxes are borne by capital owners as a lower rate of return on their investment. Part of the burden of each of these taxes is also shifted to nonresidents. This study estimates the degree to which such shifting occurs and then allocates the estimated burden to Minnesota households based on each household's sources of income and patterns of spending. (An explanation of tax shifting and the method of estimating the incidence of business taxes for this study is found in Chapter 5.)

To determine the incidence of each business tax, the study first estimated tax payments made by the different business sectors (manufacturing, mining, retail trade, etc.). Then market characteristics of each business sector were used to estimate the degree to which taxes were shifted to consumers, labor, and nonresidents. Finally, taxes paid by each of these taxpayer categories (factors) were distributed to individual households in the sample.

Table 6-4 summarizes the estimated incidence of business taxes. The overall burden of business taxes was shared almost equally by consumers (53 percent) and owners of capital (44 percent); labor bore the remaining 3 percent. Capital ownership is concentrated among high income households, so it might be expected that business taxes, borne in substantial part by capital owners, would be progressive. However, most of the burden on owners of capital falls on nonresidents who own stock in Minnesota companies. Of the burden falling on Minnesota residents, almost 75 percent falls on consumers (in higher prices) or labor (in reduced wages). As a result, the burden of Minnesota business taxes on Minnesota households was regressive. The effective tax rate generally fell as income increased. The effective tax rate was 4.8 percent in the second decile; it fell steadily as income rose, reaching 2.7 percent in the tenth decile. (See *Table 6-3* and *Figure 6-4*.)

Table 6-4
Incidence of Minnesota Business Taxes
by Taxpayer Category
($ Millions)

Taxpayer Category	Total Tax Burden		Exported to Nonresidents		Paid by Minnesota Residents	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Capital:	$1,895	43.5%	$1,238	68.1%	$657	25.8%
Corporate	1,310	30.1	1,179	64.9	131	5.1
Noncorporate	585	13.4	59	3.2	526	20.7
Labor	149	3.4	-	0.0	149	5.9
Consumers	2,315	53.1	579	31.9	1,736	68.3
Total	$4,359	100.0%	$1,817	100.0%	$2,542	100.0%

Warning: Existing Business Taxes Versus a Change in Business Taxes.

This study estimates the burden of existing business taxes at current levels. *The results presented here do not apply to changes in the level of business taxes.* As explained in Chapter 5, the incidence of a change in business taxes (including taxes on rental housing) will differ greatly from the incidence of existing taxes. Much less of the incidence of a change in business tax (increase or decrease) will fall on capital owners and nonresidents; much more will fall on Minnesota consumers and workers. The distributional results presented in this study should never be applied to proposals to raise or lower taxes on business.

Effective Tax Rates in the First Decile

As shown in *Table 6-3*, low income taxpayers in the first decile had significantly higher sales, excise, net property, and business tax burdens than taxpayers with higher incomes. The total effective tax rate of 17.3 percent for taxpayers in the first decile was much higher than the rates in other deciles. This 17.3 percent effective tax rate includes an adjustment to exclude households with negative incomes, as discussed below. Without this adjustment, the effective tax rate for the first decile was even higher, at 21.9 percent, as shown in *Appendix Table B-1*.

The unadjusted effective tax rate for the first decile is overstated for several reasons. First, the lowest decile includes households who have temporarily low incomes or have better overall economic well-being than was indicated by their money income in 1994. A portion of retirees, for example, may be living primarily on savings or other assets but report small amounts of annual money income received. Due to unemployment or business fluctuations, some households who normally have higher incomes are also included in the first decile.

One identifiable group of first-decile households is particularly noteworthy. About 5 percent of all first-decile households were in this decile only because they reported business losses or large capital losses for income tax purposes in 1994. Of these 16,000 households with *negative* household income, 42 percent were farmers. Although their average income was negative (-$39,800), their average tax burden was estimated to be $3,690.[37] Few of these households were actually poor for any length of time. Almost 80 percent were homeowners, with homes valued over $52,000, on average. Most had significant amounts of business activity as sole proprietors or partners, and the reported losses were probably temporary. *Excluding the small group of households with either negative income or business losses from the first decile reduces the effective tax rate from 21.9 percent to 17.3 percent.*

[37] In this study, households with large business losses and negative income (due perhaps to large depreciation deductions) were assumed to still bear large amounts of business taxes. In addition, all households were assumed to bear a minimum amount of sales and excise taxes, MinnesotaCare taxes, insurance premiums taxes, motor vehicle registration tax, and (for homeowners) mortgage and deed taxes.

Second, effective tax rates for the first decile are overstated because income is understated. The incidence sample was unable to identify all sources of income. Almost 40 percent of first-decile households filed neither an income tax nor a property tax refund return. The incidence study identified some wage and capital income for these nonfilers, but many had other sources of income that were not identified. An underestimate of household income generally causes effective tax rates to be overestimated.

Household income is also underestimated in the Consumer Expenditure Survey used to estimate sales and excise tax burdens. To the extent that income was subject to relatively greater underreporting than consumption, particularly for low-income households, the taxable consumption expenditures calculated from CES will be overstated. As a result, consumption tax burdens would be overestimated.[38]

While this study does adjust for negative incomes for a small number of households, no attempt has been made to adjust for possible underreported or unidentified sources of income or for other differences between transitory and long-run measures of income. By including only money income, the substantial amounts of food stamps and housing subsidies received by the poor are ignored in this study. Consequently, money income at the low end of the income distribution does not provide an accurate measure of overall economic well-being. For all of these reasons, effective tax rates in the first decile are overstated by an unknown but significant amount.

The Suits Index

The previous sections looked at effective tax rates for each of the six categories of taxes examined in this study. The effective tax rate -- that is, the ratio of taxes paid to income -- can be used to compare tax burdens across income categories. However, it is difficult to summarize the overall distribution of a tax (progressive, proportional, or regressive) from the individual effective tax rates. This section uses the Suits Index as a summary measure of the overall distribution for a specific tax.

[38] To partly adjust for the unreliability of the CES data, the ratio of consumption to income was adjusted downward for the lowest deciles. This adjustment was largely offset, however, by another adjustment for those with low or negative incomes. In computing sales, excise, and rental property tax burdens, those with incomes below $2,000 were assumed to spend as if they had incomes of $2,000. Even those with zero income were assumed to have some taxable purchases.

The Suits Index measures the relationship between the cumulative percentage of taxes and the cumulative percentage of total income for taxpayers ranked by income. A proportional tax has a Suits Index equal to zero; a progressive tax has a positive index. In the extreme case, when the total tax burden is paid by those in the highest income bracket, the index has a value of +1.00. For a regressive tax, the Suits Index has a negative value of between 0 and -1.00, the most regressive value.

Table 6-5 presents Suits indexes for Minnesota state and local taxes in 1994. The only progressive tax was the personal income tax with a positive Suits index of +0.20. The consumer excise taxes were the most regressive, followed by the consumer sales tax. Taken as a whole, the system of Minnesota taxes was slightly regressive (a Suits index of -0.01). State taxes were proportional (+0.00), but local property taxes were regressive (-0.04).

Table 6-5
Suits Indexes for Minnesota State and Local Taxes

Tax Category	1994 Suits Index
Personal Income Tax	+0.20
Residential Property Tax	
Gross	-0.11
Net (after PTR)	-0.02
Business Property Tax	-0.07
State Business Taxes	-0.12
Other Individual Taxes	-0.15
Consumer Sales Tax	-0.17
Consumer Excise Taxes	-0.33
State Taxes	+0.00
Local Taxes (after PTR)	-0.04
Total Taxes	-0.01

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An Alternative Presentation: Income Deciles

The results presented earlier in this chapter have been summarized for deciles of households. Each population decile represents ten percent of the population of households in the study. This section provides an alternative way to summarize the distribution of the 1994 tax burden. *Table 6-6* distributes taxes and calculates effective tax rates for all taxpayers organized by income deciles (rather than population deciles). To derive income deciles, households are ranked from lowest to highest income and divided into groups representing equal amounts of total *income*.

The distribution of tax by income deciles in *Table 6-6* can be compared to the distribution by population deciles in *Table 6-1*. In both distributions households are ranked by income level. In the population decile distribution (*Table 6-1*), each decile of 215,000 represents 10 percent of all households; in the income decile distribution (*Table 6-6*), each decile with $8 billion of income represents 10 percent of total income. Because of their relatively low incomes, it took 814,000 households in the first income decile to account for 10 percent of total income; in contrast, there were only 11,897 high income households in the tenth decile, who also received 10 percent of total income.

The lower part of *Table 6-6* shows the distribution of taxes by income decile. The first decile included 37.9 percent of all households. Their share of total taxes (10.3 percent) was slightly above their share of household income (10 percent). First income decile households (with 10 percent of total income) paid only 1.8 percent of the individual income tax and 9.8 percent of all residential property taxes, but they paid 15.9 percent of the consumer sales tax, 23.7 percent of consumer excise taxes, and 15.4 percent of all business taxes borne by Minnesota residents.

The tenth income decile included only 0.6 percent of all households. Their share of total taxes (9.1 percent) was lower than their share of household income (10 percent). They paid 15.7 percent of the individual income tax, 2.9 percent of the consumer sales tax, 1 percent of consumer excise taxes, 6.7 percent of residential property taxes, and 8.7 percent of business taxes borne by Minnesota residents.

Table 6-7 shows effective tax rates by income decile. The same information for population deciles is shown in *Table 6-3*. A comparison of the effective tax rate for all taxes (the last column in each table) reveals some differences. First,

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Table 6-6

Distribution of Households, Income, and Taxes, by Income Decile
($ Thousands)

Income Decile	Income Range	Number of Households	Total Household Income	Individual Income Tax	Consumer Sales Tax	Consumer Excise Taxes	Residential Property Taxes[1]	Other Tax on Individuals[2]	Business Taxes[3]	Total Taxes
First	$18,439 & Under	813,582	$8,014,846	$60,857	$244,995	$105,889	$167,015	$94,580	$390,429	$1,063,765
Second	18,3440 - 27,905	349,273	8,018,700	200,465	207,096	72,704	177,689	91,076	293,637	1,042,667
Third	27,906 - 36,897	248,915	8,018,506	264,668	184,820	58,514	186,065	86,505	275,299	1,055,871
Fourth	36,898 - 46,015	194,379	8,014,768	306,306	171,208	51,873	180,347	84,494	242,720	1,036,948
Fifth	46,016 - 54,943	159,255	8,010,393	341,997	161,672	45,013	179,343	82,415	230,239	1,040,679
Sixth	54,944 - 66,268	132,905	8,016,478	374,058	152,265	37,746	170,262	78,758	230,932	1,044,021
Seventh	66,269 - 82,759	108,991	8,011,586	401,434	142,364	31,450	178,467	73,579	215,924	1,043,218
Eighth	82,760 - 120,920	82,383	8,016,722	425,289	129,102	24,417	186,875	63,978	233,828	1,063,489
Ninth	120,921 - 280,347	47,240	8,012,262	464,286	105,161	14,970	165,676	47,784	199,656	997,533
Tenth	$280,348 & Over	11,897	8,014,113	530,759	45,289	4,261	114,152	20,178	220,582	935,221
Total		2,148,820	$80,148,374	$3,370,119	$1,543,972	$446,837	$1,705,891	$723,347	$2,533,246	$10,323,412
Top 5%	$757,555 & Over	2,218	$4,007,082	$264,729	$10,102	$841	$47,439	$5,197	$115,728	$444,036
Top 1%	$7,109,325 & Over	57	798,364	50,948	293	23	8,277	204	23,023	82,768

Percentage of Households, Income, and Taxes, by Income Decile

Income Decile	Income Range	Percent of Households	Percent of Income	Individual Income Tax	Consumer Sales Tax	Consumer Excise Taxes	Residential Property Taxes[1]	Other Taxes on Individuals[2]	Business Taxes[3]	Total Taxes
First	$18,439 & Under	37.9%	10.0%	1.8%	15.9%	23.7%	9.8%	13.1%	15.4%	10.3%
Second	18,3440 - 27,905	16.3	10.0	5.9	13.4	16.3	10.4	12.6	11.6	10.1
Third	27,906 - 36,897	11.6	10.0	7.9	12.0	13.1	10.9	12.0	10.9	10.2
Fourth	36,898 - 46,015	9.0	10.0	9.1	11.1	11.6	10.6	11.7	9.6	10.0
Fifth	46,016 - 54,943	7.4	10.0	10.1	10.5	10.1	10.5	11.4	9.1	10.1
Sixth	54,944 - 66,268	6.2	10.0	11.1	9.9	8.4	10.0	10.9	9.1	10.1
Seventh	66,269 - 82,759	5.1	10.0	11.9	9.2	7.0	10.5	10.2	8.5	10.1
Eighth	82,760 - 120,920	3.8	10.0	12.6	8.4	5.5	11.0	8.8	9.2	10.3
Ninth	120,921 - 280,347	2.2	10.0	13.8	6.8	3.4	9.7	6.6	7.9	9.7
Tenth	$280,348 & Over	0.6	10.0	15.7	2.9	1.0	6.7	2.8	8.7	9.1
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Top 5%	$757,555 & Over	0.1%	5.0%	7.9%	0.7%	0.2%	2.8%	0.7%	4.6%	4.3%
Top 1%	$7,109,325 & Over	0.0%	1.0	1.5	0.0	0.0	0.5	0.0	0.9	0.8

NOTES:

[1] Net of renters' property tax refunds. Includes both the renter and landlord share of rental property taxes, but excludes property tax on second homes (cabins).

[2] Other taxes include motor vehicle registration tax, insurance premiums tax on personal insurance, gambling taxes, MinnesotaCare taxes, mortgage and deed taxes paid by homeowners, and property tax on cabins.

[3] Excludes the property tax on rental housing.

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Table 6-7
1994 Effective Tax Rates by Income Decile
(All Taxpayers)

Income Decile	Income Range	Number of Households	Individual Income Tax	Consumer Sales Tax	Consumer Excise Taxes	Residential Property Tax[1]	Other Taxes on Individuals[2]	Total Individual Taxes	Business Taxes[3]	Total Taxes
First	$ 18,439 & Under	813,582	0.8%	3.1%	1.3%	2.1%	1.2%	8.4%	4.9%	13.3%
Second	18,440 - 27,905	349,273	2.5	2.6	0.9	2.2	1.1	9.3	3.7	13.0
Third	27,906 - 36,897	248,915	3.3	2.3	0.7	2.3	1.1	9.7	3.4	13.2
Fourth	36,898 - 46,015	194,379	3.8	2.1	0.6	2.3	1.1	9.9	3.0	12.9
Fifth	46,016 - 54,943	159,255	4.3	2.0	0.6	2.2	1.0	10.1	2.9	13.0
Sixth	54,944 - 66,268	132,905	4.7	1.9	0.5	2.1	1.0	10.1	2.9	13.0
Seventh	66,269 - 82,759	108,991	5.0	1.8	0.4	2.2	0.9	10.3	2.7	13.0
Eighth	82,760 - 120,920	82,383	5.3	1.6	0.3	2.3	0.8	10.3	2.9	13.3
Ninth	120,921 - 280,347	47,240	5.8	1.3	0.2	2.1	0.6	10.0	2.5	12.5
Tenth	$280,348 & Over	11,897	6.6	0.6	0.1	1.4	0.3	8.9	2.8	11.7
Total		2,148,820	4.2%	1.9%	0.6%	2.1%	0.9%	8.2%	3.2%	12.9%
Top 5%	$757,555 & Over	2,128	6.6%	0.3%	0.0%	1.2%	0.1%	8.2%	2.9%	11.1%
Top 1%	$7,109,325 & Over	57	6.4	0.0	0.0	1.0	0.0	7.5	2.9	10.4

NOTES:

[1] Net of renters' property tax refunds. Includes both the renter and landlord share of rental property taxes, but excludes property tax on second homes (cabins).

[2] Other taxes include individual motor vehicle registration tax, insurance premiums tax on personal insurance, gambling taxes, MinnesotaCare taxes, mortgage and deed taxes on homes and property tax on cabins.

[3] Excludes the property tax on rental housing.

the effective tax rate for the first income decile (13.3 percent) was much lower than that for the first population decile (17.3 percent). The first income decile included almost four times as many households as the first population decile. As a result, the tax rate for the first income decile is an average for households in the first *four* population deciles.

The pattern of effective tax rates also differs for the top deciles. The tenth income decile (with 11,898 households) had an effective tax rate of 11.7 percent. In contrast, the tenth population decile (with 214,882 households) had an effective tax rate of 12.6 percent. The tax rate for the top income decile, with only 0.6 percent of all households, was approximately the same as shown on *Table 6-3* for the top one percent of households. With income deciles, effective tax rates fell in the top two deciles (from 13.3 percent to 11.7 percent), rather than only in the tenth decile. This is because the top two income deciles included only 2.8 percent of all households.

Analyzing the tax burden by income deciles provides additional insights into the distribution of the burden. It provides more detailed information about the burden on higher income households, but less information about the 54 percent of households who are combined in the first two income deciles.[39]

An Alternative Methodology: Adjusting for the Federal Tax Offset

In estimating the incidence of existing Minnesota taxes, this study has made no adjustment for the "federal tax offset" due to the deductibility of Minnesota taxes in calculating the federal income tax. Individuals can generally deduct what they pay in state income tax and homeowner property taxes (and a portion of their motor vehicle registration tax) as itemized deductions. Those who itemize deductions pay less federal income tax as a result. For a taxpayer in the 28 percent federal tax bracket, each additional dollar of itemized deductions lowers federal income tax by 28 cents. As a result, 28 percent of deductible state and local taxes would be borne by the federal government in lower tax revenue. If no adjustment is made for this federal tax offset, the Minnesota tax burden would be overstated. Because itemizing deductions is more common for higher income households (and because they face higher federal tax rates), the federal tax offset will reduce taxes by much more in the upper deciles. A tax system that looks proportional in the absence of such an adjustment might look quite regressive after such an adjustment is made.

[39] A more detailed table for income deciles, similar to *Table B-1* in Appendix B, is available upon request.

This same reasoning applies to business taxes. If an additional dollar in business taxes lowers business income (rather than being passed forward to consumers in higher prices), this reduces the federal income tax paid by the corporation, partnership, or sole proprietor. A portion of the burden on Minnesota business owners would be borne by the federal government in lower tax revenue.

There is a strong argument, however, against making such an adjustment in this study. As discussed in Chapter 5, this study estimates the burden of Minnesota taxes in a multistate context. The incidence of Minnesota taxes depends on the level of taxes in other states. If all states levy deductible taxes, then the federal government presumably makes up for the lost revenue by raising the federal tax rate. It is unlikely that the deductibility of state and local taxes actually lowers the total federal tax burden on Minnesota residents. Minnesota's share of itemized deductions is roughly equal to its share of federal income tax payments. Whether the combination of deductible taxes and higher tax rates reduces a particular decile's tax burden is unknown; it depends on how the federal tax structure has been adjusted to make up for the lost tax revenue. For this reason, no federal tax offset was included in the 1993 or 1995 editions of this study.[40]

The results presented elsewhere in this study include no adjustment for the federal tax offset. The impact of such an adjustment is shown only in this section. The federal tax offset is calculated separately for each household in the sample who itemized deductions in 1994. Federal tax savings were estimated to total $988 million. Despite limitations on itemized deductions for those with high incomes, 69 percent of the savings went to households in the tenth population decile; another 17 percent went to those in the ninth decile.

The impact of the federal tax offset is shown in *Table 6-8* and *Figure 6-5*. For all households combined, the federal offset would reduce the effective tax rate from 12.9 percent to 11.6 percent of income. There would be little change in the lowest deciles, which include few who itemize deductions. As expected, the

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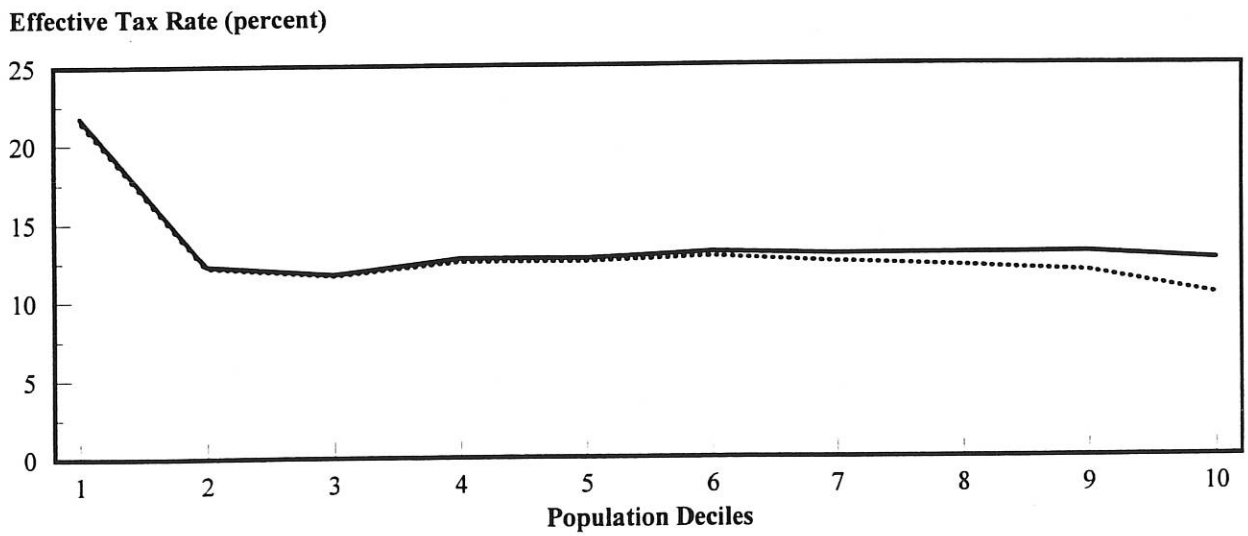
[40] See Mutti and Morgan (1983). The argument against making an adjustment for the federal tax offset does not apply to proposals to *change* Minnesota's state and local tax system. For example, higher Minnesota individual income taxes would result in higher itemized deductions by Minnesotans. If the federal government makes up for the lost revenue by raising the tax rate (or other taxes), Minnesotans would pay only about 2 percent of any additional federal tax; residents of other states would pay the other 98 percent. The federal tax offset is a necessary component of *incremental* tax incidence, where one state alone is changing the level of deductible taxes.

Table 6-8
Impact of Federal Tax Offset on Effective State and Local Tax Rates by Population Decile
(Minnesota Residents, 1994)

Population Decile	Income Range	Effective Tax Rate: No Federal Tax Offset	Effective Tax Rate: Change Due to Federal Tax Offset	Effective Tax Rate: Adjusted for Federal Tax Offset
First	$ 0 - $ 6,384	17.3%	0.0%	17.3%
Second	6,384 - 9,881	12.3	-0.1	12.2
Third	9,881 - 14,594	11.8	-0.1	11.7
Fourth	14,594 - 19,609	12.8	-0.2	12.6
Fifth	19,609 - 25,421	12.8	-0.2	12.6
Sixth	25,421 - 32,108	13.2	-0.3	12.9
Seventh	31,108 - 40,785	13.0	-0.5	12.5
Eighth	40,785 - 52,073	13.0	-0.8	12.2
Ninth	52,073 - 70,567	13.0	-1.2	11.8
Tenth	$70,567 & Over	12.6	-2.3	10.3
Total		12.9%	-1.3%	11.6%
Top 5%	$92,167 & Over	12.3%	-2.5%	9.8%
Top 1%	$206,869 & Over	11.8%	-2.8%	9.0%

Note: Effective tax rates for the first decile reflect an adjustment to exclude a small number of households with negative income, primarily business losses.

Figure 6-5
Effective Tax Rates in 1994
With and Without Federal Tax Offset



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impact of the federal tax offset rises with income. Despite the limitation on itemized deductions for high-income taxpayers, the effective tax rate in the tenth decile would fall from 12.6 percent to 10.3 percent. The adjusted tax burden is noticeably more regressive. With the federal tax offset, the Suits index would fall from -0.01 to -0.05.

In summary, the federal tax offset (even if limited to individual taxes) would have a significant impact on the distribution of the Minnesota tax burden. Because a strong argument can be made against such an adjustment in a study of this kind, however, no federal tax offset is included in the results presented elsewhere in this study.

CHAPTER 7

DETAILED RESULTS FOR SIX DIFFERENT HOUSEHOLD TYPES

Introduction

This chapter provides additional information on the demographic characteristics of households in each population decile. Households in the lower deciles are much more likely to be single-person and elderly households. Only a small proportion of the households in the lowest deciles include children. In contrast, most of the upper decile households are married couples with or without children. This chapter shows effective tax rates for representative households of each of six household types. More detailed results, by population decile, are found in Appendix C.

Demographic Characteristics of Each Decile

The demographic characteristics of the incidence sample varied greatly across the ten deciles. As shown in *Figure 7-1*, more than 75 percent of households in each of the first three deciles were single-person households; fewer than 20 percent included children. In contrast, fewer than 10 percent of households in the top two deciles were single-person households, while over 50 percent included children.

Figure 7-1 also shows that retired-persons households (both married and single) accounted for over 40 percent of all second and third decile households. In the lower five deciles, single retirees far outnumbered retired couples; in the top deciles, retired couples were far more common than single-person retired households.[41]

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[41] For most households, the incidence sample includes no breakdown by age. Here retired households are defined as all households where the sum of pension and social security income is at least twice as large as earned income. This category therefore excludes some over age 65 (who have not retired) and includes some under age 65 (those retiring earlier plus some who are disabled).

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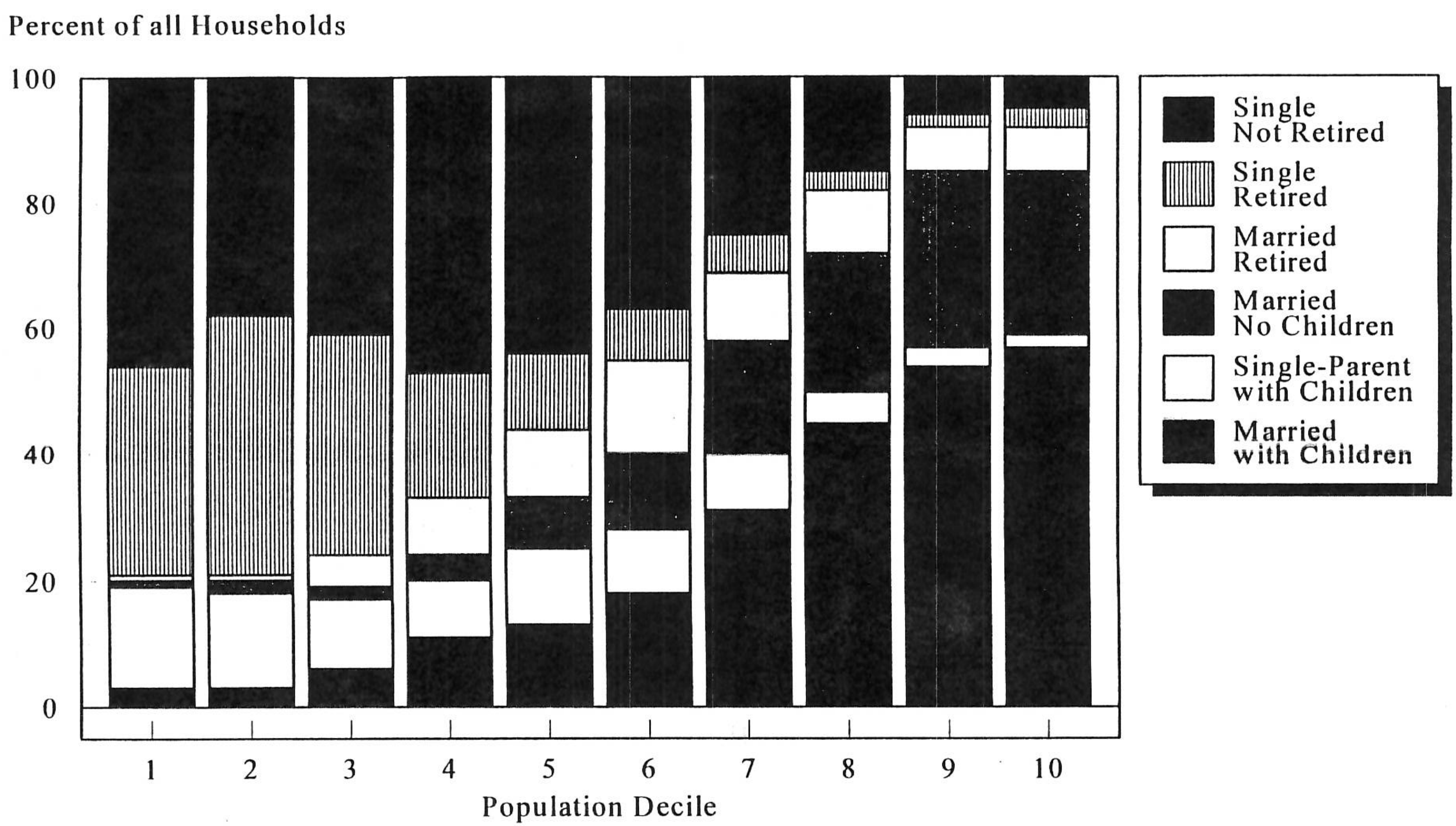
Figure 7-1
Family Type by Population Decile



In the first three deciles, households with children were primarily single-parent households. The proportion of households with children that included two parents increased fairly steadily with income. About 90 percent of households in the top two deciles were married couples, with or without children.

Figure 7-2 shows how housing status varied with income. As expected, home ownership rates (including farmers) rose steadily with income, from 25 percent in the first decile to 95 percent in the tenth decile. For all households, 61 percent were homeowners. The first two deciles contained two renter households for every homeowner household; the tenth decile contained 18 homeowner households for every renter household. Farm homesteads were spread fairly evenly among all deciles.[42]

A significant proportion of the households in the first five deciles were classified as neither homeowners nor renters. (See *Figure 7-2*.) This "other" category is the result of this study's definition of a household. While the Census defines a household to include all individuals living in a particular housing unit, this study (like other tax incidence studies) defines a household as a taxpayer, a taxpayer's spouse, and all others claimed as dependents for income tax purposes.

In this study, a secondary household living with a primary household is assumed to pay no property tax. Such households include older children living with parents (but not claimed as dependents) and elderly parents living with their children. These secondary households make up most of the group labeled "other" in *Figure 7-2*. While it might make sense to combine the primary and secondary households into one single household (as in Census data), there is no reliable way to match a secondary household with the appropriate primary household. The sizable number of these households should be kept in mind when interpreting the overall incidence results.

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[42] In this study, farm households are defined as those living on farm homestead property, so every farmer owns a home. This definition excludes active farmers who farm only rented land or do not live on a farm homestead. In this study, the term "homeowners" generally excludes farm homesteads, but the homeownership rates cited in this chapter include both farm and non-farm homesteads.

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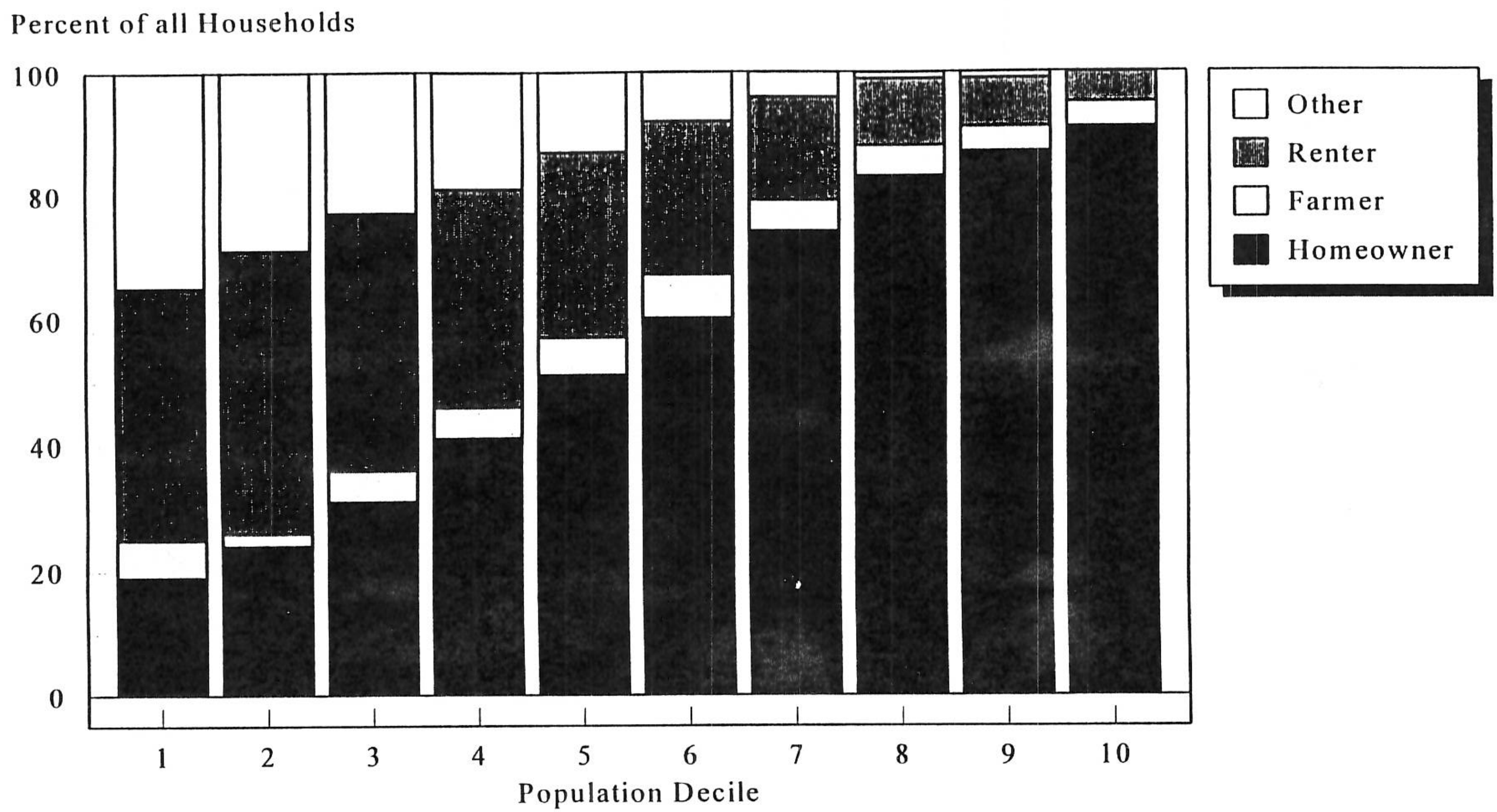
Figure 7-2
Housing Status by Population Decile



Detailed Incidence Results for Six Different Household Types

As shown in *Figure 7-1*, the demographic characteristics of each population decile vary greatly. The typical one-person household had much lower income than the typical married couple with children. The median income for one-person households was $17,568; the median income for married couples with children was $49,697. The typical one-person household is therefore in the fourth decile, while the typical two-parent family with children is in the eighth decile. Because of this, it is difficult to interpret the overall incidence results, particularly in the lower deciles. *Table 7-1* clarifies the nature of the tax burden for typical households from each of six household types: single retired, retired couple, single (not retired), married couple with no children (not retired), single-parent family, and married couple with children.

For each type of household, *Table 7-1* shows the amount of tax paid at each of three levels of income, as described below.

Household	Income Level
25th Percentile	The household with income greater than 25 percent of all households of the same type.
50th Percentile *(Median Income)*	The household with income greater than half of all households of the same type. (This household's income is the *median income*.)
75th Percentile	The household with income greater than 75 percent of all households of the same type.

For example, as shown in *Table 7-1*, the median income for a two-parent family with children was $49,697. Half of all such families had higher incomes; half had lower incomes. This household paid a total of $6,468 in state and local taxes, for an effective tax rate of 13.0 percent. It paid $1,948 in state income tax, $1,065 in consumer sales tax, and $1,091 in residential property taxes. Similar information is presented for households at the 25th and 75th percentiles of the income distribution.

More detailed descriptions of household characteristics and tax burdens, by population decile, are provided in *Appendix C*, *Tables C-1* through *C-5*. Information for each group and decile includes household size, household income, housing status (including average rent and home value), average tax burden (for each tax), and effective overall tax rates. This detailed information can be used to compare effective tax rates for different household types at similar money income levels.

Table 7-1
Average Tax Burdens by Household Type and Income Level

	Single (Retired)	Single-Parent Family	Single (Not Retired)	Married No Children (Retired)	Married No Children (Not Retired)	Married with Children
25th Percentile						
Income	$7,167	$8,260	$9,093	$21,363	$33,213	$34,129
Decile	2nd	2nd	2nd	5th	7th	7th
Net Residential Property Tax						
Homeowners	315	336	476	647	731	840
Renters	119	16	178	290	736	556
All Households[1]	151	42	139	592	732	795
State Income Tax	1	-182	120	34	1,114	876
Consumer Sales Tax	192	265	289	607	790	870
Consumer Excise Taxes	73	160	139	175	298	304
Other Individual Taxes	71	76	90	321	447	493
Business Taxes	278	375	419	713	1,425	1,352
Total Taxes	766	$735	$1,195	$2,442	$4,806	$4,690
Effective Tax Rate	10.7%	8.9%	13.1%	11.4%	14.5%	13.7%
50th Percentile (median)						
Income	$10,666	$16,630	$17,568	$29,997	$48,396	$49,697
Decile	3rd	4th	4th	6th	8th	8th
Net Residential Property Tax						
Homeowners	351	392	490	762	1,041	1,117
Renters	112	70	310	616	859	805
All Households[1]	206	188	260	748	1,024	1,091
State Income Tax	-1	32	635	290	2,298	1,948
Consumer Sales Tax	255	465	474	709	968	1,065
Consumer Excise Taxes	77	191	207	181	304	317
Other Individual Taxes	80	264	145	334	529	570
Business Taxes	374	643	577	1,486	1,431	1,477
Total Taxes	$991	$1,783	$2,297	$3,749	$6,555	$6,468
Effective Tax Rate	9.3%	10.7%	13.1%	12.5%	13.5%	13.0%
75th Percentile						
Income	$17,974	$29,254	$27,064	$45,031	$65,637	$68,430
Decile	4th	6th	6th	8th	9th	9th
Net Residential Property Tax:						
Homeowners	465	775	769	1,153	1,434	1,486
Renters	112	670	593	975	981	960
All Households[1]	329	725	563	1,145	1,408	1,470
State Income Tax	48	953	1,254	1,011	3,570	3,196
Consumer Sales Tax	389	657	618	888	1,181	1,288
Consumer Excise Taxes	102	171	215	216	279	312
Other Individual Taxes	115	413	195	438	637	698
Business Taxes	566	903	787	1,303	1,751	1,883
Total Taxes	$1,549	$3,822	$3,633	$5,000	$8,827	$8,847
Effective Tax Rate	8.6%	13.1%	13.4%	11.1%	13.4%	12.9%

[1] Includes households who are neither homeowners nor renters.

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In Appendix C, effective tax rates are shown both for all households and separately for renters and homeowners. In some deciles, the number of households of a particular type is very small. For example, single-parent families account for only two percent of all tenth-decile households. Similarly, two-parent families who are renters account for less than one percent of the households in the first four deciles. Whenever a particular household type accounts for less than 5 percent of a decile's households, the numbers in the Appendix tables may include significant error resulting from the small sample size for that particular cell.

CHAPTER 8

EFFECTIVE TAX RATE PROJECTIONS FOR TAX YEAR 1996

Introduction

The tax incidence report includes detailed information on income and taxes paid by Minnesota residents in 1994. It is based on a comprehensive sample of the population, combining tax, expenditure, and income data from a wide variety of sources. The 1994 distribution of effective tax rates is limited in its usefulness to decision makers, however, because it is already several years old.

This chapter presents projected effective tax rates for tax year 1996 and can serve as a reference point for current tax policy discussions. The 1994 study cannot be fully replicated for 1996, because much of the necessary data for 1996 is not yet available. Despite some serious limitations, the projections shown in this chapter describe the impact of economic and legislative changes between 1994 and 1996.

To approximate the distribution of the tax burden in 1996, this study estimates the two-year change in tax burden for each household in the 1994 database. Both 1996 income and 1996 taxes are estimated for each of those 48,000 households. When scaled to the total 1994 population, the results estimate the change in effective tax rates experienced by those households.

The House Income Tax Simulation Model was used to estimate the growth in household income, based on the estimated growth rate for each component of money income. For example, each household's wage income was assumed to grow by 9.14 percent between 1994 and 1996, with capital gains income rising by 25.93 percent and social security income rising by 5.46 percent. Income components were grown at the same rate for every household, even those not filing an income tax return. For all households combined, income rose by an average of 9 percent, substantially in excess of inflation.

In constructing these projections, however, no adjustment was made for demographic changes between 1994 and 1996. The projections implicitly assume that there is no change in residence, that family size remains unchanged, that those who were dependents in 1994 are still dependents in 1996, and that no one receives income from a new source. No renters become homeowners, no workers retire on social security, and no new graduates enter the work force. Although demographic changes are ignored, the results do reflect the impact of both economic growth and legislative changes in the tax system.

Legislative Changes

Relatively few legislative changes in Minnesota's tax system were made between 1994 and 1996. Federal changes in the earned income credit resulted in an expansion of the working family credit (which equals 15 percent of the federal credit). Federal credit rates were increased for taxpayers with children, and the maximum tax credit for those with two or more children rose by 23 percent. Federal law also restricted eligibility to those with less than $2,350 in investment income.

Only one change in property tax class rates occurred over the two-year period (a reduced class rate for apartments in selected small cities). The limited market value rule, introduced in 1994, affected more households in 1996.

Although there were no changes in the general sales and excise tax rates, the sales tax rate on replacement capital equipment purchased by manufacturers was reduced from 5.5 percent to 3.8 percent, and refunds of the sales tax on capital equipment purchases increased significantly between 1994 and 1996. MinnesotaCare taxes were expanded in 1996 to include a one percent premiums tax on health maintenance organizations and nonprofit health service corporations, substantially increasing MinnesotaCare tax collections. Tax rates on smaller mutual property and casualty insurance companies were also increased starting in 1995, with little revenue impact.

Changes in the State and Local Tax Burden

As shown in *Table 8-1*, state and local tax collections per household increased substantially between 1994 and 1996. Individual income taxes rose by an average of 12 percent, sales taxes per household rose by 10 percent and excise taxes by 5.2 percent. Sales tax revenue grew more rapidly than income only because the sales tax paid on motor vehicles (per household) rose by almost 19 percent. Other state taxes generally increased more slowly than income. (The one major exception: MinnesotaCare taxes, which rose by 36 percent per household.)

Table 8-1
Estimated Increase in Tax Collections Per Household
1994 to 1996

Type of Tax	Percent Change
Individual Income Tax	12.0%
Corporate Income Tax	5.6
Sales Tax	10.0
Excise Taxes	5.2
Motor Vehicle Registration Tax	4.2
Insurance Premiums Tax	6.3
Gambling Taxes	10.9
MinnesotaCare Taxes	36.0
Mortgage and Deed Taxes	8.9
Total State Taxes	7.9%
Net Homestead Property Tax	15.3%
Net Rental Property Tax	-0.4
Cabins	7.9
Business Property Taxes	4.5
Total Property Taxes	8.7%
Total State and Local Taxes	8.1%

Note: Increases for individual income tax, homeowner property tax, and property tax refunds were calculated directly for individuals in the 1994 tax incidence sample. For other taxes, the 2-year increase in collections is adjusted for an estimated 2 percent growth in households between 1994 and 1996.

Homeowner property taxes net of refund (for homes existing in 1994) rose by an average of 15.3 percent,[43] while taxes on rental property (per household) fell slightly. Business property taxes also rose more slowly than homeowner taxes, at

[43] This substantially underestimates the growth in homeowner property tax revenue, because it does not account for the growth in the homeowner population. Total collections rose by 23 percent, or 20.7 percent per Minnesota household.

4.5 percent. There were no major changes in the property tax classification system between 1994 and 1996, so the variation in rates of increase among property types was primarily due to differences in the rates of growth in market value. Total market value for homes increased more than twice as rapidly as the total market value of business property.

The impact on effective tax rates, by decile, is shown in *Table 8-2*. By definition, effective tax rates increase whenever revenue (per household) grows faster than household income. Effective tax rates fall whenever revenue (per household) grows more slowly than income. Given the rates of growth shown in Table 8-1, it is easy to understand why effective tax rates rose for the individual income tax and homeowner property taxes, while falling for business property taxes and especially for rental taxes.

The effective tax rate for all state taxes rose by 0.2 percentage points. Three quarters of this increase was due to higher effective tax rates for the individual income tax. Those higher rates were simply the result of rising incomes; as noted above, there were no significant changes in statutory tax rates or the definition of taxable income between 1994 and 1996. Although income tax brackets, exemptions, and the standard deduction are indexed for inflation, the income tax has a progressive structure. As a result, an increase in real incomes (above the rate of inflation) automatically increases effective tax rates. For example, a single parent with one child and $30,000 of income paid a tax equal to 3.9 percent of income in 1994 (using the standard deduction). With 9 percent more income in 1996, the effective tax rate would have risen to 4.1 percent. The increase in effective income tax rates between 1994 and 1996 was due to economic growth and the increase in real household income.

There was no significant change in the overall effective property tax rate, which remained at 3.6 percent of income. Increases in effective tax rates for homeowner property taxes were offset by lower effective tax rates for rental and business property taxes. Despite little change in the overall property tax rate, however, the property tax burden changed significantly for most deciles. Total property taxes as a percent of income fell in the first four deciles (with relatively few homeowners) and rose in the higher deciles, where most households were homeowners. At high incomes, the impact of lower effective tax rates on business property offset the increase in homeowner tax rates. Because of this, the effective property tax rate in the tenth decile did not change.

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Table 8-2
Comparison of Effective Tax Rates:
1994 Tax Incidence Study Results and 1996 Projections

1994 Population Decile	1994 Income Range	Individual Income Tax			Consumer Sales and Excise Taxes			Net Homeowner Property Tax			Net Rental Property Tax		
		1994	1996	Change	1994	1996	Change	1994	1996	Change	1994	1996	Change
First	$6,384 & Under	-0.4%	-0.4%	-0.1%	6.1%	6.1%	0.0%	1.8%	1.9%	0.1%	1.1%	1.0%	-0.2%
Second	6,384 - 9,881	0.0	0.0	0.1	4.6	4.6	0.0	1.2	1.3	0.1	0.7	0.5	-0.1
Third	9,881 - 14,594	0.7	0.8	0.1	4.1	4.0	0.0	1.3	1.3	0.1	0.5	0.4	-0.1
Fourth	14,594 - 19,609	1.7	1.8	0.1	3.9	3.9	0.0	1.5	1.6	0.1	0.5	0.4	0.0
Fifth	19,609 - 25,421	2.4	2.6	0.1	3.5	3.5	0.0	1.5	1.6	0.1	0.6	0.6	0.0
Sixth	25,421 - 32,108	3.1	3.2	0.2	3.2	3.1	0.0	1.7	1.8	0.1	0.6	0.6	-0.1
Seventh	32,108 - 40,785	3.5	3.7	0.2	2.9	2.9	0.0	1.9	2.1	0.1	0.4	0.4	0.0
Eighth	40,785 - 52,073	4.1	4.3	0.2	2.7	2.7	0.0	2.0	2.1	0.1	0.3	0.2	0.0
Ninth	52,073 - 70,567	4.7	4.9	0.2	2.4	2.4	0.0	2.0	2.2	0.2	0.2	0.2	0.0
Tenth	$70,567 & Over	5.7	5.9	0.1	1.5	1.5	0.0	1.7	1.8	0.1	0.3	0.3	0.0
Total		4.2%	4.3%	0.1%	2.5%	2.5%	0.0%	1.8%	1.9%	0.1%	0.4%	0.3%	0.0%

1994 Population Decile	1994 Income Range	Business Property Taxes			Total Property Tax			Total State Taxes			Total State and Local Taxes		
		1994	1996	Change	1994	1996	Change	1994	1996	Change	1994	1996	Change
First	$6,384 & Under	3.2%	3.2%	-0.1%	6.3%	6.1%	-0.1%	11.1%	11.2%	0.1%	17.3%	17.4%	0.0%
Second	6,384 - 9,881	1.8	1.7	-0.1	3.7	3.7	-0.1	8.5	8.8	0.2	12.3	12.5	0.2
Third	9,881 - 14,594	1.6	1.6	-0.1	3.5	3.4	-0.1	8.3	8.4	0.2	11.8	11.9	0.1
Fourth	14,594 - 19,609	1.7	1.6	-0.1	3.8	3.7	0.0	9.0	9.1	0.1	12.8	12.8	0.1
Fifth	19,609 - 25,421	1.4	1.4	-0.1	3.7	3.7	0.0	9.1	9.3	0.2	12.8	13.0	0.2
Sixth	25,421 - 32,108	1.6	1.6	-0.1	4.0	4.0	0.0	9.2	9.4	0.2	13.2	13.4	0.1
Seventh	32,108 - 40,785	1.3	1.2	-0.1	3.8	3.8	0.0	9.3	9.5	0.2	13.0	13.3	0.2
Eighth	40,785 - 52,073	1.2	1.2	-0.1	3.5	3.6	0.1	9.4	9.6	0.2	13.0	13.2	0.3
Ninth	52,073 - 70,567	1.2	1.1	0.0	3.5	3.6	0.1	9.6	9.8	0.2	13.0	13.4	0.4
Tenth	$70,567 & Over	1.3	1.2	-0.1	3.4	3.4	0.0	9.2	9.4	0.2	12.6	12.8	0.2
Total		1.4%	1.3%	-0.1%	3.6%	3.6%	0.0%	9.3%	9.4%	0.2%	12.9%	13.1%	0.2%

NOTE: Changes may not equal the difference between 1994 and 1996 rates due to rounding.

In summary, for state and local taxes combined, the results were (1) higher effective tax rates (which rose from 12.9 percent to 13.1 percent of income) and (2) a slightly less regressive tax system. Both were due primarily to the strong economic growth between 1994 and 1996.

These projections have ignored the demographic changes that occurred between 1994 and 1996. These will be taken into account in the next tax incidence study.

APPENDICES

Appendix A provides a summary table of the data items for each sample household.

Appendix B contains detailed information on the distribution of income, taxes and tax burdens by population decile. These tables also provide separate results for homeowners, renters and other taxpayers.

Appendix C shows household characteristics and tax burdens by decile for five household types: households including retired persons, single-parent families, married couples with children, married couples without children, and single-person households.

A copy of the legislative mandate for the tax incidence study is also included in Appendix D.

APPENDIX A
Summary of Data Items for Each Sample Household

Household Characteristics, Income, and Taxes	
General Information	Taxpayer social security number Spouse social security number Household size Number of adults in household Number of dependents in household Sample conversion rate Over age 65 indicator (taxpayer or spouse) Housing type: homeowner, renter, farmer or mobilehome owner
Minnesota Individual Income Tax	State income tax filing status State income tax liability Working family credit Dependent care credit Additions to income
Federal Individual Income Tax	Federal income tax filing status Wages, salaries and tips Taxable dividends Business income Rent, royalty, partnership and estate income Farm income Nontaxable interest Nontaxable IRA income Nontaxable pensions and annuities Adjusted gross income Taxable income Net tax liability Alternative minimum tax Earned income credit Dependent care credit Schedule A: Real estate taxes Home mortgage interest and points State and local income tax Total itemized deductions Schedule C: depreciation Schedule E: Depreciation Rental gains and losses Passive partnership gains and losses Nonpassive partnership gains and losses Section 179 losses Estate gains and losses REMIC income Farm rent Schedule F: taxes paid, depreciation
Minnesota Property Tax Refund	Federal adjusted gross income Nontaxable social security payments Nontaxable contributions to IRA, Keogh, SEP, or other retirement plans Public assistance payments Other income (including worker's compensation, pensions, veterans' payments, nontaxable interest) Renter's property tax Real estate taxes Mobilehome property taxes and rent Regular property tax refund Special property tax refund
Miscellaneous	Public assistance payments (including AFDC, MFIP, Refugee Cash Assistance, GA, FGA, MSA, EA, and Special Needs payments) Workers' compensation benefits Unemployment benefits Social security benefits Mortgage interest Wages, salaries and tips Pension income Dividend income Interest income
Local Property Taxes	Homestead limited market value for homeowners Homestead property tax for homeowners

Estimated Expenditures and Taxes	
Consumer Expenditures	Expenditures used in calculating sales, excise, insurance, vehicle registration and other taxes: Total household expenditures Hotel and motel Food (taxable) Alcohol Tobacco Gasoline Vehicles (before trade-in) Vehicles (net of trade-in) Other vehicle expenses Furniture and equipment Household supplies Home maintenance Utilities (taxable) Miscellaneous manufactured items Entertainment Miscellaneous services (taxable) Prescription drugs (taxable) Life insurance Automobile insurance Homeowners insurance Health insurance Gambling Medical
State taxes	State sales tax and motor vehicle excise tax Alcoholic beverage excise tax Motor fuels excise tax Cigarette and tobacco products excise taxes Insurance premiums tax Motor vehicle registration tax Gambling tax MinnesotaCare tax Mortgage and deed taxes
Local Property Taxes	Homestead estimated limited market value for farmers Homestead property tax for farmers Renter's property tax Seasonal/recreational property tax Property tax refund for farmers split into individual and business parts
Business Taxes	Nonrental property taxes Renter property taxes State sales tax and motor vehicle excise tax Corporate franchise tax Motor fuels excise tax Motor vehicle registration tax Insurance premiums tax Mortgage and deed taxes

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Table B-1 (a)

1994 Minnesota Tax Incidence Study
State and Local Tax Burden Amounts by Population Decile (dollars in thousands)
ALL TAXPAYERS

				State Income Taxes		State Sales Tax			State Excise Taxes		Miscellaneous State Taxes		Total State Taxes		
Population Decile	Income Range	Number of Households	Household Income	Individual Income Tax	Corporate Franchise Tax	Purchases by Individuals	Purchases by Businesses	Sales Tax Total	Purchases by Individuals	Purchases by Businesses	Taxes on Individuals	Taxes on Businesses	Total on Individuals	Total on Businesses	State Taxes Total
First	$6,384 & Under	214,882	$868,492	- $3,374	$7,191	$36,042	$25,575	$61,617	$19,074	$3,387	$14,289	$3,310	$66,031	$39,463	$105,494
Second	$6,384 - $9,881	214,882	1,745,621	- $671	10,712	54,723	32,890	87,613	24,985	5,116	18,245	3,067	97,282	51,785	149,067
Third	$9,881 - $14,594	214,882	2,618,628	19,298	14,116	75,638	41,327	116,965	30,838	6,504	25,275	4,033	151,049	65,980	217,029
Fourth	$14,594 - $19,609	214,882	3,657,688	63,425	18,370	102,928	53,099	156,027	40,181	8,070	38,316	5,551	244,850	85,090	329,940
Fifth	$19,609 - $25,421	214,882	4,791,448	115,555	22,219	125,213	63,279	188,492	44,476	9,531	49,965	6,497	335,209	101,526	436,735
Sixth	$25,421 - $32,108	214,882	6,147,793	187,886	27,045	146,754	76,591	223,345	47,270	11,258	59,083	8,624	440,993	123,518	564,511
Seventh	$32,108 - $40,785	214,882	7,814,472	275,526	32,903	173,690	90,759	264,449	54,008	13,413	74,938	9,679	578,162	146,754	724,916
Eighth	$40,785 - $52,073	214,882	9,953,255	405,801	39,593	205,459	107,322	312,781	59,935	15,976	91,346	11,516	762,541	174,407	936,948
Ninth	$52,073 - $70,567	214,882	12,929,235	604,835	48,934	245,917	130,212	376,129	61,232	19,234	111,227	14,312	1,023,211	212,692	1,235,903
Tenth	$70,567 & Over	214,882	29,621,742	1,701,839	88,672	377,610	268,391	646,001	64,837	31,178	156,109	34,582	2,300,395	422,823	2,723,218
TOTALS		2,148,820	$80,148,374	$3,370,120	$309,755	$1,543,974	$889,445	$2,433,419	$446,836	$123,667	$638,793	$101,171	$5,999,723	$1,424,038	$7,423,761
Top 5%	$92,167 & Over	107,441	$21,068,008	$1,270,346	$58,297	$229,572	$185,945	$415,517	$33,707	$19,513	$91,018	$24,782	$1,624,643	$288,537	$1,913,180
Top 1%	$206,869 & Over	21,488	$10,289,836	$665,291	$23,789	$71,946	$87,215	$159,161	$7,406	$6,946	$27,120	$12,887	$771,763	$130,837	$902,600

				Residential Local Property Taxes						Nonresidential	Local Property	Total State and Local Taxes
Population Decile	Income Range	Number of Households	Household Income	Homeowners after PTR	Renters after PTR	Owners of Rental Prop.	Total on Rental Prop.	Seasonal/ Recreational	Residential Total	Local Property Taxes	Taxes Total	
First	$6,384 & Under	214,882	$868,492	$21,846	$9,238	$5,412	$14,650	$1,376	$37,872	$46,691	$84,563	$190,057
Second	$6,384 - $9,881	214,882	1,745,621	21,161	8,849	2,585	11,434	1,128	33,723	31,536	65,259	214,326
Third	$9,881 - $14,594	214,882	2,618,628	33,642	11,622	1,376	12,998	1,939	48,579	43,196	91,775	308,804
Fourth	$14,594 - $19,609	214,882	3,657,688	54,105	14,194	2,929	17,123	3,903	75,131	62,471	137,602	467,542
Fifth	$19,609 - $25,421	214,882	4,791,448	73,932	24,547	4,296	28,843	5,544	108,319	69,344	177,663	614,398
Sixth	$25,421 - $32,108	214,882	6,147,793	102,494	33,793	5,154	38,947	6,928	148,369	99,500	247,869	812,380
Seventh	$32,108 - $40,785	214,882	7,814,472	150,743	25,269	6,400	31,669	9,638	192,050	101,001	293,051	1,017,967
Eighth	$40,785 - $52,073	214,882	9,953,255	196,177	18,550	6,409	24,959	11,471	232,607	120,635	353,242	1,290,190
Ninth	$52,073 - $70,567	214,882	12,929,235	257,345	15,307	7,718	23,025	16,184	296,554	151,500	448,054	1,683,957
Tenth	$70,567 & Over	214,882	29,621,742	492,656	14,905	83,236	98,141	26,441	617,238	383,335	1,000,573	3,723,791
TOTALS		2,148,820	$80,148,374	$1,404,101	$176,274	$125,515	$301,789	$84,552	$1,790,442	$1,109,209	$2,899,651	$10,323,412
Top 5%	$92,167 & Over	107,441	$21,068,008	$317,891	$8,735	$75,302	$84,037	$16,086	$418,014	$269,915	$687,929	$2,601,109
Top 1%	$206,869 & Over	21,488	$10,289,836	$101,891	$2,608	$53,137	$55,745	$4,690	$162,326	$144,759	$307,085	$1,209,685

See notes at end of Appendix C

APPENDIX B

Minnesota Tax Burdens by Population Decile

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Table B-1 (b)

1994 Minnesota Tax Incidence Study
Effective Tax Rates by Population Decile
ALL TAXPAYERS

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes: Individual Income Tax	State Income Taxes: Corporate Franchise Tax	State Sales Tax: Purchases by Individuals	State Sales Tax: Purchases by Businesses	State Sales Tax: Sales Tax Total	State Excise Taxes: Purchases by Individuals	State Excise Taxes: Purchases by Businesses	Miscellaneous State Taxes: Taxes on Individuals	Miscellaneous State Taxes: Taxes on Businesses	Total State Taxes: Total on Individuals	Total State Taxes: Total on Businesses	Total State Taxes: State Taxes Total
First	$6,384 & Under	214,882	$868,492	-0.4%	0.8%	4.1%	2.9%	7.1%	2.2%	0.4%	1.6%	0.4%	7.6%	4.5%	12.1%
Second	$6,384 - $9,881	214,882	1,745,621	0.0%	0.6%	3.1%	1.9%	5.0%	1.4%	0.3%	1.0%	0.2%	5.6%	3.0%	8.5%
Third	$9,881 - $14,594	214,882	2,618,628	0.7%	0.5%	2.9%	1.6%	4.5%	1.2%	0.2%	1.0%	0.2%	5.8%	2.5%	8.3%
Fourth	$14,594 - $19,609	214,882	3,657,688	1.7%	0.5%	2.8%	1.5%	4.3%	1.1%	0.2%	1.0%	0.2%	6.7%	2.3%	9.0%
Fifth	$19,609 - $25,421	214,882	4,791,448	2.4%	0.5%	2.6%	1.3%	3.9%	0.9%	0.2%	1.0%	0.1%	7.0%	2.1%	9.1%
Sixth	$25,421 - $32,108	214,882	6,147,793	3.1%	0.4%	2.4%	1.2%	3.6%	0.8%	0.2%	1.0%	0.1%	7.2%	2.0%	9.2%
Seventh	$32,108 - $40,785	214,882	7,814,472	3.5%	0.4%	2.2%	1.2%	3.4%	0.7%	0.2%	1.0%	0.1%	7.4%	1.9%	9.3%
Eighth	$40,785 - $52,073	214,882	9,953,255	4.1%	0.4%	2.1%	1.1%	3.1%	0.6%	0.2%	0.9%	0.1%	7.7%	1.8%	9.4%
Ninth	$52,073 - $70,567	214,882	12,929,235	4.7%	0.4%	1.9%	1.0%	2.9%	0.5%	0.1%	0.9%	0.1%	7.9%	1.6%	9.6%
Tenth	$70,567 & Over	214,882	29,621,742	5.7%	0.3%	1.3%	0.9%	2.2%	0.2%	0.1%	0.5%	0.1%	7.8%	1.4%	9.2%
TOTALS		2,148,820	$80,148,374	4.2%	0.4%	1.9%	1.1%	3.0%	0.6%	0.2%	0.8%	0.1%	7.5%	1.8%	9.3%
Top 5%	$92,167 & Over	107,441	$21,068,008	6.0%	0.3%	1.1%	0.9%	2.0%	0.2%	0.1%	0.4%	0.1%	7.7%	1.4%	9.1%
Top 1%	$206,869 & Over	21,488	$10,289,836	6.5%	0.2%	0.7%	0.8%	1.5%	0.1%	0.1%	0.3%	0.1%	7.5%	1.3%	8.8%

Population Decile	Income Range	Number of Households	Household Income	Residential Local Property Taxes: Homeowners after PTR	Residential Local Property Taxes: Renters after PTR	Residential Local Property Taxes: Owners of Rental Prop.	Residential Local Property Taxes: Total on Rental Prop.	Residential Local Property Taxes: Seasonal/ Recreational	Residential Local Property Taxes: Residential Total	Nonresidential Local Property Taxes	Local Property Taxes Total	Total State and Local Taxes
First	$6,384 & Under	214,882	$868,492	2.5%	1.1%	0.6%	1.7%	0.2%	4.4%	5.4%	9.7%	21.9%
Second	$6,384 - $9,881	214,882	1,745,621	1.2%	0.5%	0.1%	0.7%	0.1%	1.9%	1.8%	3.7%	12.3%
Third	$9,881 - $14,594	214,882	2,618,628	1.3%	0.4%	0.1%	0.5%	0.1%	1.9%	1.6%	3.5%	11.8%
Fourth	$14,594 - $19,609	214,882	3,657,688	1.5%	0.4%	0.1%	0.5%	0.1%	2.1%	1.7%	3.8%	12.8%
Fifth	$19,609 - $25,421	214,882	4,791,448	1.5%	0.5%	0.1%	0.6%	0.1%	2.3%	1.4%	3.7%	12.8%
Sixth	$25,421 - $32,108	214,882	6,147,793	1.7%	0.5%	0.1%	0.6%	0.1%	2.4%	1.6%	4.0%	13.2%
Seventh	$32,108 - $40,785	214,882	7,814,472	1.9%	0.3%	0.1%	0.4%	0.1%	2.5%	1.3%	3.8%	13.0%
Eighth	$40,785 - $52,073	214,882	9,953,255	2.0%	0.2%	0.1%	0.3%	0.1%	2.3%	1.2%	3.5%	13.0%
Ninth	$52,073 - $70,567	214,882	12,929,235	2.0%	0.1%	0.1%	0.2%	0.1%	2.3%	1.2%	3.5%	13.0%
Tenth	$70,567 & Over	214,882	29,621,742	1.7%	0.1%	0.3%	0.3%	0.1%	2.1%	1.3%	3.4%	12.6%
TOTALS		2,148,820	$80,148,374	1.8%	0.2%	0.2%	0.4%	0.1%	2.2%	1.4%	3.6%	12.9%
Top 5%	$92,167 & Over	107,441	$21,068,008	1.5%	0.0%	0.4%	0.4%	0.1%	2.0%	1.3%	3.3%	12.3%
Top 1%	$206,869 & Over	21,488	$10,289,836	1.0%	0.0%	0.5%	0.5%	0.0%	1.6%	1.4%	3.0%	11.8%

e notes at end of Appendix C

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Table B-2 (a)

1994 Minnesota Tax Incidence Study

State and Local Tax Burden Amounts by Population Decile (dollars in thousands)

HOMEOWNERS (excluding farmers)

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes: Individual Income Tax	State Income Taxes: Corporate Franchise Tax	State Sales Tax: Purchases by Individuals	State Sales Tax: Purchases by Businesses	State Sales Tax: Sales Tax Total	State Excise Taxes: Purchases by Individuals	State Excise Taxes: Purchases by Businesses	Miscellaneous State Taxes: Taxes on Individuals	Miscellaneous State Taxes: Taxes on Businesses	Total State Taxes: Total on Individuals	Total State Taxes: Total on Businesses	Total State Taxes: State Taxes Total
First	$6,384 & Under	41,320	$166,314	- $731	$1,546	$7,255	$7,125	$14,380	$3,668	$657	$3,954	$985	$14,146	$10,313	$24,459
Second	$6,384 - $9,881	51,162	417,050	- $1,631	2,551	13,477	8,674	22,151	5,812	1,236	5,603	839	23,261	13,300	36,561
Third	$9,881 - $14,594	66,217	811,163	759	4,228	22,986	12,630	35,616	8,540	2,000	8,984	1,135	41,269	19,993	61,262
Fourth	$14,594 - $19,609	88,304	1,505,698	14,142	7,615	42,979	22,815	65,794	15,786	3,406	18,463	2,381	91,370	36,217	127,587
Fifth	$19,609 - $25,421	108,377	2,429,954	45,877	11,360	64,360	32,921	97,281	22,145	4,932	28,262	3,299	160,644	52,512	213,156
Sixth	$25,421 - $32,108	127,667	3,655,490	99,680	16,135	88,224	44,851	133,075	28,092	6,792	38,509	4,550	254,505	72,328	326,833
Seventh	$32,108 - $40,785	159,812	5,829,247	193,669	24,555	130,515	67,843	198,358	40,672	10,090	59,127	6,956	423,983	109,444	533,427
Eighth	$40,785 - $52,073	178,543	8,291,374	333,453	32,944	171,347	88,475	259,822	50,134	13,312	78,128	9,073	633,062	143,804	776,866
Ninth	$52,073 - $70,567	186,753	11,262,667	526,484	42,813	214,707	112,114	326,821	53,879	16,830	98,977	11,543	894,047	183,300	1,077,347
Tenth	$70,567 & Over	194,401	26,830,619	1,556,158	80,274	342,080	240,216	582,296	59,091	28,342	143,317	29,687	2,100,646	378,519	2,479,165
TOTALS		1,202,556	$61,199,576	$2,767,860	$224,021	$1,097,930	$637,664	$1,735,594	$287,819	$87,597	$483,324	$70,448	$4,636,933	$1,019,730	$5,656,663
Top 5%	$92,167 & Over	97,400	$19,114,362	$1,160,818	$52,850	$208,457	$167,456	$375,913	$30,764	$17,766	$83,677	$21,813	$1,483,716	$259,885	$1,743,601
Top 1%	$206,869 & Over	19,780	$9,395,509	$606,475	$21,390	$66,245	$78,593	$144,838	$6,842	$6,364	$25,260	$11,320	$704,822	$117,667	$822,489

Population Decile	Income Range	Number of Households	Household Income	Residential Local Property Taxes: Total on Homeowners	Residential Local Property Taxes: Homeowners after PTR	Residential Local Property Taxes: Owners of Rental Prop.	Residential Local Property Taxes: Seasonal/ Recreational	Residential Local Property Taxes: Residential Total	Nonresidential Local Property Taxes	Local Property Taxes Total		Total State and Local Taxes
First	$6,384 & Under	41,320	$166,314	$21,866	$18,061	$4,262	$1,376	$23,699	$12,303	$36,002		$60,461
Second	$6,384 - $9,881	51,162	417,050	27,339	19,453	1,901	1,128	22,482	8,470	30,952		67,513
Third	$9,881 - $14,594	66,217	811,163	39,782	28,991	641	1,939	31,571	10,901	42,472		103,734
Fourth	$14,594 - $19,609	88,304	1,505,698	62,891	50,529	2,122	3,903	56,554	27,105	83,659		211,246
Fifth	$19,609 - $25,421	108,377	2,429,954	79,511	69,782	2,978	5,544	78,304	33,843	112,147		325,303
Sixth	$25,421 - $32,108	127,667	3,655,490	103,827	96,623	2,503	6,928	106,054	45,034	151,088		477,921
Seventh	$32,108 - $40,785	159,812	5,829,247	154,431	145,976	5,163	9,638	160,777	68,180	228,957		762,384
Eighth	$40,785 - $52,073	178,543	8,291,374	196,477	191,336	5,110	11,471	207,917	87,759	295,676		1,072,542
Ninth	$52,073 - $70,567	186,753	11,262,667	255,125	252,100	5,995	16,184	274,279	107,883	382,162		1,459,509
Tenth	$70,567 & Over	194,401	26,830,619	489,073	487,173	74,103	26,441	587,717	307,354	895,071		3,374,236
TOTALS		1,202,556	$61,199,576	$1,430,322	$1,360,024	$104,778	$84,552	$1,549,354	$708,832	$2,258,186		$7,914,849
Top 5%	$92,167 & Over	97,400	$19,114,362	$315,837	$314,819	$67,776	$16,086	$398,681	$229,378	$628,059		$2,371,660
Top 1%	$206,869 & Over	19,780	$9,395,509	$101,536	$101,337	$48,167	$4,690	$154,194	$123,168	$277,362		$1,099,851

See notes at end of Appendix C

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Table B-2 (b)

1994 Minnesota Tax Incidence Study
Effective Tax Rates by Population Decile
HOMEOWNERS (excluding farmers)

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes: Individual Income Tax	State Income Taxes: Corporate Franchise Tax	State Sales Tax: Purchases by Individuals	State Sales Tax: Purchases by Businesses	State Sales Tax: Sales Tax Total	State Excise Taxes: Purchases by Individuals	State Excise Taxes: Purchases by Businesses	Miscellaneous State Taxes: Taxes on Individuals	Miscellaneous State Taxes: Taxes on Businesses	Total State Taxes: Total on Individuals	Total State Taxes: Total on Businesses	Total State Taxes: State Taxes Total
First	$6,384 & Under	41,320	$166,314	- 0.4%	0.9%	4.4%	4.3%	8.6%	2.2%	0.4%	2.4%	0.6%	8.5%	6.2%	14.7%
Second	$6,384 - $9,881	51,162	417,050	- 0.4%	0.6%	3.2%	2.1%	5.3%	1.4%	0.3%	1.3%	0.2%	5.6%	3.2%	8.8%
Third	$9,881 - $14,594	66,217	811,163	0.1%	0.5%	2.8%	1.6%	4.4%	1.1%	0.2%	1.1%	0.1%	5.1%	2.5%	7.6%
Fourth	$14,594 - $19,609	88,304	1,505,698	0.9%	0.5%	2.9%	1.5%	4.4%	1.0%	0.2%	1.2%	0.2%	6.1%	2.4%	8.5%
Fifth	$19,609 - $25,421	108,377	2,429,954	1.9%	0.5%	2.6%	1.4%	4.0%	0.9%	0.2%	1.2%	0.1%	6.6%	2.2%	8.8%
Sixth	$25,421 - $32,108	127,667	3,655,490	2.7%	0.4%	2.4%	1.2%	3.6%	0.8%	0.2%	1.1%	0.1%	7.0%	2.0%	8.9%
Seventh	$32,108 - $40,785	159,812	5,829,247	3.3%	0.4%	2.2%	1.2%	3.4%	0.7%	0.2%	1.0%	0.1%	7.3%	1.9%	9.2%
Eighth	$40,785 - $52,073	178,543	8,291,374	4.0%	0.4%	2.1%	1.1%	3.1%	0.6%	0.2%	0.9%	0.1%	7.6%	1.7%	9.4%
Ninth	$52,073 - $70,567	186,753	11,262,667	4.7%	0.4%	1.9%	1.0%	2.9%	0.5%	0.1%	0.9%	0.1%	7.9%	1.6%	9.6%
Tenth	$70,567 & Over	194,401	26,830,619	5.8%	0.3%	1.3%	0.9%	2.2%	0.2%	0.1%	0.5%	0.1%	7.8%	1.4%	9.2%
TOTALS		1,202,556	$61,199,576	4.5%	0.4%	1.8%	1.0%	2.8%	0.5%	0.1%	0.8%	0.1%	7.6%	1.7%	9.2%
Top 5%	$92,167 & Over	97,400	$19,114,362	6.1%	0.3%	1.1%	0.9%	2.0%	0.2%	0.1%	0.4%	0.1%	7.8%	1.4%	9.1%
Top 1%	$206,869 & Over	19,780	$9,395,509	6.5%	0.2%	0.7%	0.8%	1.5%	0.1%	0.1%	0.3%	0.1%	7.5%	1.3%	8.8%

Population Decile	Income Range	Number of Households	Household Income	Residential Local Property Taxes: Total on Homeowners	Residential Local Property Taxes: Homeowners after PTR	Residential Local Property Taxes: Owners of Rental Prop.	Residential Local Property Taxes: Seasonal/ Recreational	Residential Local Property Taxes: Residential Total	Nonresidential Local Property Taxes	Local Property Taxes Total	Total State and Local Taxes
First	$6,384 & Under	41,320	$166,314	13.1%	10.9%	2.6%	0.8%	14.2%	7.4%	21.6%	36.4%
Second	$6,384 - $9,881	51,162	417,050	6.6%	4.7%	0.5%	0.3%	5.4%	2.0%	7.4%	16.2%
Third	$9,881 - $14,594	66,217	811,163	4.9%	3.6%	0.1%	0.2%	3.9%	1.3%	5.2%	12.8%
Fourth	$14,594 - $19,609	88,304	1,505,698	4.2%	3.4%	0.1%	0.3%	3.8%	1.8%	5.6%	14.0%
Fifth	$19,609 - $25,421	108,377	2,429,954	3.3%	2.9%	0.1%	0.2%	3.2%	1.4%	4.6%	13.4%
Sixth	$25,421 - $32,108	127,667	3,655,490	2.8%	2.6%	0.1%	0.2%	2.9%	1.2%	4.1%	13.1%
Seventh	$32,108 - $40,785	159,812	5,829,247	2.6%	2.5%	0.1%	0.2%	2.8%	1.2%	3.9%	13.1%
Eighth	$40,785 - $52,073	178,543	8,291,374	2.4%	2.3%	0.1%	0.1%	2.5%	1.1%	3.6%	12.9%
Ninth	$52,073 - $70,567	186,753	11,262,667	2.3%	2.2%	0.1%	0.1%	2.4%	1.0%	3.4%	13.0%
Tenth	$70,567 & Over	194,401	26,830,619	1.8%	1.8%	0.3%	0.1%	2.2%	1.1%	3.3%	12.6%
TOTALS		1,202,556	$61,199,576	2.3%	2.2%	0.2%	0.1%	2.5%	1.2%	3.7%	12.9%
Top 5%	$92,167 & Over	97,400	$19,114,362	1.7%	1.6%	0.4%	0.1%	2.1%	1.2%	3.3%	12.4%
Top 1%	$206,869 & Over	19,780	$9,395,509	1.1%	1.1%	0.5%	0.0%	1.6%	1.3%	3.0%	11.7%

notes at end of Appendix C

Table B-3 (a)

1994 Minnesota Tax Incidence Study
State and Local Tax Burden Amounts by Population Decile (dollars in thousands)
RENTERS

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes: Individual Income Tax	State Income Taxes: Corporate Franchise Tax	State Sales Tax: Purchases by Individuals	State Sales Tax: Purchases by Businesses	State Sales Tax: Sales Tax Total	State Excise Taxes: Purchases by Individuals	State Excise Taxes: Purchases by Businesses	Miscellaneous State Taxes: Taxes on Individuals	Miscellaneous State Taxes: Taxes on Businesses	Total State Taxes: Total on Individuals	Total State Taxes: Total on Businesses	Total State Taxes: State Taxes Total
First	$6,384 & Under	85,770	$369,443	- $1,975	$2,894	$15,143	$8,865	$24,008	$8,467	$1,424	$4,462	$794	$26,097	$13,977	$40,074
Second	$6,384 - $9,881	95,632	776,390	- $2,526	4,779	24,298	14,090	38,388	11,537	2,296	7,383	1,248	40,692	22,413	63,105
Third	$9,881 - $14,594	88,238	1,069,040	6,902	5,882	31,326	16,819	48,145	13,141	2,703	9,857	1,563	61,226	26,967	88,193
Fourth	$14,594 - $19,609	74,187	1,261,065	26,198	6,278	35,038	17,200	52,238	14,071	2,743	11,793	1,584	87,100	27,805	114,905
Fifth	$19,609 - $25,421	64,591	1,427,223	43,042	6,593	36,590	17,647	54,237	13,458	2,768	13,115	1,684	106,205	28,692	134,897
Sixth	$25,421 - $32,108	54,039	1,542,190	56,530	6,812	35,820	18,065	53,885	11,743	2,738	12,120	1,820	116,213	29,435	145,648
Seventh	$32,108 - $40,785	36,795	1,326,298	54,367	5,631	28,940	14,770	43,710	9,008	2,238	10,478	1,488	102,793	24,127	126,920
Eighth	$40,785 - $52,073	22,768	1,045,257	47,641	4,201	21,264	11,194	32,458	6,091	1,659	7,883	1,256	82,879	18,310	101,189
Ninth	$52,073 - $70,567	16,511	976,139	44,987	3,590	18,362	9,586	27,948	4,365	1,415	7,153	997	74,867	15,588	90,455
Tenth	$70,567 & Over	11,416	1,573,506	77,941	4,823	19,565	14,470	34,035	3,079	1,558	6,669	2,419	107,254	23,270	130,524
TOTALS		549,947	$11,366,551	$353,107	$51,483	$266,346	$142,706	$409,052	$94,960	$21,542	$90,913	$14,853	$805,326	$230,584	$1,035,910
Top 5%	$92,167 & Over	5,448	$1,093,081	$58,933	$3,147	$11,312	$9,506	$20,818	$1,535	$952	$3,698	$1,458	$75,478	$15,063	$90,541
Top 1%	$206,869 & Over	1,041	$541,541	$34,688	$1,513	$3,427	$5,000	$8,427	$337	$351	$1,035	$927	$39,487	$7,791	$47,278

Population Decile	Income Range	Number of Households	Household Income	Residential Local Property Taxes: Total on Renters	Residential Local Property Taxes: Renters after PTR	Residential Local Property Taxes: Owners of Rental Prop.	Residential Local Property Taxes: Residential Total	Nonresidential Local Property Taxes	Local Property Taxes Total		Total State and Local Taxes
First	$6,384 & Under	85,770	$369,443	$23,809	$9,238	$413	$9,651	$7,770	$17,421		$57,495
Second	$6,384 - $9,881	95,632	776,390	29,619	8,849	176	9,025	12,423	21,448		84,553
Third	$9,881 - $14,594	88,238	1,069,040	31,141	11,622	245	11,867	15,653	27,520		115,713
Fourth	$14,594 - $19,609	74,187	1,261,065	25,758	14,194	284	14,478	14,563	29,041		143,946
Fifth	$19,609 - $25,421	64,591	1,427,223	35,101	24,547	308	24,855	15,929	40,784		175,681
Sixth	$25,421 - $32,108	54,039	1,542,190	37,221	33,793	753	34,546	16,555	51,101		196,749
Seventh	$32,108 - $40,785	36,795	1,326,298	26,808	25,269	596	25,865	13,648	39,513		166,433
Eighth	$40,785 - $52,073	22,768	1,045,257	18,807	18,550	520	19,070	13,958	33,028		134,217
Ninth	$52,073 - $70,567	16,511	976,139	15,555	15,307	720	16,027	9,368	25,395		115,850
Tenth	$70,567 & Over	11,416	1,573,506	15,001	14,905	3,689	18,594	36,251	54,845		185,369
TOTALS		549,947	$11,366,551	$258,820	$176,274	$7,704	$183,978	$156,118	$340,096		$1,376,006
Top 5%	$92,167 & Over	5,448	$1,093,081	$8,736	$8,735	$3,237	$11,972	$18,494	$30,466		$121,007
p 1%	$206,869 & Over	1,041	$541,541	$2,608	$2,608	$2,567	$5,175	$12,923	$18,098		$65,376

See notes at end of Appendix C

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Table B-3 (b)

1994 Minnesota Tax Incidence Study
Effective Tax Rates by Population Decile
RENTERS

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes: Individual Income Tax	State Income Taxes: Corporate Franchise Tax	State Sales Tax: Purchases by Individuals	State Sales Tax: Purchases by Businesses	State Sales Tax: Sales Tax Total	State Excise Taxes: Purchases by Individuals	State Excise Taxes: Purchases by Businesses	Miscellaneous State Taxes: Taxes on Individuals	Miscellaneous State Taxes: Taxes on Businesses	Total State Taxes: Total on Individuals	Total State Taxes: Total on Businesses	Total State Taxes: State Taxes Total
First	$6,384 & Under	85,770	$369,443	- 0.5%	0.8%	4.1%	2.4%	6.5%	2.3%	0.4%	1.2%	0.2%	7.1%	3.8%	10.8%
Second	$6,384 - $9,881	95,632	776,390	- 0.3%	0.6%	3.1%	1.8%	4.9%	1.5%	0.3%	1.0%	0.2%	5.2%	2.9%	8.1%
Third	$9,881 - $14,594	88,238	1,069,040	0.6%	0.6%	2.9%	1.6%	4.5%	1.2%	0.3%	0.9%	0.1%	5.7%	2.5%	8.2%
Fourth	$14,594 - $19,609	74,187	1,261,065	2.1%	0.5%	2.8%	1.4%	4.1%	1.1%	0.2%	0.9%	0.1%	6.9%	2.2%	9.1%
Fifth	$19,609 - $25,421	64,591	1,427,223	3.0%	0.5%	2.6%	1.2%	3.8%	0.9%	0.2%	0.9%	0.1%	7.4%	2.0%	9.5%
Sixth	$25,421 - $32,108	54,039	1,542,190	3.7%	0.4%	2.3%	1.2%	3.5%	0.8%	0.2%	0.8%	0.1%	7.5%	1.9%	9.4%
Seventh	$32,108 - $40,785	36,795	1,326,298	4.1%	0.4%	2.2%	1.1%	3.3%	0.7%	0.2%	0.8%	0.1%	7.8%	1.8%	9.6%
Eighth	$40,785 - $52,073	22,768	1,045,257	4.6%	0.4%	2.0%	1.1%	3.1%	0.6%	0.2%	0.8%	0.1%	7.9%	1.8%	9.7%
Ninth	$52,073 - $70,567	16,511	976,139	4.6%	0.4%	1.9%	1.0%	2.9%	0.4%	0.1%	0.7%	0.1%	7.7%	1.6%	9.3%
Tenth	$70,567 & Over	11,416	1,573,506	5.0%	0.3%	1.2%	0.9%	2.2%	0.2%	0.1%	0.4%	0.2%	6.8%	1.5%	8.3%
TOTALS		549,947	$11,366,551	3.1%	0.5%	2.3%	1.3%	3.6%	0.8%	0.2%	0.8%	0.1%	7.1%	2.0%	9.1%
Top 5%	$92,167 & Over	5,448	$1,093,081	5.4%	0.3%	1.0%	0.9%	1.9%	0.1%	0.1%	0.3%	0.1%	6.9%	1.4%	8.3%
Top 1%	$206,869 & Over	1,041	$541,541	6.4%	0.3%	0.6%	0.9%	1.6%	0.1%	0.1%	0.2%	0.2%	7.3%	1.4%	8.7%

Population Decile	Income Range	Number of Households	Household Income	Residential Local Property Taxes: Total on Renters	Residential Local Property Taxes: Renters after PTR	Residential Local Property Taxes: Owners of Rental Prop.	Residential Local Property Taxes: Residential Total	Nonresidential Local Property Taxes	Local Property Taxes Total	Total State and Local Taxes
First	$6,384 & Under	85,770	$369,443	6.4%	2.5%	0.1%	2.6%	2.1%	4.7%	15.6%
Second	$6,384 - $9,881	95,632	776,390	3.8%	1.1%	0.0%	1.2%	1.6%	2.8%	10.9%
Third	$9,881 - $14,594	88,238	1,069,040	2.9%	1.1%	0.0%	1.1%	1.5%	2.6%	10.8%
Fourth	$14,594 - $19,609	74,187	1,261,065	2.0%	1.1%	0.0%	1.1%	1.2%	2.3%	11.4%
Fifth	$19,609 - $25,421	64,591	1,427,223	2.5%	1.7%	0.0%	1.7%	1.1%	2.9%	12.3%
Sixth	$25,421 - $32,108	54,039	1,542,190	2.4%	2.2%	0.0%	2.2%	1.1%	3.3%	12.8%
Seventh	$32,108 - $40,785	36,795	1,326,298	2.0%	1.9%	0.0%	2.0%	1.0%	3.0%	12.5%
Eighth	$40,785 - $52,073	22,768	1,045,257	1.8%	1.8%	0.0%	1.8%	1.3%	3.2%	12.8%
Ninth	$52,073 - $70,567	16,511	976,139	1.6%	1.6%	0.1%	1.6%	1.0%	2.6%	11.9%
Tenth	$70,567 & Over	11,416	1,573,506	1.0%	0.9%	0.2%	1.2%	2.3%	3.5%	11.8%
TOTALS		549,947	$11,366,551	2.3%	1.6%	0.1%	1.6%	1.4%	3.0%	12.1%
Top 5%	$92,167 & Over	5,448	$1,093,081	0.8%	0.8%	0.3%	1.1%	1.7%	2.8%	11.1%
Top 1%	$206,869 & Over	1,041	$541,541	0.5%	0.5%	0.5%	1.0%	2.4%	3.3%	12.1%

: notes at end of Appendix C

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Table B-4 (a)

1994 Minnesota Tax Incidence Study
State and Local Tax Burden Amounts by Population Decile (dollars in thousands)
OTHERS (farmers and those with no homeowner or renter property tax)

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes: Individual Income Tax	State Income Taxes: Corporate Franchise Tax	State Sales Tax: Purchases by Individuals	State Sales Tax: Purchases by Businesses	State Sales Tax: Sales Tax Total	State Excise Taxes: Purchases by Individuals	State Excise Taxes: Purchases by Businesses	Miscellaneous State Taxes: Taxes on Individuals	Miscellaneous State Taxes: Taxes on Businesses	Total State Taxes: Total on Individuals	Total State Taxes: Total on Businesses	Total State Taxes: State Taxes Total
First	$6,384 & Under	87,792	$332,735	- $668	$2,751	$13,644	$9,585	$23,229	$6,939	$1,306	$5,873	$1,531	$25,788	$15,173	$40,961
Second	$6,384 - $9,881	68,088	552,181	$3,486	3,382	16,948	10,126	27,074	7,636	1,584	5,259	980	33,329	16,072	49,401
Third	$9,881 - $14,594	60,427	738,425	11,637	4,006	21,326	11,878	33,204	9,157	1,801	6,434	1,335	48,554	19,020	67,574
Fourth	$14,594 - $19,609	52,391	890,925	23,085	4,477	24,911	13,084	37,995	10,324	1,921	8,060	1,586	66,380	21,068	87,448
Fifth	$19,609 - $25,421	41,914	934,271	26,636	4,266	24,263	12,711	36,974	8,873	1,831	8,588	1,514	68,360	20,322	88,682
Sixth	$25,421 - $32,108	33,176	950,113	31,676	4,098	22,710	13,675	36,385	7,435	1,728	8,454	2,254	70,275	21,755	92,030
Seventh	$32,108 - $40,785	18,275	658,927	27,490	2,717	14,235	8,146	22,381	4,328	1,085	5,333	1,235	51,386	13,183	64,569
Eighth	$40,785 - $52,073	13,571	616,624	24,707	2,448	12,848	7,653	20,501	3,710	1,005	5,335	1,187	46,600	12,293	58,893
Ninth	$52,073 - $70,567	11,618	690,429	33,364	2,531	12,848	8,512	21,360	2,988	989	5,097	1,772	54,297	13,804	68,101
Tenth	$70,567 & Over	9,065	1,217,617	67,740	3,575	15,965	13,705	29,670	2,667	1,278	6,123	2,476	92,495	21,034	113,529
TOTALS		396,317	$7,582,247	$249,153	$34,251	$179,698	$109,075	$288,773	$64,057	$14,528	$64,556	$15,870	$557,464	$173,724	$731,188
Top 5%	$92,167 & Over	4,593	$860,565	$50,595	$2,300	$9,803	$8,983	$18,786	$1,408	$795	$3,643	$1,511	$65,449	$13,589	$79,038
Top 1%	$206,869 & Over	667	$352,786	$24,128	$886	$2,274	$3,622	$5,896	$227	$231	$825	$640	$27,454	$5,379	$32,833

Population Decile	Income Range	Number of Households	Household Income	Residential Local Property Taxes: Total (HGA) on Farmers	Residential Local Property Taxes: Farmers after PTR	Residential Local Property Taxes: Owners of Rental Prop.	Residential Local Property Taxes: Residential Total	Nonresidential Local Property Taxes	Local Property Taxes Total	Total State and Local Taxes
First	$6,384 & Under	87,792	$332,735	$4,875	$3,785	$737	$4,522	$26,618	$31,140	$72,101
Second	$6,384 - $9,881	68,088	552,181	1,995	1,708	508	2,216	10,643	12,859	62,260
Third	$9,881 - $14,594	60,427	738,425	5,625	4,651	490	5,141	16,642	21,783	89,357
Fourth	$14,594 - $19,609	52,391	890,925	3,964	3,576	523	4,099	20,803	24,902	112,350
Fifth	$19,609 - $25,421	41,914	934,271	4,780	4,150	1,010	5,160	19,572	24,732	113,414
Sixth	$25,421 - $32,108	33,176	950,113	6,547	5,871	1,898	7,769	37,911	45,680	137,710
Seventh	$32,108 - $40,785	18,275	658,927	5,021	4,767	641	5,408	19,173	24,581	89,150
Eighth	$40,785 - $52,073	13,571	616,624	5,130	4,841	779	5,620	18,918	24,538	83,431
Ninth	$52,073 - $70,567	11,618	690,429	5,339	5,245	1,003	6,248	34,249	40,497	108,598
Tenth	$70,567 & Over	9,065	1,217,617	5,586	5,483	5,444	10,927	39,730	50,657	164,186
TOTALS		396,317	$7,582,247	$48,862	$44,077	$13,033	$57,110	$244,259	$301,369	$1,032,557
Top 5%	$92,167 & Over	4,593	$860,565	$3,100	$3,072	$4,289	$7,361	$22,043	$29,404	$108,442
Top 1%	$206,869 & Over	667	$352,786	$555	$554	$2,403	$2,957	$8,668	$11,625	$44,458

See notes at end of Appendix C

Table B-4 (b)

1994 Minnesota Tax Incidence Study
Effective Tax Rates by Population Decile
OTHERS (farmers and those with no homeowner or renter property tax)

Population Decile	Income Range	Number of Households	Household Income	State Income Taxes: Individual Income Tax	State Income Taxes: Corporate Franchise Tax	State Sales Tax: Purchases by Individuals	State Sales Tax: Purchases by Businesses	Sales Tax Total	State Excise Taxes: Purchases by Individuals	State Excise Taxes: Purchases by Businesses	Miscellaneous State Taxes: Taxes on Individuals	Miscellaneous State Taxes: Taxes on Businesses	Total State Taxes: Total on Individuals	Total State Taxes: Total on Businesses	State Taxes Total
First	$6,384 & Under	87,792	$332,735	-0.2%	0.8%	4.1%	2.9%	7.0%	2.1%	0.4%	1.8%	0.5%	7.8%	4.6%	12.3%
Second	$6,384 - $9,881	68,088	552,181	0.6%	0.6%	3.1%	1.8%	4.9%	1.4%	0.3%	1.0%	0.2%	6.0%	2.9%	8.9%
Third	$9,881 - $14,594	60,427	738,425	1.6%	0.5%	2.9%	1.6%	4.5%	1.2%	0.2%	0.9%	0.2%	6.6%	2.6%	9.2%
Fourth	$14,594 - $19,609	52,391	890,925	2.6%	0.5%	2.8%	1.5%	4.3%	1.2%	0.2%	0.9%	0.2%	7.5%	2.4%	9.8%
Fifth	$19,609 - $25,421	41,914	934,271	2.9%	0.5%	2.6%	1.4%	4.0%	0.9%	0.2%	0.9%	0.2%	7.3%	2.2%	9.5%
Sixth	$25,421 - $32,108	33,176	950,113	3.3%	0.4%	2.4%	1.4%	3.8%	0.8%	0.2%	0.9%	0.2%	7.4%	2.3%	9.7%
Seventh	$32,108 - $40,785	18,275	658,927	4.2%	0.4%	2.2%	1.2%	3.4%	0.7%	0.2%	0.8%	0.2%	7.8%	2.0%	9.8%
Eighth	$40,785 - $52,073	13,571	616,624	4.0%	0.4%	2.1%	1.2%	3.3%	0.6%	0.2%	0.9%	0.2%	7.6%	2.0%	9.6%
Ninth	$52,073 - $70,567	11,618	690,429	4.8%	0.4%	1.9%	1.2%	3.1%	0.4%	0.1%	0.7%	0.3%	7.9%	2.0%	9.9%
Tenth	$70,567 & Over	9,065	1,217,617	5.6%	0.3%	1.3%	1.1%	2.4%	0.2%	0.1%	0.5%	0.2%	7.6%	1.7%	9.3%
TOTALS		396,317	$7,582,247	3.3%	0.5%	2.4%	1.4%	3.8%	0.8%	0.2%	0.9%	0.2%	7.4%	2.3%	9.6%
Top 5%	$92,167 & Over	4,593	$860,565	5.9%	0.3%	1.1%	1.0%	2.2%	0.2%	0.1%	0.4%	0.2%	7.6%	1.6%	9.2%
Top 1%	$206,869 & Over	667	$352,786	6.8%	0.3%	0.6%	1.0%	1.7%	0.1%	0.1%	0.2%	0.2%	7.8%	1.5%	9.3%

Population Decile	Income Range	Number of Households	Household Income	Residential Local Property Taxes: Total (HGA) on Farmers	Residential Local Property Taxes: Farmers after PTR	Residential Local Property Taxes: Owners of Rental Prop.	Residential Local Property Taxes: Residential Total	Nonresidential Local Property Taxes	Local Property Taxes Total	Total State and Local Taxes
First	$6,384 & Under	87,792	$332,735	1.5%	1.1%	0.2%	1.4%	8.0%	9.4%	21.7%
Second	$6,384 - $9,881	68,088	552,181	0.4%	0.3%	0.1%	0.4%	1.9%	2.3%	11.3%
Third	$9,881 - $14,594	60,427	738,425	0.8%	0.6%	0.1%	0.7%	2.3%	2.9%	12.1%
Fourth	$14,594 - $19,609	52,391	890,925	0.4%	0.4%	0.1%	0.5%	2.3%	2.8%	12.6%
Fifth	$19,609 - $25,421	41,914	934,271	0.5%	0.4%	0.1%	0.6%	2.1%	2.6%	12.1%
Sixth	$25,421 - $32,108	33,176	950,113	0.7%	0.6%	0.2%	0.8%	4.0%	4.8%	14.5%
Seventh	$32,108 - $40,785	18,275	658,927	0.8%	0.7%	0.1%	0.8%	2.9%	3.7%	13.5%
Eighth	$40,785 - $52,073	13,571	616,624	0.8%	0.8%	0.1%	0.9%	3.1%	4.0%	13.5%
Ninth	$52,073 - $70,567	11,618	690,429	0.8%	0.8%	0.1%	0.9%	5.0%	5.9%	15.7%
Tenth	$70,567 & Over	9,065	1,217,617	0.5%	0.5%	0.4%	0.9%	3.3%	4.2%	13.5%
TOTALS		396,317	$7,582,247	0.6%	0.6%	0.2%	0.8%	3.2%	4.0%	13.6%
Top 5%	$92,167 & Over	4,593	$860,565	0.4%	0.4%	0.5%	0.9%	2.6%	3.4%	12.6%
Top 1%	$206,869 & Over	667	$352,786	0.2%	0.2%	0.7%	0.8%	2.5%	3.3%	12.6%

See notes at end of Appendix C

APPENDIX C

Household Characteristics and Tax Burdens by Type of Household

Table C-1

1994 Minnesota Tax Incidence Study
Household Characteristics and Average Tax Burden Amounts by Population Decile
SINGLE (except retired)

	Population Decile										
HOUSEHOLD CHARACTERISTICS	***One***	***Two***	***Three***	***Four***	***Five***	***Six***	***Seven***	***Eight***	***Nine***	***Ten***	***Total***
Number of households	91,681	81,112	83,895	101,783	93,976	80,835	55,762	31,349	12,430	10,299	643,123
Percent of households in given decile	46%	38%	41%	47%	44%	38%	26%	15%	6%	5%	30%
Average household income	$3,712	$8,138	$12,357	$17,034	$22,334	$28,470	$35,885	$45,698	$59,806	$171,577	$21,948
Percent with earned income	78%	93%	95%	99%	99%	100%	99%	100%	99%	97%	95%
Average earned income	$3,427	$7,479	$11,410	$16,205	$21,394	$27,340	$34,091	$42,539	$54,068	$100,322	$20,374
Housing Status											
Homeowners	12%	14%	15%	23%	35%	46%	56%	73%	69%	78%	31%
Renters	37%	34%	39%	41%	39%	35%	29%	19%	17%	16%	35%
Farmers	2%	3%	1%	1%	1%	1%	1%	2%	1%	2%	2%
Other	49%	49%	45%	34%	25%	19%	13%	7%	12%	4%	32%
Average market value of home	$34,469	$34,596	$36,014	$39,558	$48,772	$54,281	$62,508	$73,571	$78,270	$118,337	$54,844
Average monthly rent	$202	$271	$313	$319	$442	$505	$533	$590	$686	$1,150	$370
AVERAGE TAX BURDENS											
Local Property Tax											
All households											
Total tax	$168	$209	$244	$311	$470	$596	$726	$1,000	$1,048	$2,082	$440
- Property tax refund	-83	-104	-92	-67	-63	-23	-11	-13	-4	-4	-61
Tax after PTR	$85	$105	$152	$243	$407	$573	$715	$987	$1,044	$2,078	$379
Renters only											
Total tax on rental unit	$402	$540	$623	$636	$880	$1,006	$1,062	$1,174	$1,366	$2,291	$737
Renters' total tax on unit	$262	$353	$406	$415	$574	$656	$693	$766	$891	$1,494	$481
- Property tax refund	-187	-240	-197	-118	-120	-28	-4	0	0	0	-130
Renters' tax after PTR	$75	$112	$209	$297	$454	$628	$689	$766	$891	$1,494	$350
Homeowners only											
Total tax on home	$576	$621	$594	$601	$710	$807	$933	$1,175	$1,291	$2,359	$874
- Property tax refund	-112	-158	-108	-80	-48	-30	-18	-18	-6	-5	-51
Homeowners' tax after PTR	$463	$462	$486	$521	$662	$777	$915	$1,157	$1,285	$2,353	$824
State Income Tax	-$4	$79	$307	$600	$925	$1,361	$1,874	$2,569	$3,574	$11,474	$991
State Sales Tax	151	267	361	463	555	635	728	840	990	1,627	486
State Excise Taxes	78	130	167	202	217	214	211	210	210	226	176
Other Taxes	57	86	108	142	178	199	232	274	318	502	154
Business Taxes	257	401	493	570	658	804	955	1,181	1,571	5,543	698
Total State and Local Tax Burden	$624	$1,067	$1,587	$2,220	$2,940	$3,785	$4,715	$6,061	$7,708	$21,450	$2,884
Effective Tax Rate for all taxes	16.8%	13.1%	12.8%	13.0%	13.2%	13.3%	13.1%	13.3%	12.9%	12.5%	13.1%
Renters only	15.4%	12.7%	13.0%	13.2%	13.4%	13.4%	13.0%	13.3%	12.9%	12.4%	13.2%
Homeowners only	30.1%	17.4%	16.2%	14.8%	14.2%	14.0%	13.6%	13.4%	13.2%	12.6%	13.8%

Table C-2

1994 Minnesota Tax Incidence Study
Household Characteristics and Average Tax Burden Amounts by Population Decile
RETIRED

	Population Decile										
HOUSEHOLD CHARACTERISTICS	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	Total
Number of households	67,030	90,418	83,976	60,405	49,091	49,144	35,274	29,184	19,496	21,584	505,604
Percent of households in given decile	34%	43%	41%	28%	23%	23%	16%	14%	9%	10%	24%
Percent that are married	3%	3%	13%	31%	47%	64%	64%	77%	75%	71%	32%
Average household income	$4,887	$8,094	$12,032	$16,898	$22,376	$28,379	$36,455	$46,109	$59,764	$146,894	$24,824
Social Security Income	4,268	6,985	8,554	9,321	10,725	11,120	11,401	12,212	13,898	14,345	9,120
SS Income as % of household income	87%	86%	71%	55%	48%	39%	31%	26%	23%	10%	37%
Housing Status											
Homeowners	27%	32%	47%	63%	69%	70%	83%	86%	77%	76%	55%
Renters	32%	42%	35%	24%	20%	17%	8%	8%	11%	15%	26%
Farmers	4%	3%	6%	6%	6%	9%	8%	4%	9%	8%	6%
Other	36%	23%	12%	7%	4%	3%	1%	2%	4%	0%	13%
Average market value of home	$26,411	$33,954	$42,941	$47,758	$55,834	$56,056	$69,906	$78,046	$76,453	$107,283	$56,288
Average monthly rent	$207	$249	$301	$253	$517	$619	$585	$652	$954	$1,052	$344
AVERAGE TAX BURDENS											
Local Property Tax											
All households											
Total tax	$203	$299	$459	$532	$748	$768	$1,048	$1,179	$1,183	$1,915	$636
- Property tax refund	-81	-138	-189	-183	-156	-80	-92	-47	-16	-16	-122
Tax after PTR	$122	$162	$270	$349	$592	$688	$957	$1,132	$1,166	$1,899	$514
Renters only											
Total tax on rental unit	$413	$495	$599	$504	$1,031	$1,234	$1,165	$1,298	$1,900	$2,095	$685
Renters' total tax on unit	$270	$323	$391	$329	$672	$805	$760	$847	$1,239	$1,367	$447
- Property tax refund	-169	-208	-265	-301	-303	-150	-17	0	0	0	-212
Renters' tax after PTR	$100	$115	$126	$28	$369	$654	$743	$847	$1,239	$1,367	$235
Homeowners only											
Total tax on home	$427	$510	$681	$720	$880	$895	$1,189	$1,292	$1,362	$2,237	$939
- Property tax refund	-97	-156	-204	-177	-136	-77	-109	-50	-21	-21	-120
Homeowners' tax after PTR	$330	$354	$477	$542	$744	$818	$1,080	$1,242	$1,341	$2,215	$819
State Income Tax	$0	$0	$2	$31	$140	$298	$742	$1,180	$2,164	$5,129	$469
State Sales Tax	161	216	303	422	538	648	759	894	1,066	1,752	496
State Excise Taxes	74	79	92	122	145	165	181	205	202	245	127
Other Taxes	80	78	112	173	226	269	323	395	449	754	207
Business Taxes	236	319	441	685	802	1,157	1,183	1,440	2,546	5,357	926
Total State and Local Tax Burden	$673	$853	$1,221	$1,782	$2,442	$3,225	$4,145	$5,247	$7,594	$15,137	$2,739
Effective Tax Rate for all taxes	13.8%	10.5%	10.1%	10.5%	10.9%	11.4%	11.4%	11.4%	12.7%	10.3%	11.0%
Renters only	12.6%	10.2%	8.8%	7.0%	9.6%	10.0%	10.8%	13.7%	10.6%	11.8%	10.2%
Homeowners only	18.7%	12.8%	11.7%	12.1%	11.5%	11.8%	11.5%	11.3%	13.1%	10.1%	11.4%

See notes at end of Appendix C

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Table C-3

1994 Minnesota Tax Incidence Study
Household Characteristics and Average Tax Burden Amounts by Population Decile
SINGLE-PARENT FAMILIES

	Population Decile										
HOUSEHOLD CHARACTERISTICS	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	Total
Number of households	31,699	30,907	23,222	19,789	26,843	20,733	18,343	10,909	6,682	4,431	193,558
Percent of households in given decile	16%	15%	11%	9%	12%	10%	9%	5%	3%	2%	9%
Average number of children	1.5	1.7	1.6	1.5	1.5	1.4	1.6	1.4	1.5	1.5	1.6
Average household income	$4,623	$8,081	$12,030	$16,853	$22,332	$28,814	$36,513	$46,006	$58,830	$121,308	$22,258
Percent with earned income	43%	73%	93%	98%	97%	100%	100%	99%	98%	97%	85%
Average earned income	$3,405	$6,634	$10,570	$15,955	$21,482	$27,919	$33,615	$42,509	$50,294	$89,618	$22,340
Housing Status											
Homeowners	14%	16%	23%	41%	48%	69%	77%	79%	75%	76%	42%
Renters	69%	78%	68%	47%	39%	25%	19%	20%	23%	16%	49%
Farmers	2%	0%	0%	2%	3%	1%	2%	0%	2%	8%	2%
Other	15%	5%	9%	9%	10%	5%	2%	1%	0%	0%	7%
Average market value of home	$24,266	$28,612	$29,245	$57,262	$46,606	$56,218	$62,223	$69,533	$89,235	$108,272	$56,312
Average monthly rent	$205	$186	$167	$136	$306	$580	$642	$657	$716	$1,001	$259
AVERAGE TAX BURDENS											
Local Property Tax											
All households											
Total tax	$238	$257	$239	$483	$484	$760	$896	$998	$1,401	$1,898	$540
- Property tax refund	-108	-179	-158	-114	-125	-67	-60	-38	-44	-16	-111
Tax after PTR	$130	$78	$81	$370	$359	$693	$836	$959	$1,357	$1,882	$429
Renters only											
Total tax on rental unit	$409	$370	$333	$271	$609	$1,156	$1,278	$1,309	$1,426	$1,994	$516
Renters' total tax on unit	$267	$242	$217	$177	$397	$754	$834	$854	$930	$1,301	$336
- Property tax refund	-151	-198	-181	-101	-164	-96	-51	0	0	0	-155
Renters' tax after PTR	$116	$43	$37	$76	$233	$658	$783	$854	$930	$1,301	$181
Homeowners only											
Total tax on home	$385	$412	$396	$964	$683	$828	$960	$1,045	$1,577	$2,231	$890
- Property tax refund	-33	-142	-151	-159	-127	-63	-65	-41	-9	-6	-84
Homeowners' tax after PTR	$351	$269	$244	$805	$557	$765	$894	$1,005	$1,568	$2,225	$806
State Income Tax	-$64	-$181	-$201	$60	$401	$932	$1,336	$2,116	$2,723	$6,942	$597
State Sales Tax	210	263	346	470	563	651	772	903	1,092	1,625	512
State Excise Taxes	147	160	177	189	186	172	179	183	207	250	175
Other Taxes	35	76	132	271	351	408	456	503	578	798	264
Business Taxes	266	368	481	648	766	891	1,148	1,241	1,492	3,612	741
Total State and Local Tax Burden	$723	$764	$1,016	$2,009	$2,626	$3,747	$4,728	$5,905	$7,450	$15,109	$2,717
Effective Tax Rate for all taxes	15.6%	9.5%	8.4%	11.9%	11.8%	13.0%	12.9%	12.8%	12.7%	12.5%	12.2%
Renters only	14.6%	8.9%	8.3%	9.7%	10.7%	13.0%	12.6%	12.7%	10.7%	11.4%	10.9%
Homeowners only	21.8%	12.1%	8.9%	14.6%	12.9%	13.2%	13.1%	12.9%	13.2%	12.6%	13.0%

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Table C-4

1994 Minnesota Tax Incidence Study
Household Characteristics and Average Tax Burden Amounts by Population Decile
MARRIED WITHOUT CHILDREN (except retired)

	Population Decile										
HOUSEHOLD CHARACTERISTICS	One	Two	Three	Four	Five	Six	Seven	Eight	Nine	Ten	Total
Number of households	2,246	3,316	3,645	8,999	17,021	26,352	37,856	48,221	61,146	55,864	264,666
Percent of households in given decile	1%	2%	2%	4%	8%	12%	18%	22%	28%	26%	12%
Average household income	$4,115	$8,591	$12,481	$17,518	$22,388	$28,527	$36,679	$46,392	$60,122	$151,345	$64,724
Percent with earned income	46%	84%	91%	93%	100%	98%	100%	100%	100%	99%	99%
Average earned income	$4,650	$5,651	$9,329	$15,037	$19,154	$23,559	$32,485	$41,306	$54,036	$103,111	$51,186
Housing Status											
Homeowners	37%	63%	35%	63%	57%	62%	79%	86%	87%	91%	80%
Renters	39%	34%	37%	21%	24%	23%	15%	9%	8%	5%	12%
Farmers	24%	1%	28%	16%	18%	16%	7%	5%	5%	4%	8%
Other	0%	3%	0%	0%	2%	0%	0%	0%	0%	0%	0%
Average market value of home	$43,489	$52,225	$54,923	$63,484	$53,242	$49,559	$60,974	$69,116	$82,587	$126,821	$81,340
Average monthly rent	$230	$207	$429	$272	$378	$540	$597	$660	$683	$998	$562
AVERAGE TAX BURDENS											
Local Property Tax											
All households											
Total tax	$421	$538	$661	$875	$645	$688	$861	$1,003	$1,254	$2,339	$1,249
- Property tax refund	-94	-268	-253	-161	-55	-46	-33	-15	-7	-4	-31
Tax after PTR	$328	$270	$408	$714	$590	$643	$828	$989	$1,247	$2,334	$1,217
Renters only											
Total tax on rental unit	$458	$413	$854	$542	$752	$1,076	$1,189	$1,315	$1,361	$1,989	$1,120
Renters' total tax on unit	$299	$269	$557	$354	$491	$702	$776	$858	$888	$1,297	$731
- Property tax refund	-149	-416	-433	-243	-123	-70	-19	0	0	0	-82
Renters' tax after PTR	$149	-$146	$125	$111	$368	$632	$757	$858	$888	$1,297	$648
Homeowners only											
Total tax on home	$825	$714	$1,305	$1,270	$933	$859	$952	$1,081	$1,361	$2,492	$1,453
- Property tax refund	-95	-204	-265	-175	-46	-48	-38	-17	-8	-5	-26
Homeowners' tax after PTR	$730	$510	$1,040	$1,095	$887	$811	$914	$1,064	$1,353	$2,488	$1,427
State Income Tax	-$9	-$10	$24	$300	$439	$790	$1,364	$2,144	$3,150	$9,518	$3,440
State Sales Tax	332	570	595	678	693	749	824	943	1,113	1,777	1,082
State Excise Taxes	112	210	223	262	253	280	305	308	284	278	284
Other Taxes	260	409	365	443	423	428	470	518	599	865	580
Business Taxes	696	1,655	931	1,165	1,201	1,224	1,241	1,408	1,597	4,580	2,048
Total State and Local Tax Burden	$1,719	$3,103	$2,546	$3,561	$3,599	$4,114	$5,032	$6,309	$7,991	$19,353	$8,651
Effective Tax Rate for all taxes	41.8%	36.1%	20.4%	20.3%	16.1%	14.4%	13.7%	13.6%	13.3%	12.8%	13.4%
Renters only	30.1%	16.5%	15.9%	14.6%	14.1%	13.3%	12.8%	12.8%	12.3%	12.3%	12.8%
Homeowners only	46.3%	47.7%	23.0%	21.8%	16.8%	14.8%	13.9%	13.7%	13.4%	12.8%	13.4%

notes at end of Appendix C

Table C-5

1994 Minnesota Tax Incidence Study
Household Characteristics and Average Tax Burden Amounts by Population Decile
MARRIED WITH CHILDREN

	Population Decile										
HOUSEHOLD CHARACTERISTICS	***One***	***Two***	***Three***	***Four***	***Five***	***Six***	***Seven***	***Eight***	***Nine***	***Ten***	***Total***
Number of households	5,493	6,243	12,051	23,906	27,951	37,818	67,648	95,219	115,129	122,704	514,161
Percent of households in given decile	3%	3%	6%	11%	13%	18%	31%	44%	54%	57%	24%
Average number of children	2.1	3.0	2.4	2.1	1.9	2.2	2.2	2.1	2.1	2.1	2.1
Average household income	$4,299	$8,305	$12,165	$17,236	$21,953	$29,156	$36,502	$46,588	$60,379	$127,883	$62,040
Percent with earned income	40%	65%	87%	95%	98%	100%	100%	100%	100%	100%	98%
Average earned income	$4,567	$6,056	$10,464	$17,843	$20,318	$27,957	$34,629	$44,663	$57,604	$104,080	$55,694
Housing Status											
Homeowners	16%	37%	27%	52%	67%	67%	82%	85%	91%	94%	82%
Renters	78%	59%	56%	29%	14%	17%	13%	9%	5%	3%	11%
Farmers	6%	3%	17%	18%	19%	15%	5%	7%	4%	3%	7%
Other	0%	1%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Average market value of home	$40,251	$61,930	$44,876	$44,833	$40,330	$54,496	$61,427	$69,056	$85,673	$133,157	$85,075
Average monthly rent	$218	$211	$182	$160	$288	$471	$549	$646	$693	$909	$436
AVERAGE TAX BURDENS											
Local Property Tax											
All households											
Total tax	$352	$529	$398	$477	$519	$734	$884	$1,002	$1,337	$2,509	$1,324
- Property tax refund	-70	-164	-127	-114	-109	-76	-60	-29	-20	-11	-43
Tax after PTR	$282	$365	$271	$363	$410	$658	$824	$972	$1,317	$2,497	$1,281
Renters only											
Total tax on rental unit	$435	$421	$363	$319	$573	$939	$1,094	$1,287	$1,380	$1,811	$868
Renters' total tax on unit	$284	$274	$237	$208	$374	$612	$714	$839	$900	$1,181	$566
- Property tax refund	-67	-113	-193	-138	-247	-70	-135	0	0	0	-98
Renters' tax after PTR	$216	$161	$44	$70	$127	$543	$579	$839	$900	$1,181	$468
Homeowners only											
Total tax on home	$808	$984	$999	$798	$697	$931	$968	$1,099	$1,416	$2,634	$1,544
- Property tax refund	-109	-260	-72	-142	-110	-95	-52	-34	-22	-12	-39
Homeowners' tax after PTR	$700	$725	$926	$656	$586	$836	$915	$1,066	$1,394	$2,622	$1,505
State Income Tax	-$59	-$156	-$229	-$142	$125	$611	$1,016	$1,726	$2,670	$7,420	$2,859
State Sales Tax	253	429	533	625	705	802	901	1,026	1,194	1,765	1,144
State Excise Taxes	135	203	234	255	276	289	311	321	312	331	306
Other Taxes	84	187	232	334	397	449	504	549	644	890	603
Business Taxes	418	585	781	1,164	1,180	1,470	1,347	1,480	1,695	3,625	1,952
Total State and Local Tax Burden	$1,112	$1,613	$1,821	$2,599	$3,093	$4,279	$4,902	$6,074	$7,832	$16,528	$8,146
Effective Tax Rate for all taxes	25.9%	19.4%	15.0%	15.1%	14.1%	14.7%	13.4%	13.0%	13.0%	12.9%	13.1%
Renters only	21.3%	15.9%	12.5%	11.2%	11.5%	13.0%	12.0%	12.3%	11.9%	11.0%	12.0%
Homeowners only	43.1%	25.1%	18.1%	16.8%	14.5%	15.1%	13.6%	13.1%	13.0%	13.0%	13.2%

See notes at end of Appendix C

NOTES FOR APPENDICES B AND C

Notes for Table B-1 through B-4:

1. The negative individual income taxes and effective tax rates in the first two deciles are due to refundable credits.
2. Miscellaneous state taxes include insurance premium taxes, motor vehicle registration taxes, gambling taxes, MinnesotaCare taxes, and mortgage and deed taxes.
3. The residential property tax total is after subtracting property tax refunds (PTR).

Notes for Tables C-1 through C-5:

1. Tax rates for the first three deciles are calculated after excluding (a) households with business losses (sum of income reported on Schedules C, E, and F less than zero) and (b) households with negative total incomes. As a result, the number of households in *Tables C-1* through *C-5* does not equal the number of households shown on *Table B-1*.
2. Retired households include those whose social security and pension benefits are at least twice as large as earned income and who have no dependents. Earned income is defined as the sum of wage and salary income and positive self-employment income from Schedules C (sole proprietor) and F (farms).
3. "Children" include anyone claimed as a dependent on an income tax return or public assistance file. "Single parent families" are all those with only one adult and one or more children.
4. In computing average tax burdens, homeowners include those living in farm homesteads.
5. Farmers are defined as those who own farm homestead property, not those actively farming.
6. Those who are not renters, homeowners, or farmers are classified as "other." Examples would include a person living with parents (but not claimed as a dependent on tax forms), or senior citizens living with children.
7. Earned income is defined as the sum of wage and salary income and positive self-employment income from Schedules C (sole proprietor) and F (farms).
8. The landlord's share of rental property taxes is included in business taxes.
9. Property tax refunds include special (targeted) refunds received regardless of income. For renters, the property tax refund can exceed the gross property tax burden, resulting in negative net tax. This can occur because renters are assumed to pay only 65 percent of the property tax on rental housing (and those in subsidized housing are assumed to pay none of the tax).
10. Negative individual income taxes in the first few deciles are due to refundable credits. Starting in 1994, the working family credit could be received by some single-person households.

APPENDIX D

LEGISLATIVE MANDATE

270.0682 Tax Incidence Reports

Subdivision 1. Biennial report. The commissioner of revenue shall report to the legislature by March 1 of each odd-numbered year on the overall incidence of the income tax, sales and excise taxes, and property tax. The report shall present information on the distribution of the tax burden (1) for the overall income distribution, using a systemwide incidence measure such as the Suits index or other appropriate measures of equality and inequality, (2) by income classes, including at a minimum deciles of the income distribution, and (3) by other appropriate taxpayer characteristics.

Subdivision 2. Bill analyses. At the request of the chair of the house tax committee or the senate committee on taxes and tax laws, the commissioner of revenue shall prepare an incidence impact analysis of a bill or a proposal to change the tax system which increases, decreases, or redistributes taxes by more than $20,000,000. To the extent data is available on the changes in the distribution of the tax burden that are affected by the bill or proposal, the analysis shall report on the incidence effects that would result if the bill were enacted. The report may present information using systemwide measures, such as Suits or other similar indexes, by income classes, taxpayer characteristics, or other relevant categories. The report may include analyses of the effect of the bill or proposal on representative taxpayers. The analysis must include a statement of the incidence assumptions that were used in computing the burdens.

Subdivision 3. Income measure. The incidence analyses shall use the broadest measure of economic income for which reliable data is available.

History: 1990 c 604 art 10 s 9.

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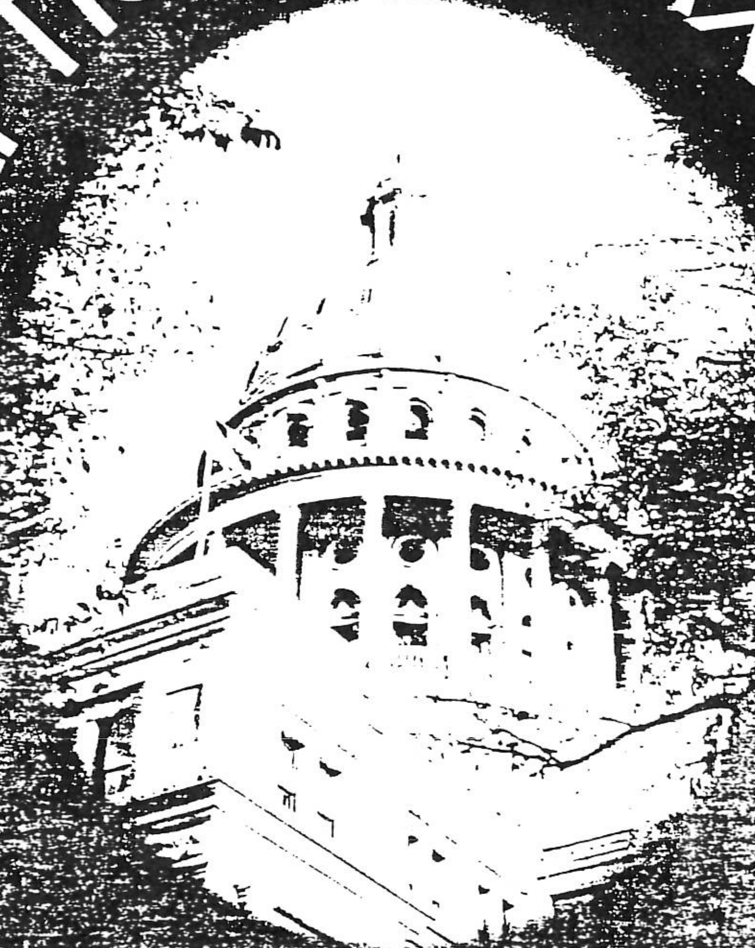
TAX EXEMPTIONS & TAX INCIDENCE



A Report to the Governor and 76th Texas Legislature

January 1999

CAROLE KEETON RYLANDER
Texas Comptroller of Public Accounts

House Taxation
2-16-99
Attachment 2

A Message From The Comptroller

January 12, 1999

The Honorable George W. Bush
The Honorable Bob Bullock
The Honorable James E. "Pete" Laney
Members of the 76th Legislature

Dear Governor Bush, Governor Bullock, Speaker Laney, and Members:

As required by the provisions of Sec. 403.014, Texas Government Code, this report estimates the value of each exemption, exclusion, special rate, deduction, and discount available under Texas' sales, franchise, motor vehicle sales, and gasoline taxes, as well as under the property tax levied by Texas school districts.

In fiscal 1999, aggregate exemptions for the above revenue sources will total an estimated $23.3 billion. Of this total, state taxes will account for $20.5 billion, and school property tax exemptions will account for $2.8 billion.

Additionally, this report presents the results of the analysis prepared pursuant to Section 403.0141, Texas Government Code (as added by the 75th Legislature), which directs the Comptroller of Public Accounts to report on the incidence of certain taxes and exemptions.

The report makes no recommendations for retaining, eliminating, or amending any provisions of these laws. It is intended as an informational resource only.

Respectfully,

Carole Keeton Rylander

CAROLE KEETON RYLANDER
Texas Comptroller of Public Accounts

cc: Lt. Governor-Elect Rick Perry

Table of Contents

A Report to the Governor and 76th Texas Legislature

Overview

In state fiscal year 1999—extending from September 1, 1998 to August 31, 1999—exemptions from the sales, franchise, gasoline, and motor vehicle sales taxes will amount to $20.5 billion.

Sales tax exemptions will total $19.4 billion, while franchise tax exemptions will total $909.9 million. Gasoline tax exemptions will amount to $109.9 million, and motor vehicle sales tax exemptions will total $118.9 million.

Exemptions from local school district property taxes will amount to an additional $2.8 billion in fiscal 1999.

These amounts include exemptions, exclusions, special rates, deductions, and discounts written into the tax law for these taxes.

In fiscal 1998, the combined revenues from the sales tax, franchise tax, gasoline tax, and motor vehicle sales tax were $18.5 billion and accounted for almost 82 percent of the state's total tax revenue.

About the estimates

Texas law requires the Comptroller to provide these estimates to the Governor and Legislature prior to each regular legislative session. The exemption estimates are unadjusted amounts, meaning that elimination of a specific exemption would not necessarily produce the dollar amounts cited in this report. Actual receipts would depend on enforcement, taxpayer compliance, effective dates of legislation repealing the exemption, and taxpayer discounts.

Each estimate is based on the best information available from public and private sources, including the Comptroller's tax records. The report contains no recommendations related to the exemptions estimated.

This informational report is intended to provide brief descriptions of state tax exemptions. These descriptions should be used as guidelines only; actual taxability is determined by the Tax Code and administrative rules.

New in this report

This report also examines the incidence of the largest exemptions and the total incidence of the sales, franchise, gasoline, motor vehicle sales, school property, and natural gas taxes. Generally speaking, this portion of the report analyzes who initially, as well as who ultimately, pays these taxes. This analysis is presented here to fulfill additional requirements under Texas law enacted in the 75th legislative session.

Limited Sales and Use Tax

The sales tax is the largest source of tax revenue for Texas state government, bringing in about 55 cents of every state tax dollar. The sales tax is a tax on transactions. In general, the tax is imposed on final sales, rentals, and leases of tangible personal property—physical goods—and on sales of some services, such as repair of tangible personal property, amusement services, and telephone services.

While total sales tax collections were $12.4 billion in fiscal 1998, the tax is limited in scope compared to the total number and kind of transactions in the economy. The tax is limited by a host of exemptions and exclusions.

Classifying sales tax exemptions

Sales tax exemptions can be divided into three general categories: exemptions, exclusions, and discounts. Estimates of these costs are provided in Table 1.

An *exemption* protects items that would be taxable except for specific provisions in the law. For example, since the Texas sales tax law taxes all sales of tangible personal property, groceries would be taxable if they were not specifically exempted.

Exclusions are transactions not taxed because they fall outside the general legal definition of a taxable sale. Exclusions include sales of intangibles, such as stocks and bonds, and sales and rentals of real property. Also excluded from the tax base are most services. Currently, some specified services are listed as taxable.

Discounts are handling fees that Texas law allows tax-permit holders to keep in exchange for collecting the sales tax and sending it to the state on time. The standard timely filer discount is 0.5 percent of the sales tax remitted. An additional 1.25 percent discount is available to those who pay their estimated taxes in advance.

Exemptions are provided for some basic necessities, such as groceries, residential gas and electric utilities, and prescription medicines. Some sales are exempted when made to certain groups. For example, governmental bodies and religious and nonprofit educational groups buy items for their own use tax-free.

Table 1
Cost of Sales Tax Exemptions, Exclusions, and Discounts
Fiscal 1999 to 2004
(in millions of dollars)

	1999	2000	2001	2002	2003	2004
Exemptions	$15,998.6	$16,731.4	$17,470.0	$18,209.2	$18,977.0	$19,874.6
Exclusions	3,296.6	3,482.5	3,691.3	3,919.5	4,142.2	4,396.3
Discounts	98.5	103.2	108.5	114.6	120.9	128.1
Total	$19,393.6	$20,317.1	$21,269.9	$22,243.2	$23,240.1	$24,399.0

Note: Totals may not add due to rounding.

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2-4

Table 2
Cost of Sales Tax Exemptions
Fiscal 1999 to 2004
(millions of dollars)

Section	Exemption	1999	2000	2001	2002	2003	2004
151.302	Sale for resale	cbe	cbe	cbe	cbe	cbe	cbe
151.303	Previously taxed items	cbe	cbe	cbe	cbe	cbe	cbe
151.304	Occasional sales	cbe	cbe	cbe	cbe	cbe	cbe
151.305	Coin-operated machine sales	negligible	negligible	negligible	negligible	negligible	negligible
151.306	Transfers of common interests in property	cbe	cbe	cbe	cbe	cbe	cbe
151.307	Exemptions required by prevailing law	cbe	cbe	cbe	cbe	cbe	cbe
151.3071	Installation of certain equipment for export	negligible	negligible	negligible	negligible	negligible	negligible
151.308	Items taxed by other law						
	Crude oil	0.0	0.0	0.0	0.0	0.0	0.0
	Motor vehicles	$1,931.5	$2,027.3	$2,109.0	$2,203.0	$2,300.9	$2,403.6
	Motor fuels	724.2	764.9	801.9	860.1	911.3	966.5
	Mixed drinks	139.7	142.9	144.9	147.7	150.4	153.0
	Cement	0.0	0.0	0.0	0.0	0.0	0.0
	Sulphur	0.0	0.0	0.0	0.0	0.0	0.0
	Aviation fuel	58.4	62.4	66.6	71.3	76.3	81.6
	Oil well services	15.5	16.4	15.9	15.5	15.1	14.8
	Insurance premiums	2,224.4	2,298.5	2,346.3	2,399.9	2,455.0	2,511.5
151.309	Sales to governmental entities	170.0	178.7	187.8	197.7	208.6	220.2
151.310	Religious, educational, and public service organizations						
	Sales to nonprofits	14.2	15.0	15.8	16.7	17.6	18.7
	One-day tax-free sales	3.3	3.4	3.6	3.8	4.1	4.3
151.3101	Amusement services	cbe	cbe	cbe	cbe	cbe	cbe
151.311	Property used for the improvement of exempt realty	12.9	13.6	14.2	15.0	15.8	16.7
151.3111	Services on certain personal property	cbe	cbe	cbe	cbe	cbe	cbe
151.312	Nonprofit or religious periodicals and writings	4.2	4.4	4.7	4.9	5.2	5.6
151.313	Health care supplies						
	Prescription medicine and devices	150.8	156.1	163.7	170.8	178.2	185.7
151.3131	Texas Hospital Equipment Financing Council	cbe	cbe	cbe	cbe	cbe	cbe
151.314	Food						
	Food for home consumption	1,003.7	1,033.4	1,071.3	1,112.3	1,152.5	1,191.5
	School lunches and certain food sales	30.5	31.5	32.6	33.9	35.1	36.3
151.3141	Food stamp purchases	109.2	114.3	119.7	125.3	131.1	137.3
151.315	Water	200.4	207.6	215.2	223.0	231.0	239.2
151.316	Agricultural items						
	Agricultural feed, seed, chemicals, and supplies	213.7	221.6	229.9	237.8	245.1	253.9
	Livestock for food	11.4	11.6	11.9	12.1	12.3	12.6
	Agricultural machinery and equipment	48.4	49.6	51.2	52.9	54.8	56.8
	Horses, mules, and work animals	7.8	8.0	8.3	8.5	8.8	9.1
	Commercial fishing ice	0.1	0.1	0.1	0.1	0.1	0.1
151.3161	Timber operations (equipment)	2.4	2.5	2.6	2.7	2.8	2.9
151.317	Gas and electricity						
	Manufacturing	325.4	330.4	338.4	347.4	356.7	367.5
	Residential	500.9	515.8	530.2	545.1	560.9	577.2
	Agricultural	11.5	11.7	11.8	11.8	12.0	12.1
	Mining	41.8	42.4	42.8	43.3	43.9	44.6
151.318	Manufacturing						
	Materials used in manufacturing	7,250.4	7,632.0	8,050.1	8,426.4	8,826.8	9,331.8
	Manufacturing machinery and equipment	440.3	463.5	488.9	511.7	536.1	566.7
	Packaging and wrapping supplies	96.5	101.5	107.1	112.1	118.1	125.7

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2-5

Table 2 (Continued)
Cost of Sales Tax Exemptions
Fiscal 1999 to 2004
(millions of dollars)

Section	Exemption	1999	2000	2001	2002	2003	2004
151.319	Newspapers						
	Newspapers	14.9	15.7	16.5	17.4	18.4	19.5
	Newspaper inserts	20.1	21.3	22.4	23.6	24.9	26.5
	Newspaper manufacturing equipment	*	*	*	*	*	*
151.320	Magazine subscriptions	5.4	5.7	6.0	6.3	6.6	7.0
151.321	University student organizations	negligible	negligible	negligible	negligible	negligible	negligible
151.322	Containers	75.0	78.9	83.3	87.1	91.8	97.7
151.324	Certain drilling equipment used in mineral exploration	22.4	21.9	21.5	21.0	20.6	20.2
151.328	Aircraft						
	Certain aircraft	negligible	negligible	negligible	negligible	negligible	negligible
	Repair equipment for certain aircraft	13.5	14.1	14.7	15.4	16.0	16.7
151.329	Certain ships	28.2	29.8	31.4	33.0	34.9	37.1
151.3291	Boats and boat motors	29.0	30.1	31.2	32.4	33.6	34.9
151.330	Interstate shipments	cbe	cbe	cbe	cbe	cbe	cbe
151.331	Rolling stock						
	Railroad fuel and supplies	5.3	5.6	6.0	6.4	6.9	7.4
	Rolling stock and locomotives	1.6	1.7	1.8	1.9	2.0	2.1
151.332	Senior citizen organizations	negligible	negligible	negligible	negligible	negligible	negligible
151.335	Coin-operated services	37.4	39.3	41.3	43.4	45.7	48.3
151.336	Certain coins and metals	negligible	negligible	negligible	negligible	negligible	negligible
151.337	Sales by or to Indian tribes	cbe	cbe	cbe	cbe	cbe	cbe
151.338	Environment and conservation services	cbe	cbe	cbe	cbe	cbe	cbe
151.340	Official state coin	negligible	negligible	negligible	negligible	negligible	negligible
151.341	Development corporations	negligible	negligible	negligible	negligible	negligible	negligible
151.342	Agribusiness (agricultural containers)	0.4	0.4	0.4	0.4	0.4	0.4
151.346	Intercorporate sales of services	cbe	cbe	cbe	cbe	cbe	cbe
151.347	Lawn and yard service	negligible	negligible	negligible	negligible	negligible	negligible
151.348	Cooperative research ventures	cbe	cbe	cbe	cbe	cbe	cbe
151.349	Texas National Laboratory	0.0	0.0	0.0	0.0	0.0	0.0
151.350	Labor to restore property	cbe	cbe	cbe	cbe	cbe	cbe
151.353	Court reporting services	negligible	negligible	negligible	negligible	negligible	negligible
151.429	Equipment used in enterprise projects	1.6	1.7	1.8	1.8	1.9	2.0
151.4291	Defense readjustment	0.0	4.1	5.2	6.1	6.8	7.3
151.431	Job retention	negligible	negligible	negligible	negligible	negligible	negligible
151.432	Ticket resellers	negligible	negligible	negligible	negligible	negligible	negligible
	Total	$15,998.6	$16,731.4	$17,470.0	$18,209.2	$18,977.0	$19,874.6

* Included in the estimate of manufacturing machinery and equipment under Sec. 151.318.
cbe: cannot be estimated.
Note: Totals may not add due to rounding.

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Other exemptions apply because the tax would be impractical to collect. For example, those who make only occasional sales (one or two sales of taxable items per year) do not collect the tax; however, purchasers with permits are responsible for remitting the tax.

Most other exemptions and exclusions prevent multiple taxation of the same items or reduce business costs.

Sales tax exemptions

Specific sections of the Texas Tax Code exempt particular items from the sales tax. The following text outlines these exemptions and includes references to the appropriate section of the Tax Code covering those items. Table 2 summarizes the estimated costs of these exemptions for fiscal 1999 and the following five fiscal years. The costs of exemptions that cannot be estimated due to insufficient data are marked "cbe."

Sec. 151.302. Sales for resale

The sale of a taxable item (tangible personal property or a taxable service) to a purchaser who will resell the item is exempted from the sales tax. For example, when a wholesaler sells books to a book store, tax is not due on the sale because the retailer will resell the books. The sales tax law has exempted such sales since the tax was imposed in 1961. One reason for the sale for resale exemption is to keep the sales tax from pyramiding or cascading on every transaction.

Sec. 151.303. Previously taxed items: use tax exemption or credit

This section provides that the storage or use of an item is not subject to Texas use tax if the sale of the item was subject to Texas sales tax. It also entitles a taxpayer to credit against the Texas use tax for any similar sales or use tax the taxpayer paid to another state.

Sec. 151.304. Occasional sales

An occasional sale of a taxable item is exempted from the sales tax. "Occasional sales" include (1) the sale of the entire operating assets of a business or of an identifiable segment of a business, and (2) one or two sales of taxable items during a 12-month period by a person who is not in the business of selling taxable items. For example, a pharmacist who sells a used exercycle and television set is not required to collect tax on these two sales. The sales tax law has exempted such sales since the tax was imposed in 1961.

Sec. 151.305. Coin-operated machine sales

This provision exempts food (but not beverages), candy, chewing gum, and children's toys that are sold through a "bulk vending machine" (like gumball machines) for 25 cents or less. This exemption was added in 1989.

Sec. 151.306. Transfers of common interests in property

This provision exempts the sale of an interest in tangible personal property if it is sold to another person who before or after the sale owns a joint or undivided interest in the property with the seller and if the sales tax has previously been paid on the tangible personal property. The law has exempted such sales since the tax was imposed in 1961.

Sec. 151.307. Exemptions required by prevailing law

This section exempts items that this state is prohibited from taxing by the United States or Texas Constitutions, or by U.S. law. For example, federal law prohibits states from taxing sales to federal credit unions. This provision also lists the documentation required when an exemption is claimed because an item has been exported to a foreign country.

Sec. 151.3071. Installation of certain equipment for export

Electronic audio equipment purchased in Texas for use outside the U.S. is exempt from Texas sales tax even if the equipment is installed (e.g., in a motor vehicle) in Texas. This section was added in 1993.

Sec. 151.308. Items taxed by other law

This provision exempts from sales tax

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items taxed under other Texas tax laws, including oil taxed under the oil production tax, taxed under the sulphur production tax, fuels covered by the motor fuels tax, cement taxed under the cement production tax, motor vehicles covered by the motor vehicle sales tax, alcoholic beverages taxed under the Alcoholic Beverage Code, oil well services taxed under the oil well service tax, and insurance premiums subject to insurance premium taxes. The sales tax law has contained such provisions since 1961.

There is no cost to exempt oil, sulphur, and cement from the sales tax since these items would qualify for exemption as materials used in manufacturing.

The amounts for the other exemptions in this section would be in addition to the revenues collected for those items under taxes authorized elsewhere in the Tax Code.

If motor fuels were taxed under the sales tax, the resulting revenue would be dedicated under the provisions of the Texas Constitution.

Motor vehicles are currently taxed under a separate sales tax at the same rate as the state sales tax.

It is assumed that if the sales tax were applied to insurance, consumers would pay sales tax on the purchase of insurance policies, with the revenue collected and remitted by insurance companies.

Sec. 151.309. Governmental entities

This section exempts items sold, leased, or rented to governmental entities, including the United States, an agency or instrumentality of the United States, this state, or a county, city, special district, or other political subdivision of this state. The sales tax law has contained such provisions since 1961.

Sec. 151.310. Religious, educational and public service organizations

This section exempts items sold, leased, or rented to religious, educational, or charitable organizations, organizations exempted from federal income taxes under Section 501(c)(3), (4), (8), (10), or (19) of the Internal Revenue Code, nonprofit youth athletic organizations, volunteer fire departments, chambers of commerce, and convention and tourist promotional agencies. The provision specifies certain guidelines that nonprofit hospitals exempted under this section must meet in providing charity care and community benefits. The sales tax law has contained several of these exemptions since 1961; others were added or expanded since then. For example, the guidelines for nonprofit hospitals were added in 1993.

The provision also allows religious, educational and charitable organizations and Section 501(c)(3), (4), (8), (10), or (19) organizations to hold two day-long tax-free sales or auctions during a calendar year. This provision was added in 1977 and expanded in 1993.

Sec. 151.3101. Amusement services exemptions

Amusement services are exempted if they are exclusively provided by certain organizations, including this state, a municipality, county, school district, special district, or other political subdivision of this state or the United States; educational, religious, or charitable organizations; law enforcement associations; and other nonprofit organizations, or if the services are provided in a place that is designated as a historical landmark. For example, this section exempts sales of tickets to high school football games. This exemption was added in 1984, when amusement services became taxable.

Sec. 151.311. Taxable items incorporated into or used for improvement of realty of an exempt entity

This provision exempts certain items used in performing a contract to improve real property for a governmental entity or an organization exempt under Sec. 151.310. For example, a contractor building a new public school can purchase the building materials tax free. The contractor can also purchase tax free certain consumable supplies and certain taxable services performed at the job site, like surveying or landscaping services. This provision was initially added in 1969, but has been amended several times since then.

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Sec. 151.3111. Services on certain exempted personal property
This section exempts a service performed on tangible personal property that is also exempt from tax. For example, repair services performed on agricultural equipment (like tractors and combines) are exempted from tax by this section. This exemption was added in 1984 when certain services became taxable.

Sec. 151.312. Periodicals and writings of religious, philanthropic, charitable, historical, scientific, and similar organizations
This section exempts periodicals and writings that are published and distributed by a nonprofit religious, philanthropic, charitable, historical, scientific, or other similar organization (but not an educational organization). The provision was added in 1989 to replace an exemption for religious periodicals that the courts found unconstitutional.

Sec. 151.313. Health care supplies
This provision exempts sales of drugs, corrective lenses and therapeutic devices prescribed by a doctor; insulin; hospital beds; hypodermic syringes or needles; braces; hearing aids; orthopedic, dental, or prosthetic devices; and certain devices used by people who are blind or deaf. Several of these items have been exempt since 1961, but the exemption has been expanded over the years.

Sec. 151.3131. Texas Hospital Equipment Financing Council
This section exempts items sold to a Texas Hospital Equipment Financing Council if the items are for the exclusive use and benefit of the council. It was added in 1983.

Sec. 151.314. Food and food products
This section exempts food products for human consumption, like cereals, milk, meat, poultry, fish, eggs, vegetables, fruit, spices, salt, sugar, coffee, and tea. It does not exempt meals sold in restaurants, vitamins, over-the-counter medicines, soft drinks, ice, and candy.

Meals, soft drinks, and candy are exempted if sold by certain organizations, like elementary or secondary public or private schools, student or parent-teacher organizations, churches, hospitals, retirement facilities, or members of nonprofit youth athletic organizations. The sales tax law has exempted food products since it was enacted in 1961.

Sec. 151.3141. Food stamp purchases
This section exempts items purchased with food stamps. Federal law prohibits states from participating in the food stamp program without such an exemption, which was added in 1987.

Sec. 151.315. Water
This provision, which has been in the law since 1961, exempts sales of water. It does not include the disposal of waste-water, which is a nontaxable service.

Sec. 151.316. Agricultural items
This section exempts certain agricultural items, including horses, mules, and work animals; animals that ordinarily constitute food (chickens, cows, etc.); feed for farm and ranch animals and for animals held for sale; certain seeds and annual plants; chemicals used on a farm or ranch in production; and machinery and equipment used on a farm or ranch to build roads or water facilities. The section also exempts items used to produce agricultural products for sale, or to process, pack, or market agricultural products; underground irrigation equipment; and ice used by commercial fishing boats. Several of these items have been exempt since 1961, but others have become exempt since then.

Sec. 151.3161. Timber Operations
This provision exempts the first $50,000 of the purchase price of each unit of machinery or equipment used in commercial timber operations. It specifically excludes such equipment when it is rented for less than a year, hand tools, and repair or replacement parts for the equipment. This exemption was added in 1995.

Sec. 151.317. Gas and electricity
This section exempts certain sales of gas

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and electricity, including gas and electricity used in processing a product for sale; exploring for, or producing and transporting a material extracted from the earth; agricultural operations; gas and electricity used by an electric utility; and gas and electricity used in residences (including apartments, nursing homes, and dormitories). (The section also gives cities the option to tax the residential use of gas and electricity.)

The provision specifically excludes from the exemption commercial uses of gas and electricity, including use by a person engaged in selling, warehousing, or distributing a commodity or a professional or personal service.

Sec. 151.318. Property used in manufacturing

This section exempts several types of items used in manufacturing products for sale, including materials that become part of the manufactured product. It also exempts tangible personal property that is necessary or essential to the manufacturing operation if it causes a physical or chemical change in the product being manufactured. The section exempts services performed directly on the manufactured product; certain chemicals used during the manufacturing operation; wrapping and packaging materials; and certain equipment used to reduce water use and to reuse and recycle wastewater streams in the manufacturing process.

It also exempts certain purchases by a person overhauling or repairing jet turbine aircraft engines; producers of motion pictures or video or audio recordings, a copy of which is sold, licensed, distributed, broadcast, or otherwise exhibited; publishers of newspapers that are distributed free of charge; and purchases of semiconductor fabrication cleanrooms and equipment.

The exemption specifically excludes certain items, including equipment rented for less than a year, hand tools, office supplies, and equipment and supplies used in maintenance and janitorial activities. The exemption also excludes items relating to sales or distribution activities, storage and maintenance, research and development, and transportation.

Sec. 151.319. Newspapers and property used in newspaper publication

This section exempts sales of newspapers. It also exempts advertising supplements printed to the special order of a customer, distributed as a part of the newspaper, and delivered to the person who is responsible for the distribution of the newspaper in which the item is distributed (i.e., not delivered to the customer).

The section also provides an exemption for certain items used during the printing or processing of a newspaper, similar to the manufacturing exemption in Sec. 151.318.

Sec. 151.320. Magazines

Sales of subscriptions to magazines that are sold for a semiannual or longer period and mailed as second class mail are exempt from tax.

Sec. 151.321. University and college student organizations

This section exempts sales by certain qualified student organizations at fundraising events if the event lasts only one day and only one sale is held each month. This exemption was added in 1995.

Sec. 151.322. Containers

This provision exempts sales of certain containers, including a container sold with its contents if the sales price of the contents is not taxed, a nonreturnable container sold without contents to a person who fills the container and sells the contents and the container together, and a returnable container sold with its contents or resold for refilling.

Sec. 151.324. Equipment used elsewhere for mineral exploration or production

The section exempts tangible personal property (like drill pipe, casing and tubing) used for the exploration for or production of oil, gas, sulphur, or other minerals offshore and not in this state. The exemption was added in 1967.

Sec. 151.328. Aircraft

The provision exempts aircraft (1) sold to a person using the aircraft as a certificated

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or licensed carrier of persons or property, (2) sold to a person using the aircraft for training or instructing pilots in a licensed course of instruction, (3) sold to a foreign government, or (4) sold to a person for use and registration in another state or nation.

In addition, the repair, remodeling, and maintenance services performed on aircraft operated by carriers or flight schools and the machinery and equipment used in performing such repair services are exempt from the sales tax.

Sales of tangible personal property that is permanently affixed or attached as a component part of an aircraft operated by a carrier or flight school are also exempt from the sales tax.

Sec. 151.329. Certain ships and ship equipment

The section exempts sales of (1) component parts of a vessel that is of eight or more tons displacement and is used in a commercial enterprise or used commercially for pleasure fishing by individuals as paying passengers on the vessel, (2) a commercial vessel of eight or more tons displacement that is sold by the vessel's builder, (3) materials and labor used in repairing or converting a commercial vessel of eight or more tons displacement, (4) materials and supplies for a vessel operating exclusively in foreign or interstate coastal commerce that are used in the maintenance and operation of the vessel or become component parts of the vessel, and (5) certain materials and supplies purchased by a provider of stevedoring services for a qualifying vessel.

Sec. 151.3291. Boats and boat motors

This provision exempts the sale, but not the lease or rental, of a boat or motor that is taxable under the boat and boat motor sales and use tax (Chapter 160).

This tax does not contain an occasional sale exemption; therefore, somewhat more revenue is generated by taxing these items at 6.25 percent under the separate tax than if they were taxed under the sales tax.

This section was added in 1991, when the boat and boat motor sales and use tax was enacted.

Sec. 151.330. Interstate shipments, common carriers, and services across state lines

This section exempts the sale of tangible personal property that is shipped outside this state by the seller or that is delivered by the seller to a carrier or a forwarding agent for shipment outside the state.

The section also exempts tangible personal property acquired outside this state that is stored here temporarily and used solely outside this state or that is physically attached to other tangible personal property that is used solely outside this state.

Services performed for use outside this state are exempt.

The section also exempts tangible personal property sold to a common carrier if the carrier ships the property outside this state using its own facilities and uses the property in its business as a common carrier outside this state. Repair or replacement parts acquired outside this state for a self-propelled vehicle that is used as a licensed and certificated common carrier are also exempted.

Sec. 151.331. Rolling stock; train fuel and supplies

Rolling stock, locomotives, fuel, and supplies essential to the operation of trains are exempt, as are electricity and certain fuels used in the repair or maintenance of rolling stock.

Sec. 151.332. Certain sales by senior citizen organizations

The provision exempts sales of items produced by a person 65 years old or older if sold at a qualified fundraising sale sponsored by a nonprofit organization that provides assistance to elderly persons. The exemption was added in 1981.

Sec. 151.335. Coin-operated services

Amusement and personal services provided through coin-operated machines that are operated by the consumer are exempt from the sales tax. For example, receipts from coin-operated shoe-shine machines are exempted by this section, which was added in 1984. Coin-operated amusement machines are taxed under a separate tax levied on a per machine basis.

Sec. 151.336. Certain coins and precious metals

The sale of gold, silver, or numismatic coins or of platinum, gold, or silver bullion is exempt if the total sales price of all of the items sold equals $1,000 or more. This section was added in 1989.

Sec. 151.337. Sales by or to indian tribes

This section exempts items sold to a tribal council or a business owned by a tribal council of the Alabama-Coushatta Indian Tribe, the Tigua Indian Tribe, or the Texas Band of Kickapoo Indians.

The section also exempts items sold by a tribal council or a business owned by a tribal council if the item is a cultural artifact made by a tribe member and sold within the boundaries of either the reservation or trust land held by the tribe. This exemption was added in 1983.

Sec. 151.338. Environment and conservation services

This provision exempts services to repair, remodel, maintain, or restore tangible personal property if the service is required by statute, order, or rule of any commission, agency, court, or political, governmental, or quasi-governmental entity to protect the environment or to conserve energy. The exemption was added in 1984.

Sec. 151.340. Official state coin

The section exempts the sales of official state coins produced under Section 11.05, State Purchasing and General Services Act (Article 601b, Vernon's Texas Civil Statutes). The exemption was added in 1987.

Sec. 151.341. Items sold to or used by development corporations

This provision exempts items sold to a nonprofit corporation formed under the Development Corporation Act of 1979 (Article 5190.6, Vernon's Texas Civil Statutes), if the item is for the exclusive use and benefit of the nonprofit corporation.

Sec. 151.342. Agribusiness items

The section exempts sales of bins used as containers in transporting fruit, vegetables, or poultry from the farm to a location where the items are processed, packaged, or marketed. The exemption was added in 1983 and expanded in 1995.

Sec. 151.346. Intercorporate services

This provision exempts certain services provided among affiliated entities, at least one of which is a corporation, that report their income to the Internal Revenue Service on a single consolidated return for the tax year in which the transaction occurs. The exemption was added in 1987.

Sec. 151.347. Certain lawn and yard service

This section exempts lawn mowing and other yard maintenance services performed by self-employed individuals who are younger than 18 years of age or who are 65 years of age or older, and whose total receipts in the most recent four calendar quarters do not exceed $5,000. The exemption was added to the law in 1987 and expanded in 1989 and 1995.

Sec. 151.348. Cooperative research and development ventures

This provision exempts qualifying items sold in connection with a joint research and development venture as defined by 15 U.S.C. Section 4301 to an entity participating in the venture, if the items are created or substantially modified by or for the joint research and development venture. It also exempts purchases by a joint research and development venture, notice of whose establishment and participants was first published in the *Federal Register* on January 17, 1985, or May 19, 1988. The section was added in 1987 and expanded in 1989.

Sec. 151.349. Corporations formed by the Texas National Research Laboratory Commission

A taxable item sold to any corporation established by the Texas National Research Laboratory Commission under Section 465.008(g), Government Code, is exempt. Items sold by such corporations are also exempt if used in an eligible undertaking as defined by Section 465.021, Government

Code. This section was added in 1991 to provide the exemption for the superconducting supercollider project.

Sec. 151.350. Labor to restore certain property

This section exempts charges for labor to restore real or tangible personal property damaged within a disaster area by the condition that caused the area to be declared a disaster area by the Governor or the President. It was added in 1993 and amended in 1995.

Sec. 151.353. Court reporting services

Court reporting services relating to the preparation of a document in a civil or criminal suit are exempt when sold to a participant in the suit. This includes depositions, discovery documents, testimony transcripts, and statements of facts. It also applies to such records on audio or video tape. This section was added in 1995.

Sec. 151.429. Tax refunds for enterprise projects

This section makes enterprise projects eligible for a refund of sales tax paid on purchases of machinery or equipment, and gas and electricity used in an enterprise zone, and labor and materials to remodel or construct a structure in an enterprise zone. The project may obtain a refund of $2,000 for each permanent job for a qualified employee added or retained by the project, up to a total refund of $250,000 per fiscal year. Refunds of amounts above this limit may be carried forward to subsequent years.

This provision also entitles the owner of a qualified hotel project to a refund of the sales and hotel occupancy taxes paid or collected by the project or by businesses located in the hotel project during the first 10 years after the hotel project is open for occupancy. This section was added in 1987 and has been expanded several times since then.

Sec. 151.4291. Tax refunds for defense readjustment projects

In 1997, tax refunds for defense readjustment projects were authorized for certain equipment, building materials, labor, electricity, and natural gas used in remodeling or constructing structures in a readjustment zone.

Sec. 151.431. Sales and use tax refund for job retention

A qualified business operating in an enterprise zone is entitled to a one-time refund of sales tax paid on purchases of machinery or equipment used in an enterprise zone if the business is retaining 10 or more jobs held by qualified employees during the year. The business must be certified as eligible for a refund by the governing body of the enterprise zone and no more than three eligible businesses may be so certified by each city or county during each calendar year. The total amount of the one-time refund to a qualified business may not exceed $500 for each qualified employee retained, up to a limit of $5,000 for each qualified business. This section was added in 1989.

Sec. 151.432. Certain tickets to amusement services

Starting in 1997, resellers of tickets or admissions documents to an amusement service may deduct the fact value of gaming tickets, less included taxes, that are purchased for resale and are actually sold.

Sales tax exclusions

For most of its history, the sales tax was not imposed on the sales of services. Beginning in the mid-1980s, some services have become subject to the sales tax.

In 1984, sales tax was imposed on laundry and dry cleaning, amusement admissions, cable television service, auto parking, most non-automotive repair services, and certain personal services.

The following year, the tax was extended to intrastate long-distance telephone service.

In 1987, a number of other services were added to the sales tax base, including local and interstate long-distance telephone service, repair and remodeling of nonresidential real property, data processing, landscap-

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Table 3
Cost of Selected Service Exclusions from the Sales Tax
Fiscal 1999 to 2004
(in millions of dollars)

	1999	2000	2001	2002	2003	2004
Construction labor						
New residential construction	$ 209.5	$ 203.1	$ 207.2	$ 213.6	$ 217.0	$ 218.2
New nonresidential construction	179.5	175.9	181.7	186.9	190.2	194.2
Residential repair and remodeling	67.9	65.8	67.1	69.2	70.3	70.7
Personal services						
Barber and beauty services	42.3	45.0	48.0	51.3	54.5	58.1
Funeral services	25.6	26.7	27.8	29.0	30.2	31.5
Child day care	95.2	101.4	108.3	115.5	122.7	130.9
Miscellaneous personal services	10.9	11.6	12.4	13.2	14.1	15.0
Business and professional services						
Physicians services	476.2	508.8	541.7	577.9	613.9	654.7
Dental services	140.3	149.8	159.6	170.2	180.8	192.9
Other health care	223.9	239.0	254.7	271.7	288.6	307.8
Legal services	331.1	355.1	378.0	403.0	428.2	457.8
Accounting and audit services	108.3	115.9	123.6	131.8	140.0	149.7
Architectural and engineering services	213.3	228.3	243.6	259.7	275.9	295.0
Management consulting and public relations	81.0	86.7	92.5	98.7	104.8	112.1
Contract computer programming	58.5	62.6	66.8	71.2	75.7	80.9
Research and development laboratory services	24.6	26.3	28.1	30.0	31.8	34.0
Economic and sociological research	12.3	13.1	14.0	14.9	15.9	17.0
Testing labs	27.9	29.8	31.8	33.9	36.0	38.5
Advertising media	143.4	153.5	163.7	174.5	185.4	198.3
Employment agency services	27.8	29.8	31.8	33.9	36.0	38.5
Temporary labor supply	56.6	60.6	64.6	68.9	73.2	78.3
Financial services brokerage	83.2	89.1	95.0	101.3	107.6	115.1
Other financial services	51.2	54.8	58.5	62.3	66.2	70.8
Real estate brokerage and agency	117.7	126.0	134.4	143.3	152.2	162.8
Freight hauling	221.7	237.5	253.1	269.8	286.7	306.5
Other transportation (except scheduled passenger)	8.7	9.3	10.0	10.6	11.3	12.1
Veterinary services	24.1	25.6	27.3	29.2	31.3	33.4
Other services						
Automotive maintenance and repair	165.8	178.6	188.6	201.3	213.8	228.0
Car washes	13.5	14.3	15.3	16.3	17.4	18.5
Travel arrangement	26.1	27.8	29.6	31.6	33.6	35.8
Private vocational education	12.8	13.7	14.6	15.6	16.6	17.7
Other private educational services	10.6	11.3	12.0	12.8	13.6	14.5
Interior design	5.1	5.5	5.9	6.2	6.6	7.1
Total	$3,296.6	$3,482.5	$3,691.3	$3,919.5	$4,142.2	$4,396.3

Note: Totals may not add due to rounding.

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ing and lawn maintenance, janitorial and extermination services, security services, garbage removal, credit reporting and debt collection, information services, certain surveying services, and insurance services.

Many services remain excluded from the tax. Some of these are profiled in Table 3. The value of these exclusions will be about $3.3 billion in fiscal 1999, an amount equal to approximately one-quarter of expected sales tax collections.

Of the services not covered by the Tax Code, the largest group is professional services. These include medical, dental and other health care, legal services, accounting and audit services, engineering and architectural services, real estate brokerage, financial securities brokerage, and veterinary services. (Note: Individuals practicing these professions are subject to a $200 fee, in addition to other license fees.)

Another large exclusion is for labor charges by contractors on new residential and nonresidential construction jobs. Labor for residential repair and remodeling also remains tax-free. The materials used in construction jobs, however, are subject to sales tax.

Sales tax discounts

Texas' sales tax law allows two kinds of discounts. (See Table 4.)

Taxpayers who report and remit on time may keep 0.5 percent of the taxes they collect as compensation for collecting those taxes. In fiscal 1999, this discount will cost the state an estimated $57.7 million.

Taxpayers who prepay their taxes based on a reasonable estimate of their tax liability may keep an additional 1.25 percent as a reward for early payment. The cost of this prepayment discount will be about $40.8 million in fiscal 1999.

Table 4
Cost of Sales Tax Discounts
Fiscal 1999 to 2004
(in millions of dollars)

	1999	2000	2001	2002	2003	2004
Timely Filer Discount	$57.7	$ 60.5	$ 63.6	$ 67.2	$ 70.9	$ 75.1
Prepayment Discount	40.8	42.7	44.9	47.4	50.0	53.0
Total	$98.5	$103.2	$108.5	$114.6	$120.9	$128.1

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Franchise Tax

The franchise tax serves as Texas' primary business tax. The tax is levied on corporations (including S corporations) and limited liability companies doing business in Texas. Non-corporate business entities such as partnerships, associations, and proprietorships are excluded from the tax.

Adopted in its modern-day form in 1907, the franchise tax is one of Texas' most venerable revenue sources. Originally levied as a tax on corporate wealth (i.e., as a percentage of corporate assets), the tax changed little but for the tax rate until the 1980s. Legal challenges to the method of tax computation in the 1980s caused tax revenues to drop sharply.

In answer to the ensuing revenue shortfalls and to long-standing equity concerns, the Legislature in 1991 reformulated the tax. The franchise tax since 1992 has been computed on a dual tax base of capital (net worth) and earned surplus (modified net income).

The franchise tax is considered a privilege tax, meaning that corporations pay the tax in exchange for specific privileges granted by the State of Texas. These privileges include access to the state's legal system, the right to accumulate property separate and apart from any individual's property, and a limitation of personal financial liability for officers of the corporation.

In 1997, the last complete year of reporting, about 380,000 firms were subject to the tax. Of this total, 165,000 firms reported a tax liability, and the remaining 215,000 firms owed no tax. Franchise tax collections totaled $1.8 billion in fiscal 1997 and $1.9 billion in fiscal 1998. Collections are expected to rise to $2.0 billion in fiscal 1999.

How the franchise tax is computed

Corporations make two sets of tax calculations: one for their "net worth" (or taxable capital) tax base, and another for their "earned surplus" tax base. The results are then used to determine final tax liability.

The "net worth" tax base is computed by summing the corporation's stated capital and surplus. Stated capital is the par value of the firm's outstanding shares of stock. Surplus is the remainder of the firm's net worth. Net worth is defined as the firm's total assets minus debts. For franchise tax purposes, debts are time-certain, amount-certain, and legally enforceable.

Firms apportion their total net worth tax base to Texas according to the share of their total business done in the state, measured in terms of their gross receipts. A tax rate of 0.25 percent is applied to the apportioned tax base to determine the tax on taxable capital.

The "earned surplus" tax base is calculated by summing the firm's federal taxable income and the firm's compensation paid to officers and directors. Deductions are allowed for certain foreign income and dividends received. All S corporations and C corporations with 35 or fewer shareholders are permitted to exclude officer and director compensation from their tax base.

Firms also apportion their earned surplus tax base to Texas according to the share of their business done in the state, measured in terms of their gross receipts. A Texas business loss carryover may be used to reduce apportioned earned surplus. The tax rate on earned surplus is 4.5 percent.

If the tax on earned surplus exceeds the tax on net worth, the corporation will pay both the capital tax and a surtax on earned surplus. The surtax is equal to the firm's earned surplus tax liability minus its net worth tax liability. In practice, the firm simply pays the higher of the tax on net worth or the tax on earned surplus.

Tax payments and tax reports are due annually to the Comptroller of Public

Accounts on May 15 and cover the taxpayer's previous fiscal year. A report extension to November 15 can be requested.

Origin of franchise exemptions

Some exemptions under the franchise tax arise due to federal law. For example, federally-chartered credit unions and federal financial agencies (Fannie Mae, Freddie Mac, Federal Reserve Banks, etc.) are outside the bounds of both federal and state tax systems. These organizations are exempt not only from the franchise tax, but they are also exempt from the registration requirements of the Secretary of State and Comptroller. For this reason, data on these organizations are not provided in this report.

The Franchise Tax Code also recognizes federal exemptions for nonprofit organizations exempt under Internal Revenue Code (IRC) sections 501(c)(3), (4), (5), (6), (7), (8), (10), (16), and (19). In addition, the franchise tax code follows federal tax exemptions for profit-making organizations under IRC sections 501(c)(2) and (25). Exemptions for these organizations are discussed in Tax Code Section 171.063.

A third group of organizations are franchise tax-exempt due to specific state exemptions. These exemptions are found in Tax Code Sections 171.051 through 171.062 and 171.064 through 171.087.

In some cases the state exemption overlaps with a federal exemption, and an organization may qualify under either. For example, a church might qualify for exemption under its federal 501(c)(3) exemption (Tax Code 171.063(a)(1)) or under a state exemption for religious organizations (Tax Code 171.058).

Nonprofit versus exempted

A nonprofit corporation is not by that reason alone exempt from the franchise tax. For many of the exemptions, nonprofit status is only one of several requirements for exemption. A common requirement is that the organization be engaged in serving a particular type of client, be engaged in a particular line of work, or be organized for, and involved in, a specified type of pursuit.

Franchise tax exemption types

Five broad categories of franchise tax relief exist: statutory exemptions, deductions, special accounting rules, credits, and special rates. (See Tables 1, 2, and 3.)

Statutory exemptions. A statutory exemption is used to grant certain types of firms a full waiver from all franchise tax liability and reporting. For example, insurance companies are granted a full exemption because they are required to pay a separate tax on their gross premiums.

To become exempt, a nonprofit organization or company is generally required to prove itself eligible for the exemption. However in three cases, the taxpayer is not required to register with the Comptroller before receiving the exemption. Insurance companies exempt under Tax Code 171.052, state-chartered credit unions exempt under Tax Code 171.077, and trade show participants exempt under Tax Code 171.084 merit their exempt status without registration.

Deductions and exclusions. A tax deduction or exclusion grants a taxable firm a subtraction from its tax base or from its apportionment computation. Generally, all other franchise tax regulations must be followed. A deduction can lower a firm's overall tax bill, but usually not by the full amount of the deduction.

A deduction is applied to the firm's tax base or apportionment formula before the application of a tax rate. Because the tax rate is applied after the deduction is taken, the reduction in tax liability is generally less than the deduction amount. If the deduction is taken against the tax base, the resulting reduction in tax liability will usually equal the deduction (in dollars) multiplied by the tax rate (in percent). If the deduction is taken from the apportionment factor computation, the reduction in tax liability is not readily apparent without actual computation.

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Table 1
Cost of Franchise Tax Exemption, Deductions, Special Accounting Methods, and Credits
Fiscal 1999 to 2004
(millions of dollars)

	1999	2000	2001	2002	2003	2004
Exemptions: For-Profit Corps	$279.5	$299.3	$340.8	$390.3	$449.4	$520.1
Exemptions: Non-Profit Corps	211.3	215.6	221.2	227.3	233.5	239.8
Deductions	369.4	363.5	383.9	403.8	427.2	447.3
Special Accounting Methods	48.2	49.0	51.5	53.9	56.5	59.2
Credits	1.6	1.5	1.5	1.5	1.5	1.5
Total	$909.9	$929.0	$999.2	$1,076.8	$1,168.1	$1,267.9

Note: Totals may not add due to rounding.

One reason for granting special deductions or exclusions is to promote certain activities or behavior. For example, to encourage the development of solar energy sources, the Legislature has permitted firms to exclude from their tax base their purchases of qualifying solar energy devices.

Some deductions or exclusions may be granted to prevent the taxation of items exempt from taxation under federal law, such as interest income on U.S. Treasury securities. Other deductions or exclusions grant tax relief to small firms, such as the provision that allows small corporations to exclude executive compensation from their earned surplus tax base.

Special accounting rules. A special accounting rule allows a qualifying firm to use an accounting or computation method not available to all other franchise taxpayers. The special accounting may be designed to relieve small firms of certain accounting burdens. Also, in the same manner as a deduction or exclusion, a special accounting rule may be used to encourage certain activities. For example, regulated investment companies benefit from a special apportionment rule because the Legislature sought to encourage these firms to locate in Texas.

Credits. A credit allows a taxpayer a subtraction directly from tax owed. For this reason, a tax credit provides greater fiscal relief to taxpayers than a deduction of the same dollar amount.

Tax credits come in two types, distinguished by their frequency. One-time credits are available for a single tax period (or until they are used up). In contrast, continuing credits are available for use year after year. Each type can be used for a variety of purposes—e.g., to influence taxpayer behavior, to grant tax relief, or to smooth the flow of state and local tax receipts.

Special rates. A special rate usually takes the form of a lower tax rate for certain taxpayers, distinguished by either their line of business, or by their product. No special rate provisions currently exist in the franchise tax code.

Franchise tax exemptions

Sec. 171.051(d). Franchise Tax Exemptions Granted Before September 1, 1975

Corporations that received exemptions before September 1, 1975 retain their exemptions. Prior to this date exemptions were administered by the Secretary of

Table 2
Cost of Franchise Tax Exemptions
Fiscal 1999 to 2004
(millions of dollars)

Franchise Code Sec.	Exemption	1999	2000	2001	2002	2003	2004	Entities 1998
171.051	Grandfathered before 1975	included with IRS 501(c)(3)						204
171.052	Insurance companies	$137.1	$141.1	$147.4	$153.8	$160.2	$166.5	2,091
171.053	Railway terminal corporation	negligible	negligible	negligible	negligible	negligible	negligible	2
171.055	Mutual funds	142.4	158.2	193.4	236.5	289.1	353.5	44
171.056	Solar energy corporation	negligible	negligible	negligible	negligible	negligible	negligible	77
171.057	Promote local area	included with IRS 501(c)(6)						4,565
171.058	Religious organizations	included with IRS 501(c)(3)						9,414
171.059	Burial organizations #	negligible	negligible	negligible	negligible	negligible	negligible	826
171.060	Agriculture fairs	included with IRS 501(c)(5)						55
171.061	Educational organizations	included with IRS 501(c)(3)						549
171.062	Public charity	included with IRS 501(c)(3)						136
171.063	IRS Sec 501(c)(3)	169.2	172.8	176.8	181.1	185.5	189.8	21,202
	IRS Sec 501(c)(4)	6.1	6.3	6.4	6.6	6.7	6.9	2,624
	IRS Sec 501(c)(5)	5.3	5.4	5.6	5.7	5.8	6.0	241
	IRS Sec 501(c)(6)	10.5	10.7	10.9	11.2	11.5	11.7	1,825
	IRS Sec 501(c)(7)	1.6	1.6	1.7	1.7	1.8	1.8	1,193
	IRS Sec 501(c)(8)	1.5	1.5	1.5	1.5	1.5	1.5	14
	IRS Sec 501(c)(10)	negligible	negligible	negligible	negligible	negligible	negligible	3
	IRS Sec 501(c)(16)	negligible	negligible	negligible	negligible	negligible	negligible	2
	IRS Sec 501(c)(19)	negligible	negligible	negligible	negligible	negligible	negligible	70
	IRS Sec 501(c)(2),(25)	negligible	negligible	negligible	negligible	negligible	negligible	318
171.064	Nature conservation	included with IRS 501(c)(3)						21
171.065	Water supply/sewer	0.2	0.2	0.2	0.2	0.2	0.2	469
171.066	Natural gas facility	negligible	negligible	negligible	negligible	negligible	negligible	6
171.067	Convalescent homes	negligible	negligible	negligible	negligible	negligible	negligible	33
171.068	Cooperative housing	negligible	negligible	negligible	negligible	negligible	negligible	4
171.069	Ch. 52 Agriculture marketing	included with IRS 501(c)(5)						229
171.070	Lodges	included with IRS 501(c)(8)						182
171.071	Ch. 51 Agriculture cooperative	included with IRS 501(c)(5)						10
171.072	Housing finance	included with IRS 501(c)(3)						124
171.073	Hospital laundry	negligible	negligible	negligible	negligible	negligible	negligible	1
171.074	Development corporation	included with IRS 501(c)(6)						558
171.075	Health cooperative	included with IRS 501(c)(3)						93
171.076	Ch. 55 Agriculture credit	0	0	0	0	0	0	0
171.077	State credit unions ##	3.2	3.2	3.4	3.6	3.9	4.1	272
171.079	Electric cooperative	11.4	11.5	12.3	13.1	13.9	14.8	91
171.080	Telephone cooperative	0.8	0.8	0.9	0.9	1.0	1.0	24
171.081	Title insurance firms	0.7	0.7	0.8	0.8	0.9	0.9	612
171.082	Homeowners association	0.8	0.9	0.9	0.9	0.9	0.9	3,590
171.083	EMS corporation	included with IRS 501(c)(3)						24
171.084	Trade show	negligible	negligible	negligible	negligible	negligible	negligible	*
171.085	Sludge recycling	negligible	negligible	negligible	negligible	negligible	negligible	1
171.086	Supercollider organization	0	0	0	0	0	0	0
171.087	Scholarship organization	included with IRS 501(c)(3)						6
Total		$ 490.8	$ 515.0	$ 562.2	$ 617.6	$ 682.9	$ 759.8	51,805

\# Qualifies for IRS 501(c)(13)
\## Qualifies for IRS 501(c)(14)
*Number of entities is unknown because registration with the Comptroller is not required to receive the exemption.

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Table 3
Cost of Franchise Tax Deductions, Special Accounting Methods, and Credits
Fiscal 1999 to 2004
(millions of dollars)

	1999	2000	2001	2002	2003	2004
Deductions:						
Firms with tax liability < $100	$ 1.7	$ 1.8	$ 1.8	$ 1.8	$ 1.9	$ 1.9
Enterprise zone investment	7.6	6.7	6.8	6.9	6.9	2.0
Food and medicine receipts	1.8	1.9	2.0	2.1	2.2	2.4
Solar energy device purchases	negligible	negligible	negligible	negligible	negligible	negligible
Business loss carryover	157.8	150.1	158.0	166.5	177.3	188.7
Officer compensation exclusion-small corps	156.2	157.8	169.0	179.1	190.5	202.7
Interest earnings on federal securities	44.2	45.2	46.2	47.3	48.5	49.6
Total	$369.4	$363.5	$383.9	$403.8	$427.2	$447.3
Special Accounting Methods:						
RIC service firm apportionment	$ 2.4	$ 2.4	$ 2.4	$ 2.4	$ 2.4	$ 2.4
GAAP accounting exemption	11.7	11.8	12.6	13.4	14.2	15.1
Transportation firm apportionment	8.5	8.6	8.8	9.0	9.3	9.5
Telephone firm apportionment	6.8	6.9	7.0	7.1	7.3	7.4
Bank apportionment	19.0	19.4	20.7	22.0	23.4	24.9
Total	$48.2	$49.0	$51.5	$53.9	$56.5	$59.2
Credits:						
Temporary (FAS 96) credit	$1.3	$1.3	$1.3	$1.2	$1.2	$1.2
Title insurance holding company credit	0.3	0.3	0.3	0.3	0.3	0.3
Total	$1.6	$1.5	$1.5	$1.5	$1.5	$1.5

Note: Totals may not add due to rounding.

State. These exemptions may be of any type and include schools, churches, water supply corporations, and foundations.

Sec. 171.052. Insurance companies

Insurance, surety, guaranty, or fidelity companies that are subject to or that pay an annual premium tax levied under the Insurance Code and that have not been exempted from premium taxes are exempt from franchise tax.

Insurance companies exempt under this section are not required to register with the Comptroller.

Sec. 171.053. Railway terminal corporation

A railroad or railway terminal corporation organized under Texas' railroad statutes subject to regulation by the Railroad Commission and that has no annual net income from its business is exempt.

Sec. 171.055. Open-end investment company

An open-end investment company as defined by the federal Investment Company Act of 1940 and that is registered under the Texas Securities Act is exempt.

An open-end investment company is one that offers for sale, or has outstanding, any redeemable security of which it is the issuer. A mutual fund is an example of an open-end investment company.

Sec. 171.056. Corporation with business interest in solar energy devices

A corporation engaged exclusively in the business of manufacturing, selling, or installing solar energy devices is exempt.

Sec. 171.057. Nonprofit corporation organized to promote a county, city, or another area of state

A nonprofit corporation organized solely to promote the public interest of a county, city, town, or another area in the state is exempt. Examples include chambers of commerce, civic league organizations, local youth programs, and volunteer fire departments.

Sec. 171.058. Nonprofit corporation organized for religious worship

A nonprofit corporation organized primarily for the purpose of religious worship qualifies for this exemption.

Sec. 171.059. Nonprofit corporation organized to provide burial places

A nonprofit corporation that provides plots for the burial of human remains is exempt.

Sec. 171.060. Nonprofit corporation organized for agricultural purposes

A nonprofit corporation organized to hold agricultural fairs and encourage agricultural pursuits is exempt from the franchise tax. An example is a county fair association.

Sec. 171.061. Nonprofit corporation organized for educational purposes

A nonprofit corporation seeking exemption under this provision must show that (1) its activities are devoted exclusively to systematic instruction, particularly in the commonly accepted arts, sciences, and vocations; (2) it has a regularly scheduled curriculum, using commonly accepted methods of teaching; (3) it has a faculty of qualified instructors; and (4) it has an enrolled student body or students in attendance at a place where the educational activities are regularly conducted. Private primary and secondary schools are examples.

Sec. 171.062. Nonprofit corporation organized for public charity

A nonprofit corporation organized for purely public charity that devotes all or substantially all of its efforts to the alleviation of poverty, disease, pain, and suffering by providing food, clothing, drugs, treatment, shelter, or psychological counseling directly to indigent or similarly deserving members of society and deriving its funds primarily from sources other than fees or charges for its services is exempted.

Sec. 171.063. Nonprofit corporation exempt from federal income tax

A nonprofit corporation that is exempt from federal income tax under Internal Revenue Code sections 501(c)(2), (3), (4), (5), (6), (7), (8), (10), (16), (19), and (25) is exempt from the franchise tax.

Section 501(c)(3) exempts religious, educational, charitable, scientific, and literary organizations. This group may also contain organizations that test for public safety, societies to foster national or international amateur sports competition, and societies for the prevention of cruelty to children or animals. Examples include churches, private schools, museums, theaters, evangelistic associations, YMCAs, YWCAs, and humane societies.

Section 501(c)(4) exempts civic leagues, social welfare organizations, and local associations of employees. Examples include Lions Clubs, Rotary Clubs, associations of retired persons, volunteer fire departments, and employees' clubs.

Section 501(c)(5) exempts labor, agricultural, and horticultural organizations. In general, the organizations are educational or instructive for the purpose of improving conditions of work and for improving products and efficiency. Examples include flower societies, police unions, bovine breeder associations, and irrigation councils.

Section 501(c)(6) exempts business leagues, chambers of commerce, real estate boards, and other similar organizations. These organizations typically concern themselves with the improvement of business conditions of one or more lines of business.

Section 501(c)(7) exempts organizations of a social and recreation nature. The activities of these organizations primarily relate to pleasure, recreation, and social

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activities. Examples are college and university social sororities and fraternities, country clubs, and adult athletic associations.

Section 501(c)(8) exempts fraternal beneficiary societies and associations. These organizations include lodges providing payments of life, sickness, accident, or other benefits to members. Examples are the Independent Order of Odd Fellows and the Elks Lodge.

Section 501(c)(10) exempts domestic fraternal societies and associations. Generally, these are lodge organizations that devote their net earnings to charitable, fraternal, and other specified purposes. These organizations do not provide life, sickness, or accident benefits to members. Examples are the Scottish Rite and the Fraternal Order of Eagles.

Section 501(c)(16) exempts cooperative organizations that finance crop operations, generally in connection with activities of a marketing or purchasing association. An example is a livestock credit corporation.

Section 501(c)(19) exempts organizations of past or present members of the armed forces. Examples are Veterans of Foreign Wars (VFW) Posts and its auxiliary organizations.

Sections 501(c)(2) and 501(c)(25) exempt a particular type of for-profit corporation. These corporations hold the title to the property of another affiliated exempt organization and pass funds to the other exempt organization.

Sec. 171.064. Nonprofit corporation organized for conservation purposes

A nonprofit corporation organized solely to educate the public about the protection and conservation of fish, game, other wildlife, grasslands, or forests is exempt. Examples are a wetland habitat preservation alliance and a society to preserve a particular forest.

Sec. 171.065. Nonprofit corporation organized to provide water supply or sewer services

A nonprofit water supply or sewer service corporation organized under Article 1434a, Vernon's Texas Civil Statutes, is exempt. These special corporations may serve cities, towns, and political subdivisions, but not municipal utility districts.

Sec. 171.066. Nonprofit corporation involved with city natural gas facility

A nonprofit corporation organized to construct, acquire, own, lease, or operate a natural gas facility on behalf of and for the benefit of a city or residents of a city is exempt from the franchise tax.

Sec. 171.067. Nonprofit corporation organized to provide convalescent homes for elderly

A nonprofit corporation organized to provide convalescent housing for persons at least 62 years old or that are handicapped or disabled is exempt.

Sec. 171.068. Nonprofit corporation organized to provide cooperative housing

A nonprofit corporation engaged solely in the business of owning residential property for the purpose of providing cooperative housing for individuals is exempt.

Sec. 171.069. Marketing associations

A marketing association incorporated under Chapter 52 of the Agricultural Code is exempt from franchise tax. A marketing association generally provides a means or vehicle for selling the agricultural products produced by its collective members.

Sec. 171.070. Lodges

A lodge incorporated under Article 1399 et seq., Revised Civil Statutes of Texas, 1925, is exempt from the franchise tax. Examples of lodges qualifying for this exemption are the Masons and Elks.

Sec. 171.071. Farmers' cooperative society

A farmers' cooperative society incorporated under Chapter 51 of the Agricultural

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Code is exempt from the franchise tax. A farmers' cooperative may provide its members with an economical and effective means of purchasing farming supplies and materials such as tractor fuel and fertilizer.

Sec. 171.072. Housing finance corporation

A housing finance corporation incorporated under Chapter 394, Local Government Code is exempt. A housing finance corporation is a financing vehicle used by local governments to provide safe and sanitary housing at affordable prices for its residents.

Sec. 171.073. Hospital laundry cooperative association

A hospital laundry cooperative association incorporated under Subchapter A, Chapter 301, Health and Safety Code, is exempt from the franchise tax. The eligible institutions include: a municipality; a political subdivision of the state; a state-supported health-related institution, including the Texas A&M University System, the University of Texas System, and Texas Woman's University; a nonprofit health-related institution; and a cooperative association created under Subchapter B, Chapter 301, Health and Safety Code, a unit of which is located in a county with a population of more than 2.5 million.

Sec. 171.074. Development corporation

A nonprofit corporation organized under the Development Corporation Act of 1979 (Article 5190.6, Vernon's Texas Civil Statutes) is exempt. The purpose of a development corporation is to provide communities in Texas with a means for financing private industrial and manufacturing enterprises that will benefit the economic development of the community.

Sec. 171.075. Cooperative association

A cooperative association incorporated under Subchapter B, Chapter 301 Health and Safety Code, or under the Cooperative Association Act (Article 1396-50.01, Vernon's Texas Civil Statutes) is exempt from the franchise tax. Qualified associations may be formed by institutions exempt under Section 171.073.

The cooperative may provide services to its members, including central heating and cooling services, steam and chilled water supply, and child care services for the children of employees, consultants, students, and volunteers of cooperative association members, as well as temporary child care services for the children of patients and customers of those members.

Another category includes cooperatives with commercial activities. These organizations are typically classified along functional lines: consumer cooperatives, purchasing cooperatives, marketing cooperatives, workers' productive cooperatives, farmers' cooperatives, insurance companies, and financial cooperatives.

Sec. 171.076. Cooperative credit association

A cooperative credit association incorporated under Chapter 55 of the Agriculture Code is exempt from the franchise tax. A cooperative credit association's purpose is to provide a financing source for its members. A cooperative credit association may be formed only by persons that are Texas citizens and that are engaged in the production, or production and marketing, of staple agricultural products or in the raising, breeding, feeding, fattening, or marketing of livestock.

Sec. 171.077. Credit union

A credit union incorporated under the Texas Credit Union Act (Article 2461-1.01 et seq., Vernon's Texas Civil Statutes) is exempt from the franchise tax.

State-chartered credit unions exempt under this section are not required to register with the Comptroller.

Sec. 171.079. Electric cooperative corporation

An electric cooperative incorporated under the Electric Cooperative Corporation Act (Article 1528b, Vernon's Texas Civil Statutes) that is not a participant in a joint powers agency is exempt from the franchise tax. The purpose of electric cooperatives is to provide electricity to rural areas.

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A joint powers agency is formed with one or more public entities, and the agency formed is a governmental body subject to Chapter 551 of the Government Code. A joint powers agency's business activities are confined to the generation, transmission, and sale of electricity to the participant entities and to private entities that are joint owners with the agency of an electric generating facility located within Texas.

Sec. 171.080. Telephone cooperative corporation

A telephone cooperative corporation incorporated under the Telephone Cooperative Act (Article 1528c, Vernon's Texas Civil Statutes) is exempt from the franchise tax. The purpose of a telephone cooperative is to provide telephone service to rural areas.

Sec. 171.081. Corporation exempt by another law

This section provides that a corporation that is exempt from the franchise tax under another statute, federal or state, is not affected by a lack of a specific exemption provision in Chapter 171 of the Tax Code.

Examples of the corporations exempt under this category are title insurance companies and agents exempt under Insurance Code Article 9.59, Sections 8(a) and (b).

Another example is a health facilities development corporation created under Chapter 221 of the Health and Safety Code. Section 221.033, Health and Safety Code, exempts such a corporation from all state taxes. Accordingly, even though there is no provision in Chapter 171 of the Tax Code exempting the corporation, it is exempt from franchise tax.

Sec. 171.082. Certain homeowners' associations

A nonprofit corporation is exempt from the franchise tax if the corporation is organized and operated primarily to obtain, manage, construct, and maintain the common property in or of a residential condominium or residential real estate development and the collective individual resident owners control at least 51 percent of the votes of the corporation. A project or development is considered residential if the project or development is legally restricted for use as a residence.

Sec. 171.083. Emergency medical service corporation

A nonprofit corporation organized solely to provide emergency medical services, including rescue and ambulance service, is exempt from the franchise tax.

Sec. 171.084. Certain trade show participants

This provision exempts a foreign corporation from the franchise tax for certain solicitation of orders for personal property by its representatives, as would typically be found in a trade show. The solicitation must be limited to five periods during a specified time span, and a solicitation period may not exceed 120 consecutive hours.

Sec. 171.085. Recycling operation

A corporation engaged solely in the business of recycling municipal sludge is exempt from the franchise tax.

171.086. Corporations formed by the Texas National Research Laboratory Commission

A corporation formed by the Texas National Research Laboratory under Section 465.008(g) of the Government Code is exempt.

Sec. 171.087. Nonprofit corporation organized for student loan fund or student scholarship purposes

A nonprofit corporation organized solely to provide financial aid to students is exempt.

Deductions, special accounting methods, and credits

For many of the allowable deductions or special accounting methods, taxpayers are not required to alert the Comptroller when employing the deduction or accounting method. For this reason, the number of taxpayers taking advantage of these forms of

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tax relief is not known absolutely. The fiscal impact of these tax benefits are estimated using a variety of computation methods, including comparison with federal tax information, if appropriate.

Other deductions or special accounting methods require the entry of data on the franchise tax report in a manner that allows the identification of each taxpayer using that deduction or method. Tax credits can also be identified on a taxpayer-specific basis.

Franchise tax deductions

Sec. 171.002(d). $100 tax threshold

Firms with a tax liability of less than $100 are not required to remit the tax, although they must file franchise tax reports.

Sec. 171.1015. Reduction of taxable capital for investment in an enterprise zone

A taxpayer is allowed a reduction of either taxable capital or earned surplus by the amount of the firm's investment in an enterprise zone. The deduction is 50 percent of investment if taken as a capital deduction, or 5 percent, if taken as an earned surplus deduction. This deduction is subject to certain timing restrictions.

Sec. 171.104. Deduction for food and medicine receipts

For purposes of apportioning taxable capital, multistate firms may subtract from their Texas receipts any receipts for shipments into Texas of food and health-care supplies that are exempt from the sales tax. The deduction may not be used for apportioning earned surplus.

Sec. 171.107. Deduction of cost of solar energy device from taxable capital apportioned to this state

Taxpayers may deduct the cost of solar energy equipment installed from either the taxable capital base (fully deductible) or the earned surplus base (a 10 percent deduction).

Sec. 171.110(a)(4). Deduction of business loss carryover

Taxpayers may deduct from their earned surplus tax base any accumulated earned surplus business losses. A business loss is any negative amount of earned surplus after apportionment and allocation. Business losses may be carried over to any of the next five taxable years.

Sec. 171.110(b). Small corporation exclusion from officer compensation add-back

In computing their earned surplus tax, corporations are required to add any officer and director compensation paid which was deducted on their federal tax return.

The compensation add-back is waived for S corporations and for other firms with 35 or fewer shareholders. Qualifying firms may exclude officer compensation from their earned surplus tax base.

Rule 3.555(k). Deduction of interest income from US obligations

Taxpayers may deduct the interest income from debt instruments or other obligations of the U.S. government and certain specified federal agencies.

Franchise tax special accounting methods

Sec. 171.1031. Apportionment method for banks and savings and loan associations

This section requires banks and thrift associations to source their interest and dividend receipts to the state of the institution's commercial domicile. Until 1998 Texas banks were required to have a Texas commercial domicile. This requirement caused a Texas bank's interest and dividend receipts to be taxable in Texas.

Passage of the 1994 federal Interstate Banking and Branching Efficiency Act (IBBEA, PL 103-328) provided for interstate branch banking after June 1, 1997. Although the Legislature implemented the IBBEA's opt-out procedure and thereby precluded interstate branch banking in Texas until September 2, 1999 (H.B. 889, 74th Legislature, 1995), federal court rulings since that date have rendered the opt-out procedure ineffective.

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Interstate branch banking allows multi-state financial organizations to reduce their franchise tax by moving their commercial domicile to a location outside Texas. Under this scenario, the Texas bank's interest and dividends are sourced to the out-of-state commercial domicile, thereby reducing the Texas bank's tax liability. In contrast, banks doing all their business in Texas must pay tax on all their interest and dividend receipts, since these institutions must locate their commercial domicile in Texas.

Only multi-state banks with out-of-state headquarters can benefit from this accounting method. The cost of this accounting method is the difference between an interstate banking environment and the banking environment prior to interstate banking.

Sec. 171.106(c). Special apportionment method for regulated investment company service providers

Most firms that provide services (as opposed to tangible goods) are required to source their receipts to the location where the service was performed. Section 171.106(c) sources receipts from regulated investment company management services to the domicile of the owners of the investment funds.

Sec. 171.109(c). Use of the federal income tax (FIT) accounting method
Sec. 171.113. Use of the federal income tax (FIT) accounting method

Most corporations are required to follow generally accepted accounting principles (GAAP) in computing the tax on taxable capital. This requirement is waived in two franchise tax sections.

Section 171.109(c) allows corporations with less than $1 million in taxable capital to use federal income tax (FIT) accounting rules. Section 171.113 permits firms organized as either S corporations or close corporations to use FIT accounting methods also. Use of FIT accounting rules generally results in the reduction of tax liability.

Rule 3.549(e)(45). Transportation company apportionment for taxable capital

Rule 3.557(e)(41). Transportation company apportionment for earned surplus

Transportation companies are permitted to exclude from their Texas receipts the Texas portion of interstate transportation services in computing both the capital tax and the earned surplus tax.

Rule 3.549(e)(43). Telephone company apportionment for taxable capital
Rule 3.557(e)(39). Telephone company apportionment for earned surplus

Telephone companies are permitted to exclude from their Texas receipts the Texas portion of interstate calls in computing both the capital tax and the earned surplus tax.

Franchise tax credit

Sec. 171.111. Temporary (FAS 96) credit on net taxable earned surplus

The temporary credit allows corporations to deduct, over a 20-year period, the amount of the timing differences on their books at the end of their 1991 accounting year. Timing differences are created by the differences between accounting requirements of federal income tax and financial reporting. Taxpayers electing the FAS 96 credit are required to pay an additional 0.2 percent tax on their taxable capital.

Sec. 171.0021. Temporary credit for sales tax paid on property used in manufacturing

This credit permitted a tax credit for a portion of the sales tax paid on manufacturing machinery and equipment purchased between October 1991 and September 1993. The credit expired in 1998.

Insurance Code Article 9.59, Section 16(b). Credit for title insurance holding companies

Title insurance holding companies are authorized a credit against their franchise tax in the amount of the premium taxes paid by their title insurance subsidiaries. The credit is prorated based on the ownership percentage of the holding company in the title insurer. For example, if the holding

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company owned a 75 percent interest in the title insurer, the hold company's franchise tax credit would be limited to 75 percent of the insurance premium tax paid by the title insurer.

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Gasoline Tax

The gasoline tax is the third largest source of tax revenue for Texas state government, bringing in just under 9 cents of every state tax dollar. The tax is a consumption tax on gasoline. In general, the tax is charged on each gallon of gasoline, sold in Texas, which is used to propel vehicles on Texas' public roads.

Total gasoline tax collected in fiscal 1998 was just over $2.0 billion.

Gasoline tax exemptions can be divided into three general categories: reduced tax rates, exceptions, and discounts. (See Table 1.)

The tax rate is reduced for gasoline sold to qualified transit companies. This applies to most metropolitan transit authorities for transit carriers designed for 12 or more passengers.

Exceptions are uses or sales of gasoline where the tax does not apply because the fuel is not used to propel a vehicle on Texas' public roads or because the sale is made to an excepted purchaser. Excepted purchasers are permitted gasoline distributors that buy gasoline to resell or export out of the state, the federal government, and Texas public school districts.

Discounts are handling fees that permit holders are allowed to keep in exchange for collecting the gasoline tax and sending it to the state treasury.

The following outlines these reduced tax rates, exceptions, and discounts.

Sec. 153.102. Tax rates

This provision reduces the gasoline tax rate by one cent per gallon for gasoline sold to a transit company for exclusive use in its transit carrier vehicles. Effective January 1, 1982, these companies received the reduced rate with an exemption certificate provided by the Comptroller.

Sec. 153.104. Exceptions and Sec. 153.119 Refunds

Gasoline sold to the federal government or to a Texas public school district for its exclusive use is excluded from taxation. Similarly, gasoline sold to a commercial transportation company and used exclusively to provide transportation services for a school district is not subject to tax. If these taxes are paid, a person may claim a refund.

Sales of gasoline between permitted distributors are not taxed.

Gasoline delivered by a permitted distributor to a common or contract carrier, oceangoing vessel, or barge for immediate export is exempt from tax or subject to refund of taxes paid.

Gasoline delivered to a permitted aviation fuel dealer and solely for use in aircraft and aircraft servicing equipment is excluded from taxation. Likewise, gasoline sold from one aviation fuel dealer to another aviation fuel dealer is not subject to tax. Taxes paid on gasoline for aircraft and aircraft servicing equipment uses are subject to refund.

Except for permitted interstate truckers, gasoline that arrives in Texas in the fuel tank of a motor vehicle is exempt from Texas' tax. This includes both passenger vehicles and commercial vehicles.

A person also may claim a refund of taxes paid on gasoline when quantities of 100 gallons or more are lost by fire, theft, or other accident.

Refunds are made for taxes paid on gasoline used in motorboats, tractors or similar agricultural equipment, or use other than in a vehicle operated on public roads.

The portion of taxes paid on gasoline used to power auxiliary equipment, such as winches or refrigeration units, not used to directly propel a motor vehicle may be refunded. These auxiliary uses typically are in agriculture, construction, or industry.

Because there are insufficient data to distinguish tax exempt gasoline sales for excepted uses from refunds of taxes on excepted uses, the estimates of the costs of these exemptions are presented together.

Sec. 153.105. Collection of tax
This provision allows a distributor to keep the tax on 2 percent of the taxable sales of gasoline to cover the expenses of tax collecting, accounting, reporting and remitting.

Sec. 153.1195. Refunds and credits for bad debts
This section allows a permitted distributor to receive a credit for tax paid on sales of gasoline written off as bad debts.

Table 1
Cost of Gasoline Tax Reduced Rates, Exceptions, Discounts, and Refunds
Fiscal 1999 to 2004
(millions of dollars)

Section	Item	1999	2000	2001	2002	2003	2004
153.102	Tax rates (transit)	negligible	negligible	negligible	negligible	negligible	negligible
153.104 and 153.119	Exceptions and refunds						
	Federal	$ 45.3	$ 47.4	$ 49.4	$ 55.6	$ 56.5	$ 59.5
	Schools and commercial school transportation companies	0.1	0.1	0.1	0.1	0.1	0.1
	Fuel sold by a permit holder to another permit holder	cbe	cbe	cbe	cbe	cbe	cbe
	Fuel for export	cbe	cbe	cbe	cbe	cbe	cbe
	Aviation use	3.4	3.6	3.7	4.2	4.2	4.5
	Fuel arriving in the tank of a motor vehicle (non-interstate trucker)	cbe	cbe	cbe	cbe	cbe	cbe
	Fuel lost by fire, theft or accident	2.3	2.4	2.5	2.8	2.8	3.0
	Marine use	5.4	5.7	5.9	6.7	6.8	7.2
	Agricultural use	3.3	3.5	3.6	4.1	4.1	4.4
	Construction use	0.7	0.7	0.8	0.9	0.9	0.9
	Industry and commercial use	3.5	3.7	3.9	4.3	4.4	4.7
153.105	Discount for tax collection	42.2	44.0	46.2	49.3	49.8	52.1
153.1195	Refunds and credits for bad debts	3.6	3.8	4.0	4.5	4.5	4.8
Total		$109.9	$114.9	$120.0	$132.4	$134.2	$141.1

cbe: cannot be estimated.
Note: Totals may not add due to rounding.

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Motor Vehicle Sales and Use Tax

Motor vehicle sales tax is the second largest source of tax revenue for Texas state government, bringing in about 9 cents of every state tax dollar. The tax is a transaction tax paid on each purchase of a motor vehicle.

Motor vehicle sales tax collections in fiscal 1998 totaled $2.1 billion.

Classifying motor vehicle sales and use tax exemptions

There are nine types of motor vehicle sales tax exemptions, each based on the status of the purchaser or the intended use of the motor vehicle.

Specific sections of the Texas Tax Code exempt particular purchases from motor vehicle sales taxes. The following text outlines these exemptions and includes references to the appropriate section of the Tax Code covering those items. Table 1 summarizes the estimated costs of these exemptions for fiscal 1999 through 2004.

Sec. 152.081. Driver training motor vehicles

Motor vehicles used by a public school in an approved standard driver training course are exempt from the motor vehicle sales tax when they are owned by a dealer, purchased in Texas, and loaned free of charge by the dealer to a public school.

Sec. 152.082. Sale of motor vehicle to or use of motor vehicle by public agency

Motor vehicles purchased by public agencies are exempt from the motor vehicle sales tax. Public agencies include, but are

Table 1
Cost of Motor Vehicle Sales Tax Exemptions
Fiscal 1999 to 2004
(in millions)

Section	Name	1999	2000	2001	2002	2003	2004
152.081	Driver training vehicles	negligible	negligible	negligible	negligible	negligible	negligible
152.082	Sales to public agency	$ 38.0	$ 39.5	$ 41.1	$ 42.8	$ 44.5	$ 46.3
152.083	Sales for lease to public agency	*	*	*	*	*	*
152.086	Vehicles for handicapped persons	4.5	4.7	4.9	5.0	5.2	5.5
152.087	Fire trucks and EMS vehicles	negligible	negligible	negligible	negligible	negligible	negligible
152.088	Vehicles for religious purposes	1.8	1.9	2.0	2.1	2.2	2.2
152.089	Exempt vehicles	66.9	69.5	72.3	75.2	78.2	81.3
152.091	Farm use	2.9	3.0	3.2	3.3	3.4	3.6
152.092	Vehicles transported out of state	cbe	cbe	cbe	cbe	cbe	cbe
152.093	Vehicles for child-care facility	4.8	5.0	5.2	5.4	5.6	5.9
	Total	$118.9	$123.7	$128.6	$133.8	$139.1	$144.7

cbe: cannot be estimated.
*Cannot be separated from estimate of sales to a public agency so it is included in the estimate for Sec. 152.082.
Note: Totals may not add due to rounding.

not limited to, city and county governments and other political subdivisions. Generally, these motor vehicles must bear a license plate with the word "exempt" on its face.

Sec. 152.083. Lease of motor vehicle to public agency

This provision exempts the purchase of a motor vehicle by a leasing company when the vehicle will be leased to a public agency. Under the Tax Code it is ordinarily the lessor's purchase transaction that is taxable rather than the lease contract (a lease contract is defined to include only contracts in excess of 180 days). The vehicle must be operated with exempt license plates.

Sec. 152.086. Motor vehicles driven by handicapped persons

Motor vehicles modified primarily for operation by, or for the transportation of, an orthopedically handicapped person are exempt from the motor vehicle sales tax.

Sec. 152.087. Fire trucks and emergency medical services vehicles

Motor vehicle sales tax does not apply to the purchase or use of a fire truck, emergency medical services vehicle, or other motor vehicle used exclusively for firefighting purposes or for emergency medical services. To qualify for the exemption, the motor vehicle must be purchased by a volunteer fire department, a nonprofit emergency medical service provider that receives a federal income tax exemption under Internal Revenue Code section 501(c)(3), or certain emergency medical service providers.

Sec. 152.088. Motor vehicles used for religious purposes

Motor vehicle sales tax does not apply to the sale or use of a motor vehicle designed to carry more than six people that is used for transportation to religious services or meetings.

Sec. 152.089. Exempt vehicles

Motor vehicle sales tax does not apply to interstate motor vehicles, trailers, and semitrailers unless they cease to be used interstate within one year of the date the vehicle was purchased in Texas or the date the vehicle was first brought into Texas. When a vehicle is no longer leased for interstate use, the owner owes tax on the vehicle's book value.

An "interstate motor vehicle" means a motor vehicle that is operated in this state and another state or country and for which registration fees could be apportioned if the motor vehicle were registered in a state or province of a country that is a member of the International Registration Plan. The term includes a bus used in transportation of chartered parties if the bus meets all the standards required of other motor vehicles for apportioned registration fees. The term does not include a vehicle leased for less than 181 days or a vehicle that has Texas license plates and does not operate under the International Registration Plan.

Sec. 152.091. Farm use

Motor vehicle sales tax does not apply to the sale or use of a farm machine, trailer, or semitrailer for use primarily for farming and ranching, including the rearing of poultry and use in feedlots.

Sec. 152.092. Motor vehicles transported out of state

Motor vehicles that are transported out of state, prior to use in this state (other than removal), for exclusive use outside of this state are not subject to the motor vehicle sales tax. To qualify, the purchaser must sign an exemption certificate provided by the Comptroller that authorizes the Comptroller to provide a copy of the certificate to the state of intended use and registration.

Sec. 152.093. Motor vehicles sold to certain licensed child-care facilities

Motor vehicle sales tax does not apply to a motor vehicle purchased or rented by a residential child-care facility for the primary purpose of transporting the children residing in the facility. The facility must be licensed by the state to provide 24-hour care to both emotionally disturbed children and to children who do not require specialized services. The facility must be licensed for both groups of children who live together in a single residential group.

School Property Tax

The Texas Constitution authorizes local governments to levy property taxes. Property taxes are levied by counties, cities, school districts, and special districts such as junior colleges, hospitals, rural fire districts, and flood control districts. School property taxes represent almost 60 percent of total property taxes levied.

There is no state property tax; nevertheless, property taxes levied by school districts are important to the state because they help determine how much state money is forwarded to school districts to support public education.

In school year 1995-1996, property taxes provided about 46.4 percent of public school funding for operations, while the state's share was 41.4 percent. Other funding sources were the federal government and local revenue from fees, earnings, and other minor sources.

There are two types of school property tax levies: one to cover maintenance and operating costs (M&O) and the other to pay interest and sinking fund (I&S) debt service for financing building programs. In 1997, the statewide weighted average M&O tax rate was $1.3048 per $100 valuation, and the I&S tax rate was $0.1907 per $100 valuation, for a combined statewide weighted average school tax rate of $1.4955 per $100 valuation.

All real and tangible personal property, unless required or permitted to be exempt by the Constitution, must be taxed in proportion to its value. To receive most property tax exemptions, a person must file an application with the county appraisal district that serves the taxing units in which the property is located. If the property is in an area served by more than one appraisal district, a person must file the application in all affected appraisal districts, except for the residence homestead exemption application. The appraisal district will apply exemption, when granted, in each of the taxing units in which the particular exemption is allowed and the property is located.

For residence homestead exemptions, the homeowner may apply in one of the county appraisal districts in which the property is located.

The estimated cost of the exemptions can be found in Table 1. The exemptions are as follow:

Sec. 11.11 Public property

Property owned by the state or a political subdivision of the state and used for a public purpose is exempt from taxation. Included within this exemption are all oil and gas or other minerals owned by an institution of higher education. The exemption is effective immediately upon qualification.

Several other specific types of public property also are exempt from property taxes.

Institution of higher education public property held in trust

Property owned by a private person but dedicated or held for the support, maintenance, or benefit of a public institution of higher education is exempt.

Alumni association property built on state-owned land

Property owned by an alumni association or a higher education development foundation and located on land owned by an institution of higher education as defined by Chapter 61, Education Code, is exempt if certain conditions are met.

Leased prison property to the state

Privately owned improvements located on land owned by the Texas Department of

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Table 1
Cost of Exemptions to the School Property Tax
Fiscal 1999 to 2004
(millions of dollars)

Section	Item	1999	2000	2001	2002	2003	2004
Tax Code							
11.11	Public property (state and local)	cbe	cbe	cbe	cbe	cbe	cbe
11.111	Public property used to provide transitional housing for indigent persons	cbe	cbe	cbe	cbe	cbe	cbe
11.12	Federal exemptions	cbe	cbe	cbe	cbe	cbe	cbe
11.13	Residence homesteads:						
(b)	State mandated $15,000	$ 893.1	$ 948.8	$1,008.1	$1,071.0	$1,138.0	$1,206.9
(c)	65 and over or disabled $10,000	153.1	162.7	172.8	183.6	195.1	206.9
(d)	Optional 65 and over	63.7	67.8	72.0	76.5	81.3	86.2
(n)	Optional percent	255.2	271.1	288.0	306.0	325.1	344.8
11.14	Tangible personal property not producing income	42.3	43.5	43.5	44.1	44.5	47.2
11.145	Income-producing tangible personal property having value of less than $500	0.1	0.1	0.1	0.1	0.1	0.1
11.146	Mineral interest having value of less than $500	0.7	0.8	0.8	0.8	0.9	0.9
11.15	Family supplies	cbe	cbe	cbe	cbe	cbe	cbe
11.16	Farm products	cbe	cbe	cbe	cbe	cbe	cbe
11.161	Implements of farming or ranching	cbe	cbe	cbe	cbe	cbe	cbe
11.17	Cemeteries	cbe	cbe	cbe	cbe	cbe	cbe
11.18	Charitable organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.181	Charitable organizations improving property for low-income housing	cbe	cbe	cbe	cbe	cbe	cbe
11.182	Community housing development organizations improving property for low- and moderate-income housing	cbe	cbe	cbe	cbe	cbe	cbe
11.2	Religious organizations	cbe	cbe	cbe	cbe	cbe	cbe
11.21	Schools	cbe	cbe	cbe	cbe	cbe	cbe
11.22	Disabled veterans	17.0	18.0	19.2	20.4	21.7	23.0
11.23	Miscellaneous exemptions	cbe	cbe	cbe	cbe	cbe	cbe
11.24	Historic sites	cbe	cbe	cbe	cbe	cbe	cbe
11.25	Marine cargo containers	cbe	cbe	cbe	cbe	cbe	cbe
11.251	Freeport property	71.1	75.2	79.5	84.0	89.0	94.3
11.26	Limitation of school tax on homesteads of elderly	212.6	225.9	240.0	255.0	271.0	287.3
11.27	Solar and wind-powered energy devices	0.3	0.3	0.3	0.3	0.3	0.3
11.271	Offshore drilling equipment not in use	cbe	cbe	cbe	cbe	cbe	cbe
11.28	Tax abatement *	86.5	91.3	90.5	89.2	86.9	80.4
11.3	Nonprofit water supply or wastewater service corporation	cbe	cbe	cbe	cbe	cbe	cbe
11.31	Pollution control property	27.4	28.9	30.6	32.3	34.2	36.3
11.32	Certain water conservation initiatives	cbe	cbe	cbe	cbe	cbe	cbe
Gov. Code							
403.302	Productivity value loss	951.4	981.7	1,013.4	1,046.8	1,082.0	1,147.4
Total		$2,774.5	$2,916.1	$3,058.8	$3,210.1	$3,370.1	$3,562.0

cbe: cannot be estimated because of insufficient appraisal data.
* These estimates also include the value lost under the Tax Increment Financing Act, Chapter 311 of the Tax Code.

Criminal Justice (TDCJ), lease-purchased by TDCJ, and used by TDCJ are exempt. The lease-purchase agreement under which TDCJ uses the property must provide that TDCJ will own the property at the end of the lease.

Lease-purchase agreements of public property

Tangible personal property is considered to be owned by the state or a local political subdivision of the state if the property is subject to a lease-purchase agreement. The lease-purchase agreement must provide that the state or the political subdivision is entitled to legal title to the property at the end of the lease.

Sec. 11.111 Public property used to provide transitional housing for indigent persons

The governing body of a taxing unit may exempt from property taxation residential property owned by the United States or an agency of the United States. The property must be used to provide transitional housing for the indigent under a program operated or directed by the United States Department of Housing and Urban Development.

Sec. 11.12 Federal exemptions

Property exempt by federal law is automatically exempt from state and local taxation. Examples include a U.S. Post Office building, military base, or federal courthouse. No application is required for this exemption.

Two other exemptions based on federal law are for customs bonded goods and for soldiers and sailors.

Customs bonded goods

Property in a United States customs warehouse under customs bond is exempt if the property is bound for export. Property bound for domestic use is taxable even if under customs bond.

An exporter who detains goods in a warehouse while awaiting overseas export is entitled to a property tax exemption under the "commerce clause" and the "equal protection clause" of the United States Constitution.

Soldiers' and Sailors' Civil Relief Act

The Soldiers' and Sailors' Civil Relief Act, in 50 U.S.C.A. Section 501, et seq., provides that personal property owned by persons who are in the state because of military orders does not have situs in Texas. The purpose is to relieve military personnel from the burden of double taxation. If property does not have situs in Texas, it is not taxed.

Sec. 11.13 Residence homestead

Texas homeowners may be eligible for various types and amounts of residence homestead exemptions. These exemptions apply to a portion of the appraised value of their home.

These exemptions are separated into those that are mandatory and those that are optional. (See Table 2.)

Sec. 11.14 Personal property not used to produce income

Persons are entitled to an exemption for all tangible personal property they own if the property is not used to produce income. Mobile or manufactured homes are not included in this exemption. No application is required for this exemption.

Sec. 11.145 Personal property—income producing—valued at less than $500

A person is entitled to an exemption on tangible personal property the person owns that is held or used for the production of income and valued at less than $500. The exemption applies to each separate taxing unit in which a person holds or uses the property for the production of income. All property in each taxing unit is aggregated to determine taxable value in each unit.

Sec. 11.146 Mineral interest property valued at less than $500

A person is entitled to an exemption from property taxation of a mineral interest the person owns if the interest has a taxable value of less than $500. This exemption applies to each separate taxing unit in which a person owns a mineral interest. All mineral interests located in each taxing unit are aggregated to determine taxable value in each unit.

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Table 2
Residence Homestead Exemptions

	COUNTY		CITY	SCHOOL
	General Fund	Road & Flood Fund		
MANDATORY		**$3,000 Farm-to-Market & Flood Control** Sec. 11.13(a), Tax Code (If qualified to receive optional disabled or 65 and over exemption, cannot receive this exemption.) Sec. 11.13(g), Tax Code		**$15,000 General** Sec. 11.13(b), Tax Code **$10,000 Disabled** Sec. 11.13(c), Tax Code **$10,000 65 and over** Sec. 11.13(c), Tax Code Sec. 11.26, Tax Code (School tax ceiling applies with 65 and over) Sec. 11.13(h), Tax Code (If qualified for both disabled and 65 and over, must chooose one)
OPTIONAL	**Percentage Homestead Exemption** (Up to 20 percent, $5,000 minimum) Sec. 11.13(n), Tax Code **Disabled or 65 and over** (Homestead, $3,000 minimum—no maximum) Sec. 11.13(d-f), Tax Code	**Percentage Homestead Exemption** (Up to 20 percent, $5,000 minimum) Sec. 11.13(n), Tax Code **Disabled or 65 and over** (Homestead, $3,000 minimum—no maximum) Sec. 11.13(d-f), Tax Code	**Percentage Homestead Exemption** (Up to 20 percent, $5,000 minimum) Sec. 11.13(n), Tax Code **Disabled or 65 and over** (Homestead, $3,000 minimum—no maximum) Sec. 11.13(d-f), Tax Code	**Percentage Homestead Exemption** (Up to 20 percent, $5,000 minimum) Sec. 11.13(n), Tax Code **Disabled or 65 and over** (Homestead, $3,000 minimum—no maximum) Sec. 11.13(d-f), Tax Code

No application is required. The exemption may vary from year to year, depending on the taxable value of the interest and the owner's aggregate total in each taxing unit.

Sec. 11.15 Family supplies

A family is entitled to an exemption from taxation of its family supplies for home or farm use. Family supplies are food, clothing, and other consumable supplies necessary to operate and maintain a home or farm.

Sec. 11.16 Farm products

Producers are entitled to an exemption of the farm products that they produce and own. Farm products include crops, livestock, and poultry. Nursery products in a growing state are farm products. Standing timber is not a farm product. Farm products in the hands of their producer are exempt.

Sec. 11.161 Implements of farming and ranching

Since 1983, the Texas property tax system has excluded implements of farming or ranching ("implements of husbandry") from local property taxation. The exemption applies to equipment and machinery—such as tractors, cultivators, planters, and combines—used to produce farm or ranch products.

Sec. 11.17 Cemeteries

Property is exempt from taxation if it is owned and used exclusively for human burial and not held for profit.

Sec. 11.18 Charitable organizations

All buildings used exclusively and owned by institutions of purely public charity are exempt from school property taxes. The Property Tax Code provides specific qualifications for the owner and the property of charitable organizations. The purpose of the organization must be organized exclusively to perform religious, charitable, scientific, literary, or educational functions. The organization may not make a distributable profit or operate in a way that results in private gain. The organization must have a provision in its charter to transfer assets upon discontinuation of operations to the federal government, state of Texas or to an organization that qualifies as a charitable organization under Section 501(c) (3) Internal Revenue Code.

An organization that meets the Section 11.18 qualifications may, however, be disqualified if it is not a "purely public charity."

Certain types of charitable organizations receive specific mention in the Property Tax Code.

Charitable organizations improving property for low-income housing

A charitable organization is exempt from taxation of improved or unimproved real property it owns if the organization:

1. meets the requirements of a charitable organization provided by the Property Tax Code;
2. owns the property for the purpose of building or repairing housing on the property primarily with volunteer labor to sell without profit to an individual or family satisfying the organization's low-income and other eligibility requirements; and
3. engages exclusively in the building, repair, and sale of housing as described by item 2 above.

This exemption has a time limit. The property may not be exempted after the third anniversary of the date the organization acquires the property.

Community housing development organizations improving property for low-income and moderate-income housing

A charitable organization is exempt from taxation of improved or unimproved real property it owns if the organization:

1. is organized as a community housing development organization, as that term is defined by Cranston-Gonzalez National Affordable Housing Act;
2. meets the requirements of a charitable organization provided by the Property Tax Code;
3. owns the property for the purpose of building or repairing housing on the property to sell without profit to an individual or family satisfying the organization's low-income or moderate-income eligibility requirements or to rent without profit to such an individual or family; and
4. engages exclusively in the building, repair, and sale or rental of housing as described by item 2 above.

This exemption has a time limit. The property may not be exempted after the third anniversary of the date the organization acquires the property. It may continue to receive the exemption, however, if the organization is offering to rent or is renting the property without profit to a low-income or moderate-income individual or family.

Sec. 11.19 Youth spiritual, mental, and physical development organizations

Property owned by associations promoting youth "trifold" purposes—religious, educational, and physical development—may be exempt from property taxes. The Property Tax Code refers to these associations as youth spiritual, mental, and physical development associations.

Sec. 11.20 Religious organizations

Some property owned by a qualified religious organization may qualify for a property tax exemption. An organization must first show that it qualifies before any of its property is entitled to an exemption.

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Eligible property includes places of worship and residences of clergy.

Sec. 11.21 Schools

Property owned and used by a nonprofit private school may be exempt from taxation.

Sec. 11.22 Disabled veterans

Disabled veterans and their surviving spouses or children may apply for a partial exemption to one designated property. The qualified individual must own the property and designate it for the exemption. A disabled veteran can designate a property other than a home. However, most disabled veterans do designate the homestead property for this exemption.

Sec. 11.23 Miscellaneous exemptions

Some entities are specifically exempted from property taxes and are identified under this section of the Property Tax Code.

Veterans' organizations

A non-profit organization composed primarily of members or former members of the armed forces of the United States or its allies and chartered or incorporated by the United States Congress may apply for exemption from taxation. Veteran's organizations include the American Legion, Veterans of Foreign Wars of the U.S., American Veterans of World War II, Disabled American Veterans, Jewish War Veterans, Catholic War Veterans, and the American GI Forum.

Federation of Women's Clubs

The tangible property owned by the Federation of Women's Clubs is exempt if the property is not held for profit or gain.

Congress of Parents and Teachers

The Texas Congress of Parents and Teachers state headquarters' buildings are exempt from state and county taxes. The Property Tax Code provides that the organization's land that is reasonably necessary for use of, access to, and ornamentation of the buildings is also exempt.

Private enterprise demonstration association

Tangible real and personal property that is owned and used exclusively by a qualified private enterprise demonstration organization and that is reasonably necessary for the organization's operations qualifies for a total exemption. Property qualifies if the organization:

1. engages exclusively in conducting nonprofit educational programs to demonstrate the American private enterprise system to children and young people, and
2. operates under a similar state or national organization set up to demonstrate American private enterprise to children and youths.

Bison, buffalo, and cattalo

The exemption of bison, buffalo, and cattalo applies only to those animals not held for profit and those used in experimental breeding to produce an improved meat strain and to those animals kept in parks to preserve the species.

Theater schools

Property owned by a qualified school devoted to teaching dramatic arts and used in the school's operation is exempt from taxation. A theater school's property qualifies if the school meets several qualifications.

The school must be a non-profit corporation organized under the Texas Non-Profit Corporation Act.

Community service clubs

Tangible property owned by a qualified community service organization and not used for profit or held for private gain is exempt from taxation.

Medical center development

A nonprofit corporation may apply for exemption of its real and personal property used in developing a medical center area. The corporation must be nonprofit under the Texas Non-Profit Corporation Act. Medical center development property qualifies if the corporation has donated land for a state medical, dental, or nursing school and for other hospital, medical, or educa-

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tional uses reasonably related to the state medical-type school use.

Scientific research corporations

Property owned and used by a qualified scientific research organization for scientific research and educational activities for the benefit of one or more colleges or universities is exempt. An organization qualifies if it is a non-profit corporation organized under the Texas Non-Profit Corporation Act.

Sec. 11.24 Historic or archeological sites

The archeological or historic site exemption is a local-option exemption. The governing body of a taxing unit may choose to grant an archeological or historic site exemption. A property may receive an exemption from some of the taxing units that tax it and not from other units.

Sec. 11.25 Freeport property

The "freeport exemption" provides an exemption for goods transported out of Texas within 175 days of acquisition in the state. Certain types of local taxing units may continue to tax the property if the unit's governing bodies took action to do so before April, 1990.

Sec. 11.251 (and Sec. 11.437) Freeport property—cotton stored in a warehouse

A person who operates a warehouse used primarily for the storage of cotton for transportation outside of this state may apply for the freeport goods exemption for cotton stored on behalf of all the owners of the cotton. This exemption applies to all cotton stored in the warehouse that is eligible for the freeport exemption. Cotton stored in a warehouse covered by a freeport exemption and transported outside of Texas is presumed to have been transported outside of Texas not later than 175 days after it is acquired. The exemption applies until the warehouse changes ownership or the cotton's qualification for the exemption changes.

Sec. 11.26 School tax ceiling

The school tax ceiling, or "tax freeze" as it is often called, is provided for those homeowners who receive the mandatory "65 and over" $10,000 homestead exemption granted by a school district. The tax ceiling is not an exemption, but it is triggered by an exemption.

The tax ceiling provides that school taxes on a residence homestead will not increase above the amount of tax imposed in the first year the individual qualified for a "65 and over" exemption on that homestead. As long as the homeowner who qualified for the exemption remains in that home and does not change the homestead, the school taxes on the homestead will not increase above the amount levied in the first year qualified.

Homeowners are allowed to transfer their tax ceiling to a different home. The school tax ceiling on the new home is calculated to give the homeowner the same percentage of tax paid as the original home's tax ceiling.

Sec. 11.27 Solar and wind energy devices

Solar or wind-powered energy devices are subject to exemption. The amount of a property's appraised value attributable to the installation or construction of solar or wind-powered energy devices may be exempt. The devices must be used for on-site production and distribution of energy.

Sec. 11.271 Offshore drilling equipment rig not in use

A property owner may apply to exempt certain stored equipment used in offshore drilling for oil or gas.

Sec. 11.28 Abatement

A property tax abatement exempts all or part of the increase in the value of improvements and personal property, except inventory and supplies. A tax abatement begins when a city or county designates a particular area as a "reinvestment zone"—an area where private investment will promote economic development and public welfare. A property owner within the zone who makes specified improvements receives an exemption for all or part of the value of the new improvements.

Sec. 11.30 Nonprofit water supply or wastewater service corporation

A corporation is entitled to an exemption from taxation of property that the corporation owns and that is reasonably necessary for and used in the operation of the corporation:

(1) to acquire, treat, store, transport, sell, or distribute water; or
(2) to provide wastewater service.

The corporation must be organized under Chapter 67 of the Water Code.

Sec. 11.31 Pollution control property

A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns that is used wholly or partly as a facility, device, or method for the control of air, water, or land pollution.

The Nature of Tax Incidence

Economic analysis, at heart, involves the study of how a change in one segment of the economy is diffused throughout the rest of the economy. Those who have studied in the field of public finance have long recognized that the person from whom a given tax is collected is not necessarily the one who ultimately pays the tax.

It should be recognized that any tax levied directly on a business will ultimately be paid by real, live people—if not consumers via higher prices, then business owners via reduced profits or employees via reduced wages. In the first instance, the tax is considered to be shifted "forward," and in the second and third instances it is considered to be shifted "backward" to the factors of production. (Taxes may also be exported out of state, thereby relieving the burden in state. Of course, other states' taxes may end up being imported into Texas as well.) In any case, or in any combination where the tax burden is borne jointly, the old cliché is true: "Only people pay taxes."

Governments levy taxes, for the most part, to cover the costs of their expenditures. In and of itself, a tax will have two direct economic effects. First, it will alter the relative prices of goods and services, affecting what is produced and how. Second, to the extent that virtually every tax takes more income from some groups than from others, it will alter the distribution of income.

Incidence analysis attempts to identify who bears the ultimate burden of a given tax. The analysis can be conducted on two levels: first, measurement of the initial direct "impact" of the tax in terms of the shares borne by consumers and/or different business sectors; and second, measurement of the ultimate "incidence," frequently represented by translating the initial impacts in terms of their effects on different household income groups.

The analysis is complicated because it is difficult, if not impossible, to isolate a change in one tax without taking into account the effect on other taxes or expenditures. For example, eliminating an exemption in one tax would imply either an equal decrease in another tax (to compensate for the increased revenues) or an equal increase in spending—either of which would have its own incidence implications above and beyond the incidence of the exemption being repealed.

The study of tax incidence is also made difficult because of competing policy goals. That is, while some taxes are justified on the basis of fairness or equity (the "ability to pay" principle); others are justified as user fees (the "benefits received" principle). The former is best exemplified by the federal income tax; the latter, by federal and state motor fuels taxes, which are earmarked for highway construction and maintenance and other public transportation.

Most incidence analyses reflect a concern for how well the tax or tax/expenditure system meets the "ability to pay" principle, which holds that those with higher incomes should bear higher tax burdens. Here, it is useful to distinguish among three different degrees of tax equity: regressive, proportional, and progressive.

A tax is considered "regressive" when the tax burden as a share of income increases as income decreases; "proportional," when the share of tax burden relative to income remains constant for all income groups; and "progressive," when the share of tax burden relative to income grows larger as income increases. As such, taxes on alcohol and tobacco are considered regressive (because consumption levels remain relatively flat as income rises); a "flat" single-rate income tax (without any deductions or exemptions) is considered proportional; and the federal tax on luxury automobiles is considered progressive. Note that under either a proportional tax or a progressive tax, the ability to pay principle may be satisfied, because people with higher incomes pay more under either tax.

For practical purposes, most empirical incidence analyses are reduced to measuring the effects of a single tax in isolation of all others, without taking into account the effects of other taxes or any government expenditures or transfers. Even here, however, economists must confront the thorny problem of accurate income measurement. That is, the results can vary depending upon whether income is measured at the individual or household level, in terms of "current" or "lifetime," and whether it is "gross," "adjusted gross," or "taxable" income. This problem becomes particularly difficult at the lower end of the income scale, where transfers—which are not always susceptible to accurate quantification—make up a significant portion of the income stream.

In addition, and equally complicated, is the problem of determining the proper "shifting" assumptions—what portion of the tax is shifted to consumers, what portion is shifted to labor, what portion is shifted to capital, and what portion is exported out of state.

The shifting effects will depend on many things, including how producers and customers respond to price changes and whether a particular market is competitive or monopolistic. In general, most tax burdens are believed to be borne jointly by producers and consumers—raising the price paid by consumers and reducing the revenue received by producers, with the share of the burden depending upon the level of competition and the price elasticity of demand for the item being taxed. The more inelastic the demand, the greater the burden shifted to the consumer (consider the tax on cigarettes). The more elastic the demand, the greater the burden borne by the producer (consider a tax on milk in glass milk bottles but not on milk in paper cartons, each a close substitute for the other in the eyes of most consumers).

Similarly, when the producer enjoys a monopoly over the good being taxed (consider a tax on local telephone service), the greater the ability to shift the tax forward onto consumers by raising prices; but when the individual producer has no ability to set prices (consider the world oil market), the less the ability to shift the tax burden.

Finally, the answer to who bears the tax burden can vary depending upon whether the analysis focuses on the short term or the long term. For example, imposition of an increase in the fee for a liquor license or an annual occupation tax would not be expected to be shifted forward in higher prices in the short term because the fee would be considered part of the firm's fixed costs, whereas prices are determined by marginal costs (the cost of producing one incremental unit of the item sold). In this instance, the fee would be borne entirely by the producer.

In the long run, however, when all costs are taken into account, resources would shift and prices would adjust to take the tax into account in determining price, and as such the producer would be able to shift at least a portion of the burden forward onto consumers.

Recognizing the impracticality of developing an incidence model that satisfies all the demands of pure economic theory, the tables in the following section reflect the necessity of making certain basic assumptions, which are described in the beginning of that section. Perhaps key among these assumptions is that consumers will bear the ultimate burden of any taxes levied directly upon them.

While the following tables may be of great interest for policy makers, it nevertheless must be recognized that the results depend not upon hard science but upon subjective assumptions—and that the only thing that can be said with certainty is that no one really knows how taxes (particularly those levied on property and business) are shifted.

Texas Tax Incidence

The taxes discussed in this section include the sales and use tax, the franchise tax, the gasoline tax, the motor vehicle sales and use tax, the school property tax, and the natural gas tax. (These are the same taxes discussed in the preceding sections, plus the natural gas tax, which meets the statutory threshold for inclusion—2.5 percent of state tax revenue in fiscal 1998.)

To conduct this incidence analysis, certain assumptions had to be developed concerning the measurement of income and how tax burdens shift. As discussed in the previous section concerning the nature of tax incidence, the outcome of any incidence study depends to a significant degree on the initial assumptions relating to income, shifting, and the relative demographic cohort and time period.

For the purposes of this study, the relative demographic cohort is the household rather than the individual, and the relative time periods are short-term—for the study of initial distributions or burdens—and intermediate term—for the final incidences. In the intermediate term it is assumed that any tax changes affecting businesses will be shifted until the final incidence is absorbed by households—whether by consumers, workers, or owners. However, in the case of taxable purchases for household consumption, it is assumed that the household will bear the initial as well as final tax burdens. In contrast, a long-term full equilibrium analysis would allow for backward shifting brought about by consumer reactions to the tax change and then another round of shifting by business until the final incidence was redistributed.

The various types of income that are included within this report's definition of

Exhibit A
Components of Household Income

Components	Definition
Federal Adjusted Gross Income	The total income from all taxable sources less certain expenses incurred in earning that income. Other sources of cash income are excluded by statute from the federal income tax. These are called statutory adjustments.*
Nontaxable Interest Income	Interest income that is not taxed by the federal government.
Nontaxable Pension Income**	Pension income is not taxed by the federal government.
Nontaxable Social Security Benefits	Not all Social Security benefits are taxable by the federal government.
Nonfiler Income (from Census)	Income received by persons whose annual income is below that of the income required to file a tax return.***

* Statutory adjustments are the deductions listed on page 1 of the 1040 form.
** Capital gains and pension benefits are included when realized, not as they accrue.
*** This income includes public assistance, workers' compensation, Social Security benefits, and unemployment compensation.

Note: Adjustments were made to total income for the lowest deciles due to lack of sufficient data.

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Exhibit B
Taxes Initially Paid by Business:
Distributional Assumptions for Final Incidence

Tax	Borne by Texas Residents Consumer Share	Labor Share	Capital Share	Exported	Total
Limited Sales and Use Tax	54%	20%	1%	25%	100%
Motor Vehicle Sales and Use Tax	54	20	1	25	100
School Property Tax					
rental property	86	1	9	4	100
agricultural property	10	43	13	34	100
commercial property	58	24	2	16	100
industrial property	17	52	2	29	100
utility property	91	5	0	4	100
mining property	10	38	5	47	100
Gasoline Tax	54	8	1	37	100
Natural Gas Tax	10	28	5	57	100
Franchise Tax					
agricultural sector	10	44	2	44	100
mining sector	10	38	3	49	100
construction sector	90	8	0	2	100
manufacturing sector	19	55	1	25	100
utility sector	91	5	0	4	100
trade sector	64	24	0	12	100
finance sector	46	20	2	32	100
services sector	84	9	0	7	100

Sources: Comptroller of Public Accounts,Legislative Budget Board, and "The Minnesota Tax Incidence Study" (various editions).

household income are provided in Exhibit A; and Exhibit B presents the assumptions relating to how the taxes initially paid by businesses are either exported out of state or shifted to consumers, workers, and owners in Texas.

For each of the taxes covered in this section, the incidence analysis begins with a summary table that lays out the initial distribution and the final incidence of that tax. Where applicable, each summary table is followed by a series of tables that show the incidence effects of each statutory exemption or exclusion that reduces revenues from the tax by more than 1 percent.

The tables in this section describe final incidence by household income groups referred to as "deciles." Each decile includes approximately 884,000 households, representing one-tenth of the households in the state, ordered by total income. Thus, Decile 1 represents the 884,000 households with incomes less than $9,015; Decile 2 represents the 884,000 households with incomes of $9,015 up to $14,769; and so forth, up to Decile 10, which represents the 884,000 households in Texas with incomes of $107,664 or more.

Each of the five tax summary tables has five displays. The two displays at the top of each table relate to initial distribution and show, first, how the initial burden is distributed among various industry sectors and consumers, and second, how the initial burden is distributed by type of business organization. The two displays in the middle relate to final incidence and show, first, how final incidence is either exported or distributed by family income decile, and second, how the final incidence is either exported or distributed between renters and homeowners.

The final display, at the bottom left of each tax summary table, involves a calculation of the overall equity of the tax—that is, its degree of progressivity or regressivity. This calculation, known as the "Suits Index," can vary from +1.0 to -1.0, with a 0.0 indicating that the tax burden is perfectly proportional with income at all deciles. At the extremes, a +1.0 would indicate an extremely progressive tax, and a -1.0 would indicate an extremely regressive tax, (i.e., with the entire incidence borne entirely by the lowest decile).

The summary tables for the sales and use tax, the franchise tax, the gasoline tax, the motor vehicle sales and use tax, and the school property tax are each followed by a series of smaller tables, each with two displays. These tables relate to Tax Code provisions that reduce overall collections for each particular tax by more than 1 percent. The first display shows how the initial impact is distributed among consumers and various industry groups, and the second shows how the final incidence is exported or borne by households, categorized by income decile.

Finally, for contributions to the incidence material contained in this report, the Comptroller's office would like to acknowledge the Minnesota Department of Revenue's "Minnesota Tax Incidence Study" (several editions), data providers (both public and private), and the staff of the Legislative Budget Board.

Table 1
Initial Distribution and Final Incidence of Total Limited Sales and Use Tax Revenue

INITIAL DISTRIBUTION OF TAX—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 28.3	0.2%
Construction and Mining	1,179.6	8.8
Manufacturing	1,758.6	13.1
Transportation, Communications, and Utilities	751.6	5.6
Wholesale and Retail Trade	713.9	5.3
Finance, Insurance, and Real Estate	1,063.6	7.9
Services	933.7	6.9
Government	0	0.0
Individual Consumers	7,026.3	52.2
TOTAL	$13,455.6	100.0%

INITIAL DISTRIBUTION OF TAX—
BY BUSINESS TYPE, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Corporations	$ 5,329.9	82.9%
Partnerships	700.8	10.9
Sole Proprietors	398.6	6.2
Subtotal	$ 6,429.3	100.0%
Individual Consumers	7,026.3	
TOTAL	$13,455.6	

FINAL INCIDENCE OF TAX—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 438.6	3.9%
Decile 2:	$9,015 to 14,769	544.6	4.8
Decile 3:	$14,769 to 20,228	723.1	6.4
Decile 4:	$20,228 to 26,147	789.4	6.9
Decile 5:	$26,147 to 34,266	1,008.9	8.9
Decile 6:	$34,266 to 44,417	1,067.4	9.4
Decile 7:	$44,417 to 57,491	1,261.6	11.1
Decile 8:	$57,491 to 74,357	1,506.0	13.2
Decile 9:	$74,357 to 107,664	1,672.2	14.7
Decile 10:	$107,664 and over	2,365.2	20.8
Residents		$11,376.9	100.0%
Exported		2,078.6	
TOTAL		$13,455.6	

FINAL INCIDENCE OF TAX—
BY HOMEOWNERS/RENTERS, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Homeowners	$ 7,868.5	69.2%
Renters	3,508.5	30.8
Subtotal	$11,376.9	100.0%
Exported	2,078.6	
TOTAL	$13,455.6	

ESTIMATED EQUITY OF TAX, FISCAL 2000

Suits Index	-0.28

Totals may not add due to rounding.

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Table 2
Incidence Analysis
Limited Sales and Use Tax
Exemption for Items Taxed by Other Law
(Tax Code 151.308)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 49.6	0.9%
Construction and Mining	300.6	5.7
Manufacturing	850.1	16.0
Transportation, Communications, and Utilities	835.4	15.7
Wholesale and Retail Trade	558.1	10.5
Finance, Insurance, and Real Estate	362.0	6.8
Services	421.8	7.9
Government	0	0.0
Individual Consumers	1,934.8	36.4
TOTAL	$5,312.4	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 117.8	4.5%
Decile 2:	$9,015 to 14,769	158.2	6.1
Decile 3:	$14,769 to 20,228	182.2	7.0
Decile 4:	$20,228 to 26,147	192.1	7.4
Decile 5:	$26,147 to 34,266	230.3	8.9
Decile 6:	$34,266 to 44,417	242.3	9.3
Decile 7:	$44,417 to 57,491	284.8	11.0
Decile 8:	$57,491 to 74,357	322.8	12.4
Decile 9:	$74,357 to 107,664	379.9	14.6
Decile 10:	$107,664 and over	489.6	18.8
Residents		$2,600.0	100.0%
Exported		2,712.4	
TOTAL		$5,312.4	

Table 3
Incidence Analysis
Limited Sales and Use Tax
Exemption for Sales to Governmental Entities
(Tax Code 151.309)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Government	178.7	100.0
Individual Consumers	0	0.0
TOTAL	$178.7	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 4.3	4.0%
Decile 2:	$9,015 to 14,769	4.8	4.5
Decile 3:	$14,769 to 20,228	6.1	5.7
Decile 4:	$20,228 to 26,147	6.9	6.4
Decile 5:	$26,147 to 34,266	7.8	7.3
Decile 6:	$34,266 to 44,417	9.2	8.6
Decile 7:	$44,417 to 57,491	10.9	10.2
Decile 8:	$57,491 to 74,357	12.0	11.2
Decile 9:	$74,357 to 107,664	14.8	13.8
Decile 10:	$107,664 and over	30.5	28.4
Residents		$107.3	100.0%
Exported		71.4	
TOTAL		$178.7	

Table 4
Incidence Analysis
Limited Sales and Use Tax
Exemption for Health Care Supplies
(Tax Code 151.313)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	15.3	9.8
Government	0	0.0
Individual Consumers	140.8	90.2
TOTAL	$156.1	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 12.8	10.9%
Decile 2:	$9,015 to 14,769	12.9	11.0
Decile 3:	$14,769 to 20,228	11.5	9.8
Decile 4:	$20,228 to 26,147	9.2	7.8
Decile 5:	$26,147 to 34,266	10.2	8.7
Decile 6:	$34,266 to 44,417	9.3	7.9
Decile 7:	$44,417 to 57,491	11.5	9.8
Decile 8:	$57,491 to 74,357	12.3	10.5
Decile 9:	$74,357 to 107,664	13.1	11.1
Decile 10:	$107,664 and over	14.8	12.6
Residents		$117.6	100.0%
Exported		38.5	
TOTAL		$156.1	

Table 5
Incidence Analysis
Limited Sales and Use Tax
Exemption for Food for Home Consumption
(Tax Code 151.314)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Government	0	0.0
Individual Consumers	1,064.9	100.0
TOTAL	$1,064.9	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 70.0	7.2%
Decile 2:	$9,015 to 14,769	72.0	7.4
Decile 3:	$14,769 to 20,228	78.3	8.0
Decile 4:	$20,228 to 26,147	85.1	8.7
Decile 5:	$26,147 to 34,266	88.6	9.1
Decile 6:	$34,266 to 44,417	91.1	9.3
Decile 7:	$44,417 to 57,491	101.9	10.4
Decile 8:	$57,491 to 74,357	113.5	11.6
Decile 9:	$74,357 to 107,664	130.0	13.3
Decile 10:	$107,664 and over	144.4	14.8
Residents		$ 974.9	100.0%
Exported		90.0	
TOTAL		$1,064.9	

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Table 6
Incidence Analysis
Limited Sales and Use Tax
Exemption for Water
(Tax Code 151.315)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	4.6	2.2
Manufacturing	15.8	7.6
Transportation, Communications, and Utilities	12.5	6.0
Wholesale and Retail Trade	13.5	6.5
Finance, Insurance, and Real Estate	24.1	11.6
Services	31.5	15.2
Government	0	0.0
Individual Consumers	105.6	50.9
TOTAL	$207.6	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 9.4	5.6%
Decile 2:	$9,015 to 14,769	10.3	6.1
Decile 3:	$14,769 to 20,228	12.0	7.1
Decile 4:	$20,228 to 26,147	13.1	7.8
Decile 5:	$26,147 to 34,266	13.5	8.0
Decile 6:	$34,266 to 44,417	16.7	9.9
Decile 7:	$44,417 to 57,491	18.0	10.7
Decile 8:	$57,491 to 74,357	19.4	11.5
Decile 9:	$74,357 to 107,664	23.4	13.9
Decile 10:	$107,664 and over	32.7	19.4
Residents		$168.5	100.0%
Exported		39.1	
TOTAL		$207.6	

Table 7
Incidence Analysis
Limited Sales and Use Tax
Exemption for Agricultural Items
(Tax Code 151.316)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$290.9	100.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Government	0	0.0
Individual Consumers	0	0.0
TOTAL	$290.9	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 7.2	3.8%
Decile 2:	$9,015 to 14,769	9.3	4.9
Decile 3:	$14,769 to 20,228	11.5	6.1
Decile 4:	$20,228 to 26,147	12.3	6.5
Decile 5:	$26,147 to 34,266	14.9	7.9
Decile 6:	$34,266 to 44,417	17.0	9.0
Decile 7:	$44,417 to 57,491	19.7	10.4
Decile 8:	$57,491 to 74,357	23.8	12.6
Decile 9:	$74,357 to 107,664	28.2	14.9
Decile 10:	$107,664 and over	45.1	23.9
Residents		$189.0	100.0%
Exported		101.9	
TOTAL		$290.9	

Table 8
Incidence Analysis
Limited Sales and Use Tax
Exemption for Gas and Electricity
(Tax Code 151.317)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 11.7	1.3%
Construction and Mining	42.4	4.7
Manufacturing	330.4	36.7
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Government	0	0.0
Individual Consumers	515.8	57.3
TOTAL	$900.3	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 42.6	6.5
Decile 2:	$9,015 to 14,769	45.4	7.0
Decile 3:	$14,769 to 20,228	52.6	8.1
Decile 4:	$20,228 to 26,147	52.9	8.1
Decile 5:	$26,147 to 34,266	58.6	9.0
Decile 6:	$34,266 to 44,417	62.3	9.5
Decile 7:	$44,417 to 57,491	68.6	10.5
Decile 8:	$57,491 to 74,357	72.0	11.0
Decile 9:	$74,357 to 107,664	83.3	12.8
Decile 10:	$107,664 and over	114.7	17.6
Residents		$653.0	100.0%
Exported		247.3	
TOTAL		$900.3	

Table 9
Incidence Analysis
Limited Sales and Use Tax
Exemption for Manufacturing
(Tax Code 151.318)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	7828.2	95.5
Transportation, Communications, and Utilities	180.3	2.2
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	188.5	2.3
Government	0	0.0
Individual Consumers	0	0.0
TOTAL	$8,197.0	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 68.7	2.8%
Decile 2:	$9,015 to 14,769	88.4	3.6
Decile 3:	$14,769 to 20,228	115.4	4.7
Decile 4:	$20,228 to 26,147	132.6	5.4
Decile 5:	$26,147 to 34,266	159.6	6.5
Decile 6:	$34,266 to 44,417	198.9	8.1
Decile 7:	$44,417 to 57,491	240.6	9.8
Decile 8:	$57,491 to 74,357	287.3	11.7
Decile 9:	$74,357 to 107,664	368.3	15.0
Decile 10:	$107,664 and over	795.5	32.3
Residents		$2,455.3	100.0%
Exported		5,741.7	
TOTAL		$8,197.0	

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Table 10
Incidence Analysis
Limited Sales and Use Tax
Exclusion for Advertising Media

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0.2	0.1%
Construction and Mining	0.8	0.5
Manufacturing	46.5	30.3
Transportation, Communications, and Utilities	9.4	6.1
Wholesale and Retail Trade	46.2	30.1
Finance, Insurance, and Real Estate	17.0	11.1
Services	33.4	21.8
Government	0	0.0
Individual Consumers	0	0.0
TOTAL	$153.5	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 3.5	4.1%
Decile 2:	$9,015 to 14,769	4.0	4.7
Decile 3:	$14,769 to 20,228	5.0	5.8
Decile 4:	$20,228 to 26,147	5.7	6.6
Decile 5:	$26,147 to 34,266	6.4	7.4
Decile 6:	$34,266 to 44,417	7.6	8.8
Decile 7:	$44,417 to 57,491	8.8	10.2
Decile 8:	$57,491 to 74,357	9.9	11.5
Decile 9:	$74,357 to 107,664	12.0	14.0
Decile 10:	$107,664 and over	23.1	26.9
Residents		$ 86.0	100.0%
Exported		67.5	
TOTAL		$153.5	

Table 11
Incidence Analysis
Limited Sales and Use Tax
Exclusion for Architectural and Engineering

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	185.0	81.0
Manufacturing	22.1	9.7
Transportation, Communications, and Utilities	0.9	0.4
Wholesale and Retail Trade	0.5	0.2
Finance, Insurance, and Real Estate	1.1	0.5
Services	18.7	8.2
Government	0	0.0
Individual Consumers	0	0.0
TOTAL	$228.3	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 8.2	4.5%
Decile 2:	$9,015 to 14,769	8.9	4.9
Decile 3:	$14,769 to 20,228	11.2	6.2
Decile 4:	$20,228 to 26,147	12.7	7.0
Decile 5:	$26,147 to 34,266	14.1	7.8
Decile 6:	$34,266 to 44,417	16.5	9.1
Decile 7:	$44,417 to 57,491	19.2	10.6
Decile 8:	$57,491 to 74,357	21.2	11.7
Decile 9:	$74,357 to 107,664	25.2	13.9
Decile 10:	$107,664 and over	44.2	24.4
Residents		$181.4	100.0%
Exported		46.9	
TOTAL		$228.3	

Table 12
Incidence Analysis
Limited Sales and Use Tax
Exclusion for Automotive Maintenance and Repair

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	5.1	2.9
Manufacturing	34.3	19.2
Transportation, Communications, and Utilities	12.7	7.1
Wholesale and Retail Trade	9.2	5.2
Finance, Insurance, and Real Estate	2.3	1.3
Services	9.4	5.3
Government	0	0.0
Individual Consumers	105.6	59.1
TOTAL	$178.6	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 4.8	4.5%
Decile 2:	$9,015 to 14,769	6.7	6.3
Decile 3:	$14,769 to 20,228	7.9	7.4
Decile 4:	$20,228 to 26,147	7.2	6.8
Decile 5:	$26,147 to 34,266	10.2	9.6
Decile 6:	$34,266 to 44,417	11.5	10.8
Decile 7:	$44,417 to 57,491	10.6	10.0
Decile 8:	$57,491 to 74,357	13.7	12.9
Decile 9:	$74,357 to 107,664	15.3	14.4
Decile 10:	$107,664 and over	18.4	17.3
Residents		$106.3	100.0%
Exported		72.3	
TOTAL		$178.6	

Table 13
Incidence Analysis
Limited Sales and Use Tax
Exclusion for Freight Hauling

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Share	Percent
Agriculture	$ 7.6	3.2%
Construction and Mining	25.9	10.9
Manufacturing	101.6	42.8
Transportation, Communications, and Utilities	2.4	1.0
Wholesale and Retail Trade	8.3	3.5
Finance, Insurance, and Real Estate	13.1	5.5
Services	20.0	8.4
Government	0	0.0
Individual Consumers	58.6	24.7
TOTAL	$237.5	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 5.5	3.8%
Decile 2:	$9,015 to 14,769	4.4	3.0
Decile 3:	$14,769 to 20,228	7.1	4.9
Decile 4:	$20,228 to 26,147	14.1	9.7
Decile 5:	$26,147 to 34,266	9.0	6.2
Decile 6:	$34,266 to 44,417	12.8	8.8
Decile 7:	$44,417 to 57,491	12.9	8.9
Decile 8:	$57,491 to 74,357	16.6	11.4
Decile 9:	$74,357 to 107,664	26.6	18.3
Decile 10:	$107,664 and over	36.4	25.0
Residents		$145.4	100.0%
Exported		92.1	
TOTAL		$237.5	

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Table 14
Incidence Analysis
Limited Sales and Use Tax
Exclusion for Health Care Services
(Physicians, Dentists and Other Health Care Services)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Government	0	0.0
Individual Consumers	897.6	100.0
TOTAL	$897.6	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 70.7	7.9%
Decile 2:	$9,015 to 14,769	78.5	8.7
Decile 3:	$14,769 to 20,228	124.9	13.9
Decile 4:	$20,228 to 26,147	85.6	9.5
Decile 5:	$26,147 to 34,266	63.9	7.1
Decile 6:	$34,266 to 44,417	125.2	14.0
Decile 7:	$44,417 to 57,491	47.5	5.3
Decile 8:	$57,491 to 74,357	86.5	9.6
Decile 9:	$74,357 to 107,664	101.6	11.3
Decile 10:	$107,664 and over	113.2	12.6
Residents		$897.6	100.0%
Exported		0	
TOTAL		$897.6	

Table 15
Incidence Analysis
Limited Sales and Use Tax
Exclusion for Legal Services

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0.2	0.1%
Construction and Mining	27.0	7.6
Manufacturing	65.9	18.6
Transportation, Communications, and Utilities	27.6	7.7
Wholesale and Retail Trade	21.1	5.9
Finance, Insurance, and Real Estate	40.6	11.4
Services	39.7	11.2
Government	0	0.0
Individual Consumers	133.0	37.5
TOTAL	$355.1	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 16.1	8.9%
Decile 2:	$9,015 to 14,769	11.9	6.6
Decile 3:	$14,769 to 20,228	14.5	8.0
Decile 4:	$20,228 to 26,147	6.3	3.5
Decile 5:	$26,147 to 34,266	8.7	4.8
Decile 6:	$34,266 to 44,417	19.6	10.9
Decile 7:	$44,417 to 57,491	19.9	11.0
Decile 8:	$57,491 to 74,357	19.5	10.8
Decile 9:	$74,357 to 107,664	27.0	15.0
Decile 10:	$107,664 and over	37.0	20.5
Residents		$180.5	100.0%
Exported		174.6	
TOTAL		$355.1	

Table 16
Incidence Analysis
Limited Sales and Use Tax
Exclusion for New Nonresidential Construction Labor

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	19.0	10.8
Manufacturing	35.0	19.9
Transportation, Communications, and Utilities	33.1	18.8
Wholesale and Retail Trade	26.9	15.3
Finance, Insurance, and Real Estate	20.2	11.5
Services	41.7	23.7
Government	0	0.0
Individual Consumers	0	0.0
TOTAL	$175.9	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 3.7	4.0%
Decile 2:	$9,015 to 14,769	4.2	4.5
Decile 3:	$14,769 to 20,228	5.3	5.7
Decile 4:	$20,228 to 26,147	5.9	6.4
Decile 5:	$26,147 to 34,266	6.8	7.3
Decile 6:	$34,266 to 44,417	8.0	8.6
Decile 7:	$44,417 to 57,491	9.5	10.2
Decile 8:	$57,491 to 74,357	10.6	11.4
Decile 9:	$74,357 to 107,664	13.0	14.0
Decile 10:	$107,664 and over	25.7	27.8
Residents		$ 92.7	100.0%
Exported		83.2	
TOTAL		$175.9	

Table 17
Incidence Analysis
Limited Sales and Use Tax
Exclusion for Residential Construction Labor
(Construction and Repair and Remodeling)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Government	0	0.0
Individual Consumers	$268.9	100.0
TOTAL	$268.9	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 4.3	4.0%
Decile 2:	$9,015 to 14,769	4.8	4.5
Decile 3:	$14,769 to 20,228	6.1	5.7
Decile 4:	$20,228 to 26,147	6.9	6.4
Decile 5:	$26,147 to 34,266	7.8	7.3
Decile 6:	$34,266 to 44,417	9.2	8.6
Decile 7:	$44,417 to 57,491	10.9	10.2
Decile 8:	$57,491 to 74,357	12.0	11.2
Decile 9:	$74,357 to 107,664	14.8	13.8
Decile 10:	$107,664 and over	30.5	28.4
Residents		$107.3	100.0%
Exported		0.7	
TOTAL		$268.9	

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Table 18
Initial Distribution and Final Incidence of Total Franchise Tax Revenue

INITIAL DISTRIBUTION OF TAX—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 16.1	0.8%
Construction and Mining	221.3	10.9
Manufacturing	563.6	27.8
Transportation, Communications, and Utilities	344.8	17.0
Wholesale and Retail Trade	378.9	18.7
Finance, Insurance, and Real Estate	249.8	12.3
Services	255.8	12.6
Nonprofit Organizations	0	0.0
Unclassified	0	0.0
Individual Consumers	0	0.0
TOTAL	$2,030.3	100.0%

INITIAL DISTRIBUTION OF TAX—
BY BUSINESS TYPE, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Corporations	$2,030.3	100.0%
Partnerships	0	0
Sole Proprietors	0	0
Subtotal	$2,030.3	100.0%
Individual Consumers	0	
TOTAL	$2,030.3	

FINAL INCIDENCE OF TAX—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 59.3	3.9%
Decile 2:	$9,015 to 14,769	74.5	4.9
Decile 3:	$14,769 to 20,228	92.7	6.1
Decile 4:	$20,228 to 26,147	98.8	6.5
Decile 5:	$26,147 to 34,266	120.1	7.9
Decile 6:	$34,266 to 44,417	136.8	9.0
Decile 7:	$44,417 to 57,491	158.1	10.4
Decile 8:	$57,491 to 74,357	193.0	12.7
Decile 9:	$74,357 to 107,664	226.5	14.9
Decile 10:	$107,664 and over	361.7	23.8
Residents		$1,519.8	100.0%
Exported		510.5	
TOTAL		$2,030.3	

FINAL INCIDENCE OF TAX—
BY HOMEOWNERS / RENTERS, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Homeowners	$1,060.8	69.8%
Renters	459.0	30.2
Subtotal	$1,519.8	100.0%
Exported	510.5	
TOTAL	$2,030.3	

ESTIMATED EQUITY OF TAX, FISCAL 2000

Suits Index	-0.24

Totals may not add due to rounding.

Table 19
Incidence Analysis
Franchise Tax
Exemption for Insurance Companies
(Tax Code 171.052)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale	0	0.0
Retail	0	0.0
Finance, Insurance, and Real Estate	141.1	100.0
Services	0	0.0
TOTAL	$141.1	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 3.6	4.0%
Decile 2:	$9,015 to 14,769	4.5	5.1
Decile 3:	$14,769 to 20,228	5.5	6.2
Decile 4:	$20,228 to 26,147	5.9	6.6
Decile 5:	$26,147 to 34,266	7.1	8.0
Decile 6:	$34,266 to 44,417	8.0	9.0
Decile 7:	$44,417 to 57,491	9.3	10.4
Decile 8:	$57,491 to 74,357	11.2	12.6
Decile 9:	$74,357 to 107,664	13.1	14.7
Decile 10:	$107,664 and over	21.1	23.6
Residents		$ 89.4	100.0%
Exported		51.7	
TOTAL		$141.1	

Table 20
Incidence Analysis
Franchise Tax
Exemption for Mutual Funds
(Tax Code 171.055)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale	0	0.0
Retail	0	0.0
Finance, Insurance, and Real Estate	158.2	100.0
Services	0	0.0
TOTAL	$158.2	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 4.0	4.0%
Decile 2:	$9,015 to 14,769	5.1	5.1
Decile 3:	$14,769 to 20,228	6.2	6.2
Decile 4:	$20,228 to 26,147	6.6	6.6
Decile 5:	$26,147 to 34,266	8.0	8.0
Decile 6:	$34,266 to 44,417	9.0	9.0
Decile 7:	$44,417 to 57,491	10.4	10.4
Decile 8:	$57,491 to 74,357	12.6	12.6
Decile 9:	$74,357 to 107,664	14.7	14.7
Decile 10:	$107,664 and over	23.7	23.6
Residents		$100.3	100.0%
Exported		57.9	
TOTAL		$158.2	

Table 21
Incidence Analysis
Franchise Tax
Exemption for IRS Sec. 501 (c)(3)
(Tax Code 171.055)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale	0	0.0
Retail	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	172.8	100.0
TOTAL	$172.8	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 7.4	4.7%
Decile 2:	$9,015 to 14,769	9.0	5.7
Decile 3:	$14,769 to 20,228	10.8	6.9
Decile 4:	$20,228 to 26,147	11.3	7.2
Decile 5:	$26,147 to 34,266	13.5	8.6
Decile 6:	$34,266 to 44,417	14.7	9.4
Decile 7:	$44,417 to 57,491	16.8	10.7
Decile 8:	$57,491 to 74,357	19.7	12.6
Decile 9:	$74,357 to 107,664	22.1	14.1
Decile 10:	$107,664 and over	31.7	20.2
Residents		$157.1	100.0%
Exported		15.7	
TOTAL		$172.8	

Table 22
Incidence Analysis
Franchise Tax
Deduction of Business Loss Carryover
(Tax Code 171.110(a)(4))

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 2.3	1.5%
Mining	34.3	22.8
Construction	6.2	4.1
Manufacturing	29.0	19.3
Transportation, Communications, and Utilities	0	0.0
Wholesale	10.9	7.3
Retail	9.5	6.3
Finance, Insurance, and Real Estate	26.9	17.9
Services	20.5	13.7
TOTAL	$150.1	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 3.8	3.7%
Decile 2:	$9,015 to 14,769	4.9	4.8
Decile 3:	$14,769 to 20,228	6.0	5.9
Decile 4:	$20,228 to 26,147	6.5	6.3
Decile 5:	$26,147 to 34,266	7.9	7.7
Decile 6:	$34,266 to 44,417	9.0	8.9
Decile 7:	$44,417 to 57,491	10.6	10.4
Decile 8:	$57,491 to 74,357	12.9	12.7
Decile 9:	$74,357 to 107,664	15.3	15.0
Decile 10:	$107,664 and over	25.1	24.6
Residents		$101.8	100.0%
Exported		48.3	
TOTAL		$150.1	

Table 23
Incidence Analysis
Franchise Tax
Small Corporation Exclusion from Officer Compensation Add-Back
(Tax Code 171.110(b))

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 3.4	2.2%
Mining	3.3	2.1
Construction	15.9	10.1
Manufacturing	15.2	9.6
Transportation, Communications, and Utilities	0	0.0
Wholesale	32.4	20.5
Retail	48.7	30.8
Finance, Insurance, and Real Estate	7.2	4.5
Services	25.8	16.3
TOTAL	$157.8	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 5.3	4.2%
Decile 2:	$9,015 to 14,769	6.7	5.2
Decile 3:	$14,769 to 20,228	8.2	6.4
Decile 4:	$20,228 to 26,147	8.6	6.7
Decile 5:	$26,147 to 34,266	10.4	8.1
Decile 6:	$34,266 to 44,417	11.7	9.1
Decile 7:	$44,417 to 57,491	13.5	10.5
Decile 8:	$57,491 to 74,357	16.2	12.7
Decile 9:	$74,357 to 107,664	18.7	14.6
Decile 10:	$107,664 and over	28.8	22.5
Residents		$128.2	100.0%
Exported		29.6	
TOTAL		$157.8	

Table 24
Incidence Analysis
Franchise Tax
Deduction of Interest Income from U.S. Obligations
(Rule 3.555(k))

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ .2	0.5%
Mining	1.8	4.0
Construction	1.0	2.3
Manufacturing	5.8	12.8
Transportation, Communications, and Utilities	0	0.0
Wholesale	3.6	7.9
Retail	4.0	8.9
Finance, Insurance, and Real Estate	24.6	54.4
Services	2.4	5.4
TOTAL	$45.2	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 1.2	3.9%
Decile 2:	$9,015 to 14,769	1.5	5.0
Decile 3:	$14,769 to 20,228	1.9	6.1
Decile 4:	$20,228 to 26,147	2.0	6.5
Decile 5:	$26,147 to 34,266	2.5	7.9
Decile 6:	$34,266 to 44,417	2.8	9.0
Decile 7:	$44,417 to 57,491	3.2	10.4
Decile 8:	$57,491 to 74,357	3.9	12.6
Decile 9:	$74,357 to 107,664	4.6	14.8
Decile 10:	$107,664 and over	7.4	23.8
Residents		$31.1	100.0%
Exported		14.0	
TOTAL		$45.2	

Table 25
Initial Distribution and Final Incidence of Total Gasoline Tax Revenue

INITIAL DISTRIBUTION OF TAX—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 12.4	0.6%
Construction and Mining	46.9	2.2
Manufacturing	464.5	22.0
Transportation, Communications, and Utilities	261.9	12.4
Wholesale and Retail Trade	32.9	1.6
Finance, Insurance, and Real Estate	3.2	0.2
Services	19.9	1.0
Nonprofit Organizations	1.1	0.1
Individual Consumers	1,264.7	60.0
TOTAL	$2,107.6	100.0%

INITIAL DISTRIBUTION OF TAX—
BY BUSINESS TYPE, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Corporations	$ 745.8	88.5%
Partnerships	93.3	11.1
Sole Proprietors	3.8	0.4
Subtotal	$ 842.9	100.0%
Individual Consumers	1,264.7	
TOTAL	$2,107.6	

FINAL INCIDENCE OF TAX—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 80.7	4.5%
Decile 2:	$9,015 to 14,769	104.0	5.8
Decile 3:	$14,769 to 20,228	125.5	7.0
Decile 4:	$20,228 to 26,147	136.2	7.6
Decile 5:	$26,147 to 34,266	163.1	9.1
Decile 6:	$34,266 to 44,417	166.7	9.3
Decile 7:	$44,417 to 57,491	195.4	10.9
Decile 8:	$57,491 to 74,357	224.0	12.5
Decile 9:	$74,357 to 107,664	259.9	14.5
Decile 10:	$107,664 and over	337.0	18.8
Residents		$1,792.3	100.0%
Exported		315.3	
TOTAL		$2,107.6	

FINAL INCIDENCE OF TAX—
BY HOMEOWNERS / RENTERS, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Homeowners	$1,221.3	68.1%
Renters	571.0	31.9
Subtotal	$1,792.3	100.0%
Exported	315.3	
TOTAL	$2,107.6	

ESTIMATED EQUITY OF TAX, FISCAL 2000

Suits Index	-0.32

Totals may not add due to rounding.

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Table 26
Incidence Analysis
Gasoline Tax
Exemption for Sales to Federal Government
(Tax Code 153.104(4), 153.119(a), 153.119(e))

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
NonProfit Organizations	0	0.0
Governmental Entities	47.4	100.0
Individual Consumers	0	0.0
TOTAL	$47.4	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 0.6	1.4%
Decile 2:	$9,015 to 14,769	1.2	2.6
Decile 3:	$14,769 to 20,228	1.7	3.8
Decile 4:	$20,228 to 26,147	2.0	4.6
Decile 5:	$26,147 to 34,266	2.6	6.0
Decile 6:	$34,266 to 44,417	3.5	8.0
Decile 7:	$44,417 to 57,491	4.3	9.7
Decile 8:	$57,491 to 74,357	5.8	13.3
Decile 9:	$74,357 to 107,664	7.5	17.4
Decile 10:	$107,664 and over	14.4	33.2
Residents		$43.6	100.0%
Exported		3.8	
TOTAL		$47.4	

Table 27
Incidence Analysis
Gasoline Tax
Two Percent Distributor Discount
(Tax Code 151.309)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Nondurable Manufacturing	0	0.0
Durable Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	44.0	100.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Nonprofit Organizations	0	0.0
Governmental Entities	0	0.0
Individual Consumers	0	0.0
TOTAL	$44.0	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 1.9	4.5%
Decile 2:	$9,015 to 14,769	2.4	5.8
Decile 3:	$14,769 to 20,228	2.9	7.0
Decile 4:	$20,228 to 26,147	3.1	7.6
Decile 5:	$26,147 to 34,266	3.8	9.1
Decile 6:	$34,266 to 44,417	3.9	9.3
Decile 7:	$44,417 to 57,491	4.5	10.9
Decile 8:	$57,491 to 74,357	5.2	12.5
Decile 9:	$74,357 to 107,664	6.0	14.5
Decile 10:	$107,664 and over	7.8	18.8
Residents		$41.4	100.0%
Exported		2.6	
TOTAL		$44.0	

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Table 28
Initial Distribution and Final Incidence of Total Motor Vehicle Sales and Use Tax Revenue

INITIAL DISTRIBUTION OF TAX—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 12.8	0.6%
Construction and Mining	90.2	4.1
Manufacturing	142.0	6.5
Transportation, Communications, and Utilities	223.9	10.3
Wholesale and Retail Trade	196.2	9.0
Finance, Insurance, and Real Estate	131.9	6.0
Services	150.9	6.9
Nonprofit Organizations	0	0.0
Individual Consumers	1,235.2	56.6
TOTAL	$2,183.0	100.0%

INITIAL DISTRIBUTION OF TAX—
BY BUSINESS TYPE, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Corporations	$ 783.7	82.7%
Partnerships	104.8	11.1
Sole Proprietors	59.4	6.2
Subtotal	947.8	100.0%
Individual Consumers	1,235.2	
TOTAL	$2,183.0	

FINAL INCIDENCE OF TAX—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 55.6	2.9%
Decile 2:	$9,015 to 14,769	79.5	4.1
Decile 3:	$14,769 to 20,228	138.8	7.1
Decile 4:	$20,228 to 26,147	127.2	6.5
Decile 5:	$26,147 to 34,266	203.5	10.4
Decile 6:	$34,266 to 44,417	180.9	9.3
Decile 7:	$44,417 to 57,491	210.3	10.8
Decile 8:	$57,491 to 74,357	267.4	13.7
Decile 9:	$74,357 to 107,664	269.2	13.8
Decile 10:	$107,664 and over	416.9	21.4
Residents		1,949.4	100.0%
Exported		233.6	
TOTAL		$2,183.0	

FINAL INCIDENCE OF TAX—
BY HOMEOWNERS / RENTERS, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Homeowners	$1,351.4	69.3%
Renters	598.0	30.7
Subtotal	1,949.4	100.0%
Exported	233.6	
TOTAL	$2,183.0	

ESTIMATED EQUITY OF TAX, FISCAL 2000

Suits Index	-0.27

Totals may not add due to rounding.

Table 29
Incidence Analysis
Motor Vehicle Sales And Use Tax
Exemption of Sales to a Public Agency
(Tax Code 152.082)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Governmental Entities	39.5	100.0
Individual Consumers	0	0.0
TOTAL	$39.5	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 0.9	2.8%
Decile 2:	$9,015 to 14,769	0.9	2.7
Decile 3:	$14,769 to 20,228	1.6	4.9
Decile 4:	$20,228 to 26,147	2.4	7.3
Decile 5:	$26,147 to 34,266	3.3	9.9
Decile 6:	$34,266 to 44,417	3.3	10.0
Decile 7:	$44,417 to 57,491	4.1	12.3
Decile 8:	$57,491 to 74,357	4.8	14.5
Decile 9:	$74,357 to 107,664	4.6	13.9
Decile 10:	$107,664 and over	7.2	21.6
Residents		$33.1	100.0%
Exported		6.4	
TOTAL		$39.5	

Table 30
Incidence Analysis
Motor Vehicle Sales and Use Tax
Sales of Exempt Vehicles
(Tax Code 152.089)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Share	Percent
Agriculture	$ 0.9	1.3%
Construction and Mining	6.6	9.5
Manufacturing	10.5	15.1
Transportation, Communications, and Utilities	44.5	64.0
Wholesale and Retail Trade	7.0	10.0
Finance, Insurance, and Real Estate	0.0	0.0
Services	0.1	0.1
Individual Consumers	0.0	0.0
TOTAL	$69.5	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 0.6	3.8%
Decile 2:	$9,015 to 14,769	0.8	4.9
Decile 3:	$14,769 to 20,228	1.0	6.1
Decile 4:	$20,228 to 26,147	1.0	6.5
Decile 5:	$26,147 to 34,266	1.3	7.9
Decile 6:	$34,266 to 44,417	1.4	9.0
Decile 7:	$44,417 to 57,491	1.7	10.4
Decile 8:	$57,491 to 74,357	2.0	12.6
Decile 9:	$74,357 to 107,664	2.4	15.0
Decile 10:	$107,664 and over	3.8	24.0
Residents		$16.0	100.0%
Exported		53.5	
TOTAL		$69.5	

Table 31
Initial Distribution and Final Incidence of Total School Property Tax Revenue

INITIAL DISTRIBUTION OF TAX—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 627.0	5.1%
Construction and Mining	1,290.8	10.5
Manufacturing	1,438.3	11.7
Transportation, Communications, and Utilities	1,499.8	12.2
Wholesale and Retail Trade	504.0	4.1
Finance, Insurance, and Real Estate	467.2	3.8
Services	454.9	3.7
Nonprofit Organizations	0	0.0
Unclassified	368.8	3.0
Individual Consumers	5,642.7	45.9
TOTAL	$12,293.5	100.0%

INITIAL DISTRIBUTION OF TAX—
BY BUSINESS TYPE, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Corporations	$ 5,653.2	85.0%
Partnerships	665.1	10.0
Sole Proprietors	332.5	5.0
Subtotal	$ 6,650.8	100.0%
Individual Consumers	5,642.7	
TOTAL	$12,293.5	

FINAL INCIDENCE OF TAX—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 376.3	3.7%
Decile 2:	$9,015 to 14,769	447.4	4.4
Decile 3:	$14,769 to 20,228	532.1	5.2
Decile 4:	$20,228 to 26,147	586.9	5.8
Decile 5:	$26,147 to 34,266	713.8	7.0
Decile 6:	$34,266 to 44,417	877.1	8.6
Decile 7:	$44,417 to 57,491	988.1	9.7
Decile 8:	$57,491 to 74,357	1,318.4	12.9
Decile 9:	$74,357 to 107,664	1,717.5	16.8
Decile 10:	$107,664 and over	2,643.1	25.9
Residents		$10,200.7	100.0%
Exported		2,092.8	
TOTAL		$12,293.5	

FINAL INCIDENCE OF TAX—
BY HOMEOWNERS / RENTERS, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Homeowners	$ 7,238.3	71.0%
Renters	2,962.4	29.0
Subtotal	$10,200.7	100.0%
Exported	2,092.8	
TOTAL	$12,293.5	

ESTIMATED EQUITY OF TAX, FISCAL 2000

Suits Index	-0.20

Totals may not add due to rounding.

Table 32
Incidence Analysis
Property Tax
General Homestead Exemption of $15,000
(Tax Code 11.13(b))

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Homeowner	$948.8	100.0%
Renter	0	0.0
Farms	0	0.0
Other Agriculture	0	0.0
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale Trade	0	0.0
Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Unclassified	0	0.0
TOTAL	$948.8	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 27.9	3.5%
Decile 2:	$9,015 to 14,769	25.5	3.2
Decile 3:	$14,769 to 20,228	25.8	3.2
Decile 4:	$20,228 to 26,147	37.8	4.7
Decile 5:	$26,147 to 34,266	60.2	7.5
Decile 6:	$34,266 to 44,417	84.9	10.6
Decile 7:	$44,417 to 57,491	112.5	14.0
Decile 8:	$57,491 to 74,357	137.9	17.2
Decile 9:	$74,357 to 107,664	155.0	19.4
Decile 10:	$107,664 and over	133.2	16.6
Residents		$800.7	100.0%
Exported		148.1	
TOTAL		$948.8	

Table 33
Incidence Analysis
Property Tax
Exemption for 65 and Over or Disabled
(Tax Code 11.13(c))

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Homeowner	$162.7	100.0%
Renter	0	0.0
Farms	0	0.0
Other Agriculture	0	0.0
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale Trade	0	0.0
Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Unclassified	0	0.0
TOTAL	$162.7	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 10.1	7.2%
Decile 2:	$9,015 to 14,769	7.8	5.5
Decile 3:	$14,769 to 20,228	8.9	6.3
Decile 4:	$20,228 to 26,147	11.1	7.8
Decile 5:	$26,147 to 34,266	12.8	9.0
Decile 6:	$34,266 to 44,417	14.1	10.0
Decile 7:	$44,417 to 57,491	16.0	11.3
Decile 8:	$57,491 to 74,357	16.9	11.9
Decile 9:	$74,357 to 107,664	18.9	13.3
Decile 10:	$107,664 and over	25.0	17.6
Residents		$141.7	100.0%
Exported		21.0	
TOTAL		$162.7	

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Table 34
Incidence Analysis
Property Tax
Optional Percentage Homestead Exemption
(Tax Code 11.13(n))

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Homeowner	$271.1	100.0%
Renter	0	0.0
Farms	0	0.0
Other Agriculture	0	0.0
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale Trade	0	0.0
Retail Trade	0	0.0
Finance, Insurance, Real Estate	0	0.0
Services	0	0.0
Unclassified	0	0.0
TOTAL	$271.1	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 5.9	2.8%
Decile 2:	$9,015 to 14,769	2.5	1.2
Decile 3:	$14,769 to 20,228	2.9	1.4
Decile 4:	$20,228 to 26,147	4.2	2.0
Decile 5:	$26,147 to 34,266	8.4	4.0
Decile 6:	$34,266 to 44,417	13.5	6.4
Decile 7:	$44,417 to 57,491	20.6	9.6
Decile 8:	$57,491 to 74,357	35.8	17.0
Decile 9:	$74,357 to 107,664	48.4	23.0
Decile 10:	$107,664 and over	68.2	32.4
Residents		$210.5	100.0%
Exported		60.6	
TOTAL		$271.1	

Table 35
Incidence Analysis
Property Tax
65 and Over Tax Freeze
(Tax Code 11.26)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Homeowner	$225.9	100.0%
Renter	0	0.0
Farms	0	0.0
Other Agriculture	0	0.0
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale Trade	0	0.0
Retail Trade	0	0.0
Finance, Insurance, Real Estate	0	0.0
Services	0	0.0
Unclassified	0	0.0
TOTAL	$225.9	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 18.9	9.5%
Decile 2:	$9,015 to 14,769	8.7	4.3
Decile 3:	$14,769 to 20,228	16.8	8.4
Decile 4:	$20,228 to 26,147	18.1	9.0
Decile 5:	$26,147 to 34,266	15.8	7.9
Decile 6:	$34,266 to 44,417	22.2	11.2
Decile 7:	$44,417 to 57,491	21.4	10.7
Decile 8:	$57,491 to 74,357	15.8	7.9
Decile 9:	$74,357 to 107,664	12.6	6.3
Decile 10:	$107,664 and over	49.1	24.6
Residents		$199.6	100.0%
Exported		26.3	
TOTAL		$225.9	

Table 36
Incidence Analysis
Property Tax
Exemption for Tax Abatement
(Tax Code 11.28)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Homeowner	$ 0	0.0%
Renter	0	0.0
Farms	0	0.0
Other Agriculture	0.5	0.5
Mining	10.8	11.8
Construction	1.8	2.0
Manufacturing	45.4	49.7
Transportation, Communications, and Utilities	16.5	18.1
Wholesale Trade	1.7	1.9
Retail Trade	3.9	4.3
Finance, Insurance, Real Estate	4.8	5.3
Services	5.2	5.7
Unclassified	0.8	0.9
TOTAL	$91.3	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 2.3	3.5%
Decile 2:	$9,015 to 14,769	3.0	4.6
Decile 3:	$14,769 to 20,228	3.7	5.7
Decile 4:	$20,228 to 26,147	4.0	6.2
Decile 5:	$26,147 to 34,266	4.9	7.6
Decile 6:	$34,266 to 44,417	5.7	8.8
Decile 7:	$44,417 to 57,491	6.7	10.3
Decile 8:	$57,491 to 74,357	8.3	12.7
Decile 9:	$74,357 to 107,664	9.9	15.2
Decile 10:	$107,664 and over	16.6	25.5
Residents		$65.0	100.0%
Exported		26.3	
TOTAL		$91.3	

Table 37
Incidence Analysis
Property Tax
Agriculture Productivity Value Loss
(Government Code 403.302)

INITIAL DISTRIBUTION—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Homeowner	$ 0	0.0%
Renter	0	0.0
Farms	981.7	100.0
Other Agriculture	0	0.0
Mining	0	0.0
Construction	0	0.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale Trade	0	0.0
Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Unclassified	0	0.0
TOTAL	$981.7	100.0%

Totals may not add due to rounding.

FINAL INCIDENCE—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 21.9	2.9%
Decile 2:	$9,015 to 14,769	29.5	3.9
Decile 3:	$14,769 to 20,228	44.6	5.9
Decile 4:	$20,228 to 26,147	49.1	6.5
Decile 5:	$26,147 to 34,266	68.0	9.0
Decile 6:	$34,266 to 44,417	73.3	9.7
Decile 7:	$44,417 to 57,491	76.3	10.1
Decile 8:	$57,491 to 74,357	96.7	12.8
Decile 9:	$74,357 to 107,664	118.6	15.7
Decile 10:	$107,664 and over	177.5	23.5
Residents		$755.3	100.0%
Exported		226.4	
TOTAL		$981.7	

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Table 38
Initial Distribution and Final Incidence of Total Natural Gas Tax Revenue

INITIAL DISTRIBUTION OF TAX—
BY INDUSTRY, FISCAL 2000
(dollar amounts in millions)

Industry	Amount	Percent
Agriculture	$ 0	0.0%
Construction and Mining	514.1	100.0
Manufacturing	0	0.0
Transportation, Communications, and Utilities	0	0.0
Wholesale and Retail Trade	0	0.0
Finance, Insurance, and Real Estate	0	0.0
Services	0	0.0
Nonprofit Organizations	0	0.0
Unclassified	0	0.0
Individual Consumers	0	0.0
TOTAL	$514.1	100.0%

INITIAL DISTRIBUTION OF TAX—
BY BUSINESS TYPE, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Corporations	$465.0	90.4%
Partnerships	45.1	8.8
Sole Proprietors	4.0	0.8
Subtotal	$514.1	100.0%
Individual Consumers	0	
TOTAL	$514.1	

FINAL INCIDENCE OF TAX—
BY FAMILY INCOME DECILE, FISCAL 2000

Decile	Family Income	Amount ($ millions)	Percent
Decile 1:	less than $9,015	$ 4.7	2.1%
Decile 2:	$9,015 to 14,769	7.1	3.2
Decile 3:	$14,769 to 20,228	9.4	4.2
Decile 4:	$20,228 to 26,147	10.9	4.9
Decile 5:	$26,147 to 34,266	13.9	6.3
Decile 6:	$34,266 to 44,417	17.8	8.0
Decile 7:	$44,417 to 57,491	21.4	9.7
Decile 8:	$57,491 to 74,357	27.4	12.4
Decile 9:	$74,357 to 107,664	35.7	16.1
Decile 10:	$107,664 and over	73.1	33.0
Residents		$221.4	100.0%
Exported		292.7	
TOTAL		$514.1	

FINAL INCIDENCE OF TAX—
BY HOMEOWNERS / RENTERS, FISCAL 2000
(dollar amounts in millions)

	Amount	Percent
Homeowners	$161.8	73.1%
Renters	59.6	26.9
Subtotal	$221.4	100.0%
Exported	292.7	
TOTAL	$514.1	

ESTIMATED EQUITY OF TAX, FISCAL 2000

Suits Index	-0.10

Totals may not add due to rounding.

STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1575
(785) 296-2436
FAX (785) 296-0231

Bill Graves
Governor

Duane A. Goossen
Director

February 10, 1999

The Honorable David Adkins, Chairperson
House Committee on Taxation
Statehouse, Room 448-N
Topeka, Kansas 66612

Dear Representative Adkins:

SUBJECT: Fiscal Note for HB 2127 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2127 is respectfully submitted to your committee.

The bill would provide an income tax credit for planned gifts to qualified endowments. Qualified endowments are funds held by tax exempt organizations incorporated in Kansas. The amount of the tax credit would be the lesser of 50.0 percent of the gift or $10,000. The same income tax credit is also allowed for small business corporations and partnerships. The amount of the credit is limited to $10,000 per shareholder. Any amounts used as the basis for this credit must be added back to the federal adjusted gross income to the extent it has been claimed as a charitable deduction. The effective date for the tax reduction would begin in tax year 1999.

The Department of Revenue states that the fiscal impact of HB 2127 would depend on the number of tax credits claimed For example, if 100 Kansas taxpayers contributed the maximum credit of $10,000, the cost to the State General Fund would be $1.0 million.

Sincerely,

Duane A Goossen

Duane A. Goossen
Director of the Budget

cc: Lynn Robinson, Revenue

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"while we cannot now know what the future will deliver to and demand from our children and communities, we can start now to endow community funds to help ensure a more secure future."

Governor Racicot
State of the State Address, 1995

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A Brief History of the Governor's Task Force on Endowed Philanthropy

On November 16, 1994, Montana Governor Marc Racicot invited representatives of national, regional and local philanthropic foundations, nonprofit agencies, private business, as well as active community volunteers who share a concern for the financial future of Montana to his home to explore the potential of endowed philanthropy to provide a secure future for Montana. (Endowed philanthropy simply means using endowments to support charitable purposes.)

The Conversation represented a conscious and deliberate effort to break Montana's pattern of fatalism established by decades of isolation, anticipation of failure, and history of victimization. The Governor chose to focus on endowed philanthropy because it appears to offer a tangible, practical, and achievable means for Montana to control its own destiny while renewing a spirit of giving and sense of community.

Participants at that first Conversation on Endowed Philanthropy agreed that endowed philanthropy provides an increasingly important vehicle to help Montana communities achieve the financial security to devise and implement their own best strategies and solutions. At the end of the Conversation, the Governor appointed a Task Force on Endowed Philanthropy whose role is to:

1. Provide the leadership for a thorough examination of options and recommendation of the proper roles for the State of Montana in promoting and encouraging endowed philanthropy.
2. Deliberate, prioritize, and help implement the best options for Montana.
3. Communicate its progress and findings to the Governor and to the people of Montana.
4. Establish a time line and assign responsibilities for accomplishing its work.

The Case for Endowed Philanthropy

Montana's present-day economy holds grim reminders of a history shaped by dependence and extraction, beginning with the itinerant fur trappers and gold miners and continuing through the more ambitious Silver Barons and Copper Kings who prospered personally from Montana's wealth of mineral resources. For the most part, these entrepreneurs did not consider Montana home -- they were here only to seek their fortunes and go home. Historically, the fortunes they amassed in Montana were exported out-of-state, where they generously endowed universities and museums and symphonies from coast to coast.

Deprived of its inheritance, Montana envies the heirs of the state's abundance. While wealth extracted from our state continues to enrich Minneapolis, Philadelphia, Baltimore, San Francisco, Boston, Atlanta and every other sentimental home of the early entrepreneurs, Montana, with so little wealth to call its own, is still struggling to establish a foundation for economic security. Montana has few major corporation headquarters, no well-established corporate endowments, no major private foundations, and no critical mass of population to provide adequate funds through charitable giving or taxes to meet our ever-increasing needs.

With few Montana-based major corporations or foundations, Montana must turn to

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individuals and government to help provide philanthropic resources for the future of the state. Meanwhile, government at all levels continues to shift responsibility back to local communities without providing tools to help communities assume control. Year after year, Montana's government agencies and numerous nonprofit agencies attempt to accomplish more and more with less and less. All too often, local charitable organizations and government agencies find themselves ill-equipped to respond to the extensive and varied needs of Montana's diverse communities.

Elsewhere in the United States, communities can look to local philanthropic institutions to help fill the gaps created as government at all levels shifts responsibility to local communities. But, Montana's philanthropic infrastructure is both under-developed and under-prepared to help.

Although Montanans are generous in many ways, among the fifty states, Montana ranks at or near the bottom with regard to per capita charitable giving, number of foundations, size of foundations, and value of foundation gifts granted and received. Montana is home to less than three-hundredths of one percent of all U.S. foundations. It ranks 48th in the nation in foundation assets and 49th in foundation giving. While individual Montanans and Montana businesses give generously for immediate needs, Montana lacks the permanent endowments, common in most other states, that can provide a perpetual funding stream for charitable purposes and create a cushion against catastrophe.

Montana's Endowed Philanthropy Task Force is promoting endowments as a way to build wealth for the state's future and help communities to maintain Montana values. Endowments provide a safety net of funds that can fill gaps as governments at all levels transfer more and more responsibility to local communities. Endowments can enable Montanans to take control of the future of their communities by creating permanent savings accounts that can be used for a wide variety of charitable purposes. Endowments continue to regularly generate money that communities and nonprofit organizations otherwise would not have money that might be used for scholarships, internships, special training, library books, research, day care, or any other charitable need or opportunity.

Endowments also can benefit donors. Donors can use endowed philanthropy to provide for their family and friends, receive maximum tax benefits, maximize contributions to charity or to the local community, extend involvement with the organizations and causes the donor cares about, and legally limit the amount of an estate that goes to the government. Endowments are good for the state; good for local communities; good for nonprofit organizations; and good for the individuals that contribute to and benefit from them.

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INTRODUCED BY HIBBARD, MARSHALL, GRIMES, FELAND, THOMAS, ROSE, HAGENER, SOFT, FOSTER, R. JOHNSON, M. HANSON, BEAUDRY, SPRAGUE, OHS, ECK, MOOD, CHRISTIAENS, MENAHAN, WATERMAN, WALTERS, SMITH, HERTEL, ANDERSON, BOHLINGER, HARRINGTON, REAM, MAHLUM, HAYNE, HOLLAND, HEAVY RUNNER, JENKINS, MCCULLOCH, LAWSON, SANDS, AHNER, GROSFIELD, SWANSON, CLARK, MASOLO, ZOOK, J. JOHNSON, HARGROVE, HARPER, PAVLOVICH, SHEA, DOWELL, BOOKOUT, PECK, KITZENBERG, BROOKE, RANEY, ELLINGSON, KOTTEL, KNOX, SIMPSON, SQUIRES, QUILICI, BECK, HALLIGAN, WILSON, BURNETT, DENNY, DEVANEY, KRENZLER, GRADY, MCGEE, CURTISS, STOVALL, STANG, BISHOP, BENEDICT, RYAN, BITNEY, CAREY, ELLIS, BAER, MILLS, LYNCH, TASH, SLITER, SIMON, VAN VALKENBURG, FRANKLIN, MCCARTHY, MOHL, WISEMAN, TAYLOR

A BILL FOR AN ACT ENTITLED: AN ACT PROVIDING A TAX CREDIT FOR PLANNED GIFTS BY INDIVIDUALS AND OTHER GIFTS BY CORPORATIONS AND ESTATES MADE TO QUALIFIED CHARITABLE ENDOWMENT FUNDS; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, A RETROACTIVE APPLICABILITY DATE, AND A TERMINATION DATE.

WHEREAS, charitable endowments are permanent savings accounts, the income from which is perpetually committed to charitable purposes; and

WHEREAS, Montana-based charitable endowments can grow over time to become significant resources capable of funding many unanticipated and unmet needs of, and creating new opportunities for, Montana's citizens and their communities; and

WHEREAS, Montana's relatively weak tradition of endowed philanthropy can be demonstrated by comparing our state with the other 49 states, in that Montana ranks 44th in population and 41st in per capita income, but ranks 48th in foundation assets and 49th in foundation giving; and

WHEREAS, a planned gift is a type of charitable contribution that has the following three characteristics: first, it is composed typically of assets saved over the contributor's lifetime; second, it is conferred in connection with a carefully considered estate plan; and third, it transfers assets of the contributor to a charity prior to the contributor's death; and

WHEREAS, although planned gifts would appear to offer genuine financial potential for creating and expanding charitable endowments in Montana, in reality, planned gifts are so infrequently contributed in Montana that endowments in our state are not growing as fast as they are in other states; and

WHEREAS, planned gifts might be used more in funding charitable endowments in Montana if contributors could offset a significant portion of their gifts against

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their Montana income tax liabilities; and

WHEREAS, over the long term, income distributed from endowments can help achieve community goals and objectives when current funding from state and local government budgets may be limited; and

WHEREAS, local charitable endowments currently exist in almost every Montana community, and the existence of these widespread endowments offers everyone in Montana an opportunity to contribute endowed funding for their local communities; and

WHEREAS, community-based endowments in Montana have long-term potential to benefit all Montana communities by developing creative solutions to help individual communities meet growing needs and by helping these communities find transitions to self-sufficiency; and

WHEREAS, earnings from charitable endowments in Montana are distributed by volunteer boards of diverse community leaders to meet emerging community needs in such areas as education, arts and culture, social services, economic development, and health and the environment; and

WHEREAS, government cannot meet, nor should it be expected to meet, all of the needs of the state's communities because of its limited financial resources and because each community is in a better position to determine its own existing and future needs and opportunities; and

WHEREAS, tax credits provide financial incentives that encourage contributions for the establishment or expansion of charitable endowments in Montana; and

WHEREAS, the Legislature limits the tax credit created by [this act] to qualified permanent endowments held by tax-exempt organizations or by banks or trust companies on behalf of tax-exempt organizations; and

WHEREAS, for the purpose of renewing the tax credit created by [this act], it is the intent of the 55th Legislature that the state's cost of administering the tax credit may not exceed 5% of the total annual credits claimed.

Be it enacted by the Legislature of the State of Montana:

Section 1. Qualified endowments credit -- definitions. For the purposes of [section 2], the following definitions apply:
(1) "Planned gift" means an irrevocable contribution to a permanent endowment held by a tax-exempt organization, or for a tax-exempt organization, when the contribution uses any of the following techniques that are authorized under the Internal Revenue Code:

(a) charitable remainder unitrusts, as defined by 26 U.S.C. 664;
(b) charitable remainder annuity trusts, as defined by 26 U.S.C. 664;
(c) pooled income fund trusts, as defined by 26 U.S.C. 642(c)(5);
(d) charitable lead unitrusts qualifying under 26 U.S.C. 170(f)(2)(B);
(e) charitable lead annuity trusts qualifying under 26 U.S.C. 170(f)(2)(B);
(f) charitable gift annuities undertaken pursuant to 26 U.S.C. 1011(b);
(g) deferred charitable gift annuities undertaken pursuant to 26 U.S.C. 1011(b);
(h) charitable life estate agreements qualifying under 26 U.S.C. 170(f)(3)(B);
(i) paid-up life insurance policies meeting the requirements of 26 U.S.C. 170.

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(2) "Qualified endowment" means a permanent, irrevocable fund that is held by a Montana incorporated or established organization that:

(a) is a tax-exempt organization under 26 U.S.C. 501(c)(3); or

(b) is a bank or trust company, as defined in Title 32, chapter 1, part 1, that is holding the fund on behalf of a tax-exempt organization.

Section 2. Credit for contributions to qualified endowment.
(1) A taxpayer is allowed a tax credit against the taxes imposed by 15-30-103 or 15-31-101 in an amount equal to 50% of the present value of the aggregate amount of the charitable gift portion of a planned gift made by the taxpayer during the year to any qualified endowment. The maximum credit that may be claimed by a taxpayer for contributions made from all sources in a year is $10,000. The credit allowed under this section may not exceed the taxpayer's income tax liability.
(2) The credit allowed under this section may not be claimed by an individual taxpayer if the taxpayer has included the full amount of the contribution upon which the amount of the credit was computed as a deduction under 15-30-121(1) or 15-30-136(2).
(3) There is no carryback or carryforward of the credit permitted under this section, and the credit must be applied to the tax year in which the contribution is made.

Section 3. Credit for contribution by corporations to qualified endowment. A corporation is allowed a credit in an amount equal to 50% of a charitable gift against the taxes otherwise due under 15-31-101 for charitable contributions made to a qualified endowment, as defined in [section 1]. The maximum credit that may be claimed by a corporation for contributions made from all sources in a year under this section is $10,000. The credit allowed under this section may not exceed the corporate taxpayer's income tax liability. The credit allowed under this section may not be claimed by a corporation if the taxpayer has included the full amount of the contribution upon which the amount of the credit was computed as a deduction under 15-31-114. There is no carryback or carryforward of the credit permitted under this section, and the credit must be applied to the tax year in which the contribution is made.

Section 4. Small business corporation, partnership, and limited liability company credit for contribution to qualified endowment. A contribution to a qualified endowment, as defined in [section 1], by a small business corporation, as defined in 15-31-201, a partnership, or a limited liability company, as defined in 35-8-102, qualifies for the credit provided in [section 3]. The credit must be attributed to shareholders, partners, or members or managers of a limited liability company in the same proportion used to report the corporation's, partnership's, or limited liability company's income or loss for Montana income tax purposes. The maximum credit that a shareholder of a small business corporation, a partner of a partnership, or a member or manager of a limited liability company may claim in a year is $10,000, subject to the limitations in [section 2(2)]. The credit allowed under this section may not exceed the taxpayer's income tax liability. There is no carryback or carryforward of the credit permitted under this section, and the credit must be applied to the tax year in which the contribution is made.

Section 5. Beneficiaries of estates -- credit for contribution to qualified endowment. A contribution to a qualified endowment, as defined in [section 1], by an estate qualifies for the credit provided in [section 2] if the contribution is a planned gift or in [section 3] if the contribution is an outright gift to a qualified endowment. Any credit not used by the estate may be attributed to each beneficiary of the estate in the same proportion used to report the beneficiary's income from the estate for Montana income tax purposes. The maximum amount of credit that a beneficiary may claim is $10,000, subject to the limitation in [section 2(2)], and the credit must be claimed in the year in which the contribution is made. The credit may not be carried forward or carried back.

Section 6. Report on income tax credit to committee. The department shall report to the revenue oversight committee at least once each year the number and type of taxpayers claiming the credit under [section 2], the total amount of the credit claimed, and the department's cost associated with administering the credit.

Section 7. Codification instruction.
(1) [Sections 1, 2, and 5] are intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [sections 1, 2, and 5].
(2) [Sections 3 and 4] are intended to be codified as an integral part of Title 15, chapter 31, and the provisions of Title 15, chapter 31, apply to [sections 3 and 4].
(3) [Section 6] is intended to be codified as an integral part of Title 15, chapter 1, part 2, and the provisions of Title 15, chapter 1, part 2, apply to [section 6].

Section 8. Effective date -- retroactive applicability. [This act] is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1996.

Section 9. Termination. [This act] terminates December 31, 2001.

-END-

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INTRODUCED BY HIBBARD, MARSHALL, GRIMES, FELAND, THOMAS, ROSE, HAGENER, SOFT, FOSTER, R. JOHNSON, M. HANSON, BEAUDRY, SPRAGUE, OHS, ECK, MOOD, CHRISTIAENS, MENAHAN, WATERMAN, WALTERS, SMITH, HERTEL, ANDERSON, BOHLINGER, HARRINGTON, REAM, MAHLUM, HAYNE, HOLLAND, HEAVY RUNNER, JENKINS, MCCULLOCH, LAWSON, SANDS, AHNER, GROSFIELD, SWANSON, CLARK, MASOLO, ZOOK, J. JOHNSON, HARGROVE, HARPER, PAVLOVICH, SHEA, DOWELL, BOOKOUT, PECK, KITZENBERG, BROOKE, RANEY, ELLINGSON, KOTTEL, KNOX, SIMPSON, SQUIRES, QUILICI, BECK, HALLIGAN, WILSON, BURNETT, DENNY, DEVANEY, KRENZLER, GRADY, MCGEE, CURTISS, STOVALL, STANG, BISHOP, BENEDICT, RYAN, BITNEY, CAREY, ELLIS, BAER, MILLS, LYNCH, TASH, SLITER, SIMON, VAN VALKENBURG, FRANKLIN, MCCARTHY, MOHL, WISEMAN, TAYLOR

A BILL FOR AN ACT ENTITLED: AN ACT PROVIDING A TAX CREDIT FOR PLANNED GIFTS BY INDIVIDUALS AND OTHER GIFTS BY CORPORATIONS AND ESTATES MADE TO QUALIFIED CHARITABLE ENDOWMENT FUNDS; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE, A RETROACTIVE APPLICABILITY DATE, AND A TERMINATION DATE.

WHEREAS, charitable endowments are permanent savings accounts, the income from which is perpetually committed to charitable purposes; and

WHEREAS, Montana-based charitable endowments can grow over time to become significant resources capable of funding many unanticipated and unmet needs of, and creating new opportunities for, Montana's citizens and their communities; and

WHEREAS, Montana's relatively weak tradition of endowed philanthropy can be demonstrated by comparing our state with the other 49 states, in that Montana ranks 44th in population and 41st in per capita income, but ranks 48th in foundation assets and 49th in foundation giving; and

WHEREAS, a planned gift is a type of charitable contribution that has the following three characteristics: first, it is composed typically of assets saved over the contributor's lifetime; second, it is conferred in connection with a carefully considered estate plan; and third, it transfers assets of the contributor to a charity prior to the contributor's death; and

WHEREAS, although planned gifts would appear to offer genuine financial potential for creating and expanding charitable endowments in Montana, in reality, planned gifts are so infrequently contributed in Montana that endowments in our state are not growing as fast as they are in other states; and

WHEREAS, planned gifts might be used more in funding charitable endowments in Montana if contributors could offset a significant portion of their gifts against

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their Montana income tax liabilities; and

WHEREAS, over the long term, income distributed from endowments can help achieve community goals and objectives when current funding from state and local government budgets may be limited; and

WHEREAS, local charitable endowments currently exist in almost every Montana community, and the existence of these widespread endowments offers everyone in Montana an opportunity to contribute endowed funding for their local communities; and

WHEREAS, community-based endowments in Montana have long-term potential to benefit all Montana communities by developing creative solutions to help individual communities meet growing needs and by helping these communities find transitions to self-sufficiency; and

WHEREAS, earnings from charitable endowments in Montana are distributed by volunteer boards of diverse community leaders to meet emerging community needs in such areas as education, arts and culture, social services, economic development, and health and the environment; and

WHEREAS, government cannot meet, nor should it be expected to meet, all of the needs of the state's communities because of its limited financial resources and because each community is in a better position to determine its own existing and future needs and opportunities; and

WHEREAS, tax credits provide financial incentives that encourage contributions for the establishment or expansion of charitable endowments in Montana; and

WHEREAS, the Legislature limits the tax credit created by [this act] to qualified permanent endowments held by tax-exempt organizations or by banks or trust companies on behalf of tax-exempt organizations; and

WHEREAS, for the purpose of renewing the tax credit created by [this act], it is the intent of the 55th Legislature that the state's cost of administering the tax credit may not exceed 5% of the total annual credits claimed.

Be it enacted by the Legislature of the State of Montana:

Section 1. Qualified endowments credit -- definitions. For the purposes of [section 2], the following definitions apply:
(1) "Planned gift" means an irrevocable contribution to a permanent endowment held by a tax-exempt organization, or for a tax-exempt organization, when the contribution uses any of the following techniques that are authorized under the Internal Revenue Code:

(a) charitable remainder unitrusts, as defined by 26 U.S.C. 664;
(b) charitable remainder annuity trusts, as defined by 26 U.S.C. 664;
(c) pooled income fund trusts, as defined by 26 U.S.C. 642(c)(5);
(d) charitable lead unitrusts qualifying under 26 U.S.C. 170(f)(2)(B);
(e) charitable lead annuity trusts qualifying under 26 U.S.C. 170(f)(2)(B);
(f) charitable gift annuities undertaken pursuant to 26 U.S.C. 1011(b);
(g) deferred charitable gift annuities undertaken pursuant to 26 U.S.C. 1011(b);
(h) charitable life estate agreements qualifying under 26 U.S.C. 170(f)(3)(B);
(i) paid-up life insurance policies meeting the requirements of 26 U.S.C. 170.

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(2) "Qualified endowment" means a permanent, irrevocable fund that is held by a Montana incorporated or established organization that:

(a) is a tax-exempt organization under 26 U.S.C. 501(c)(3); or

(b) is a bank or trust company, as defined in Title 32, chapter 1, part 1, that is holding the fund on behalf of a tax-exempt organization.

Section 2. Credit for contributions to qualified endowment.
(1) A taxpayer is allowed a tax credit against the taxes imposed by 15-30-103 or 15-31-101 in an amount equal to 50% of the present value of the aggregate amount of the charitable gift portion of a planned gift made by the taxpayer during the year to any qualified endowment. The maximum credit that may be claimed by a taxpayer for contributions made from all sources in a year is $10,000. The credit allowed under this section may not exceed the taxpayer's income tax liability.
(2) The credit allowed under this section may not be claimed by an individual taxpayer if the taxpayer has included the full amount of the contribution upon which the amount of the credit was computed as a deduction under 15-30-121(1) or 15-30-136(2).
(3) There is no carryback or carryforward of the credit permitted under this section, and the credit must be applied to the tax year in which the contribution is made.

Section 3. Credit for contribution by corporations to qualified endowment. A corporation is allowed a credit in an amount equal to 50% of a charitable gift against the taxes otherwise due under 15-31-101 for charitable contributions made to a qualified endowment, as defined in [section 1]. The maximum credit that may be claimed by a corporation for contributions made from all sources in a year under this section is $10,000. The credit allowed under this section may not exceed the corporate taxpayer's income tax liability. The credit allowed under this section may not be claimed by a corporation if the taxpayer has included the full amount of the contribution upon which the amount of the credit was computed as a deduction under 15-31-114. There is no carryback or carryforward of the credit permitted under this section, and the credit must be applied to the tax year in which the contribution is made.

Section 4. Small business corporation, partnership, and limited liability company credit for contribution to qualified endowment. A contribution to a qualified endowment, as defined in [section 1], by a small business corporation, as defined in 15-31-201, a partnership, or a limited liability company, as defined in 35-8-102, qualifies for the credit provided in [section 3]. The credit must be attributed to shareholders, partners, or members or managers of a limited liability company in the same proportion used to report the corporation's, partnership's, or limited liability company's income or loss for Montana income tax purposes. The maximum credit that a shareholder of a small business corporation, a partner of a partnership, or a member or manager of a limited liability company may claim in a year is $10,000, subject to the limitations in [section 2(2)]. The credit allowed under this section may not exceed the taxpayer's income tax liability. There is no carryback or carryforward of the credit permitted under this section, and the credit must be applied to the tax year in which the contribution is made.

Section 5. Beneficiaries of estates -- credit for contribution to qualified endowment. A contribution to a qualified endowment, as defined in [section 1], by an estate qualifies for the credit provided in [section 2] if the contribution is a planned gift or in [section 3] if the contribution is an outright gift to a qualified endowment. Any credit not used by the estate may be attributed to each beneficiary of the estate in the same proportion used to report the beneficiary's income from the estate for Montana income tax purposes. The maximum amount of credit that a beneficiary may claim is $10,000, subject to the limitation in

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[redacted]

[section 2(2)], and the credit must be claimed in the year in which the contribution is made. The credit may not be carried forward or carried back.

Section 6. Report on income tax credit to committee. The department shall report to the revenue oversight committee at least once each year the number and type of taxpayers claiming the credit under [section 2], the total amount of the credit claimed, and the department's cost associated with administering the credit.

Section 7. Codification instruction.
(1) [Sections 1, 2, and 5] are intended to be codified as an integral part of Title 15, chapter 30, and the provisions of Title 15, chapter 30, apply to [sections 1, 2, and 5].
(2) [Sections 3 and 4] are intended to be codified as an integral part of Title 15, chapter 31, and the provisions of Title 15, chapter 31, apply to [sections 3 and 4].
(3) [Section 6] is intended to be codified as an integral part of Title 15, chapter 1, part 2, and the provisions of Title 15, chapter 1, part 2, apply to [section 6].

Section 8. Effective date -- retroactive applicability. [This act] is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1996.

Section 9. Termination. [This act] terminates December 31, 2001.

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