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## **FAQ on Tax Rankings & Minnesota (Based on US Department of Commerce Data) FY 2006**

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### **Frequently Asked Questions (FAQ) about Tax Rankings and Minnesota**

This document provides an overview of frequently asked questions (FAQ) about Minnesota's tax rankings in a question and answer format. The questions covered in this overview relate to how rankings are computed, data sources, and Minnesota tax rankings. The ten questions covered in this document are:

1. What are tax rankings on tax collections?
2. What data are used to compute tax rankings?
3. What does Minnesota's revenue portfolio of tax collections look like?
4. How have Minnesota's state and local total tax rankings changed in recent years?
5. Which Minnesota taxes are ranked the highest?
6. Which Minnesota taxes are not ranked as high?
7. What are some caveats to consider when evaluating tax rankings?
8. Are there other reports on tax rankings?
9. How much would Minnesota taxes need to change to move Minnesota to the top or the bottom of the tax rankings?
10. Do tax rankings indicate a state's competitiveness?

**Fiscal Analysis Department**  
Minnesota House of Representatives

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## 1. What are tax rankings on tax collections?

Tax rankings are used as a measure of the aggregate costs for public services among states. The most current tax rankings for state and local data are available for fiscal year 2006.<sup>1</sup> Fiscal year 2006 tax rankings are based on state and local tax collection data from the Bureau of the Census and the Bureau of Economic Analysis both within the U.S. Department of Commerce.<sup>2</sup>

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

### **Figure 1. Rankings Measurements in Mathematical Terms:**

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

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

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

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

<sup>3</sup> 2006 tax rankings are based on tax collection data for FY 2006 and personal income for calendar year 2005.

Calendar year personal income for 2005 is used to match the time period in which income is earned and tax is paid.

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

## 2. What data is used to compute tax rankings?

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

**Table 1. Major Tax & Revenue Rankings Defined**

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

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

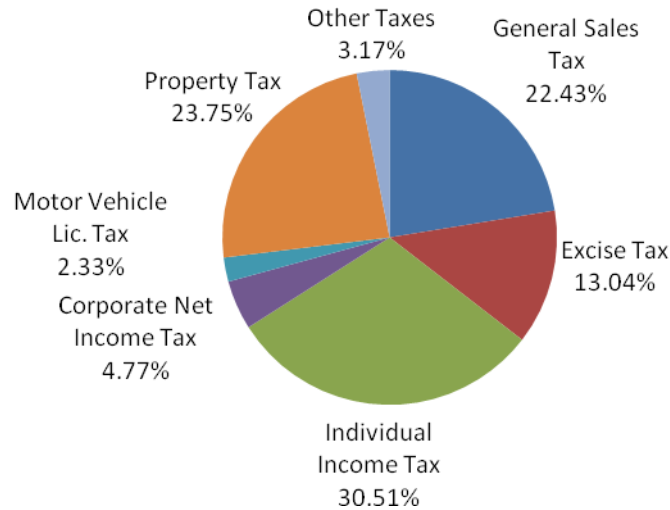
<b>Total State &amp; Local Taxes</b>	<b>Other State &amp; Local Own Source</b> =Columns 1+2	<b>Intergov't Revenue</b> =Column 3	<b>General Revenue</b> <i>(Also known as "state &amp; local revenue")</i> =Columns 1+2+3
<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>
Income Tax Property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

## 3. What does Minnesota's revenue portfolio of tax collections look like?

In FY 2006, Minnesota collected \$22.4 billion from state and local taxes. As shown in Figure 1, Minnesota's portfolio consists primarily of these tax sources: individual income taxes (30.51 percent), corporate franchise income taxes (4.77 percent), sales taxes including motor

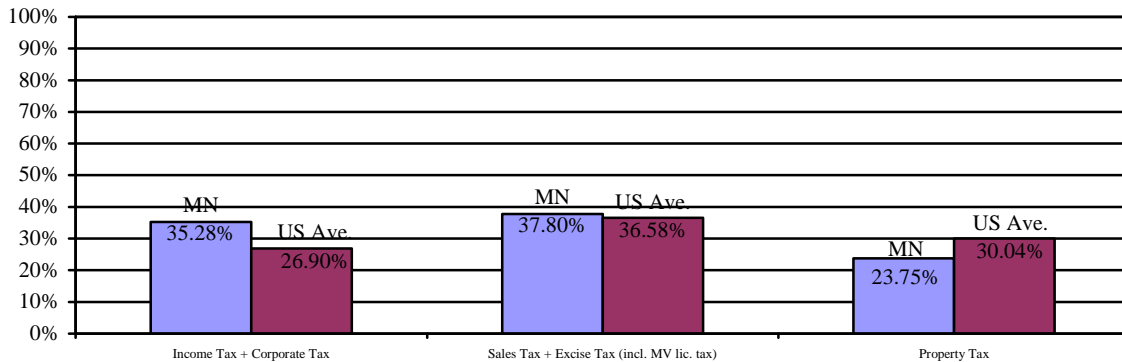
vehicle license tax (24.76 percent), excise taxes<sup>5</sup> (13.04 percent), and property taxes (23.75 percent). About 96.83 percent of tax revenue in Minnesota is raised from these five sources.

**Figure 1. 2006 Minnesota State & Local Tax Collection Portfolio**  
Total State and Local Taxes = \$22.4 Billion



To more easily compare revenue sources, corporate income tax is often added to individual income tax, and excise tax to sales tax (including motor vehicle license taxes). The U.S. average share of revenue raised by individual income plus corporate income taxes is 26.9 percent, excise tax plus sales tax, including motor vehicle license tax, 36.58 percent, and property taxes is 30.04 percent. Compared to the national average, therefore, Minnesota’s income tax plus corporate tax (35.28 percent) share and excise tax plus sales tax plus motor vehicle license tax share ( 37.80 percent) share are high but the property tax share (at 23.75 percent) is below the U.S. average as shown in Chart 1.

**Chart 1. 2006 Minnesota State & Local Tax Portfolio Compared to the US Average**



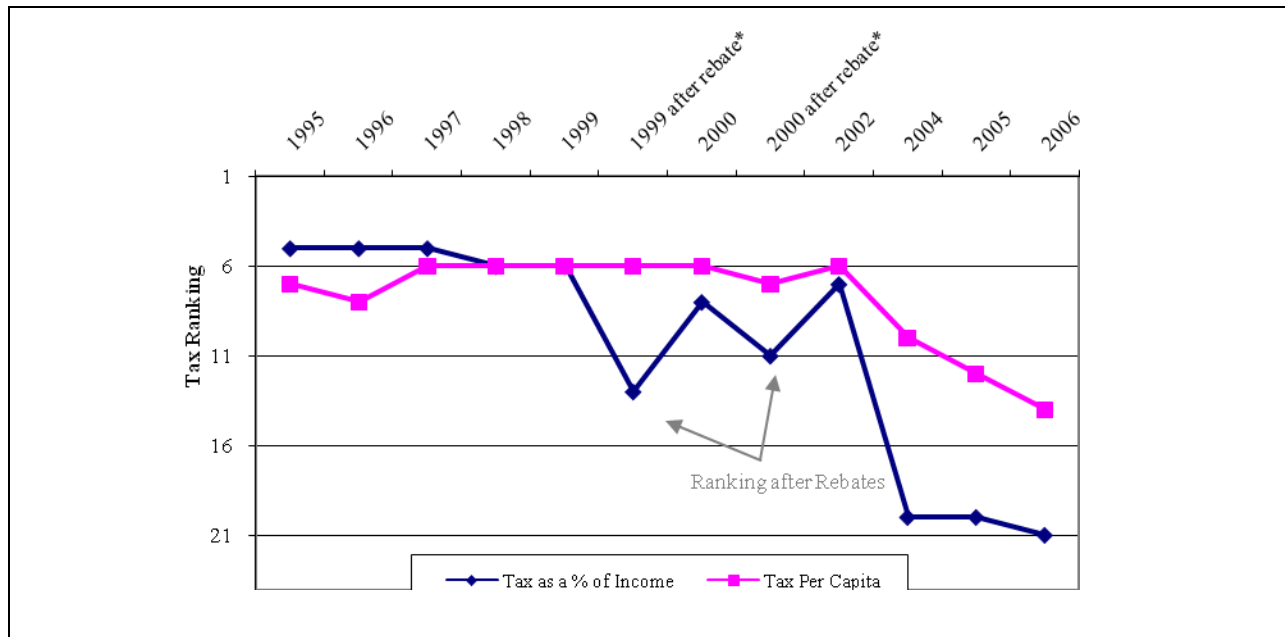
<sup>5</sup> As shown in Table 1, excise taxes include Motor Fuels, Alcoholic Beverage, Tobacco Products, Public Utilities, Pari-Mutuels, Amusements, Insurance Premiums.

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

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

Between 1995 and 2002, Minnesota's rankings for both measures, percent of personal income and tax per capita, were in the top ten, except in 1999 and 2000 when sales tax rebates were issued. After 2002, the rankings dropped, as shown in Chart 2.

**Chart 2. Minnesota State & Local Tax Rankings, 1995 to 2006**



<sup>1</sup> Property tax rebates in 1997 and 1998 show up in the data as a reduction in income taxes, but the sales tax rebates of 1999, 2000, and 2001 are not accounted for in the Census data. Instead, taxes include sales tax before rebates. The numbers in this table are adjusted to correct for this distortion.

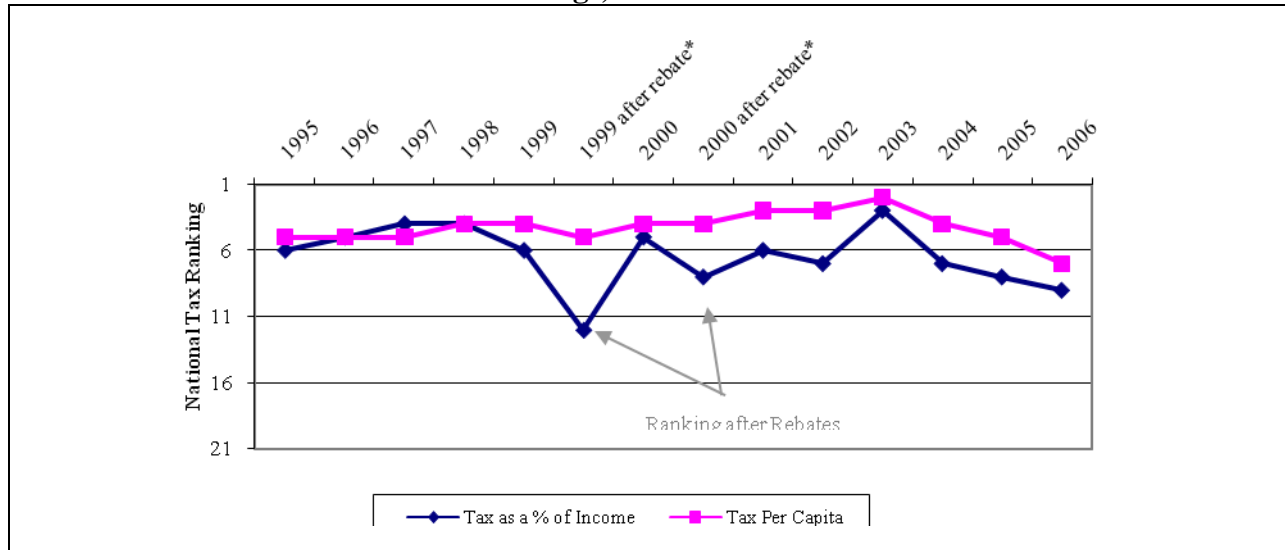
In 2006, Minnesota ranked 21<sup>st</sup> highest in total state and local taxes as a percentage of income and 14<sup>th</sup> highest in total state and local taxes per capita. At 11.8 percent of state personal income, Minnesota was 0.85 percent higher than the national average (11.7 percent of personal income). State and local taxes per capita (\$4,367) exceeded the national average (\$4,001) by 9.0 percent. In summary, these 2006 state and local rankings for total taxes indicate that Minnesota

is no longer at the top of the rankings for this category but still above the national average for state and local tax burden per capita and state and local tax burden as a percentage of income.

**Results for State-only Total Taxes.**

State-only rankings for Minnesota will generally be higher than rankings for state and local taxes combined since Minnesota collects more of its total state and local taxes at the state level. As Chart 2-1 shows, between 1995 and 1998, for example, Minnesota's tax rankings and related measures for state only taxes were within or near the top five. After 1999, with the sales tax rebates of 1999 and 2000, the trend line for tax as a percent of income fell compared to the measure for tax per capita. After 2003, state tax ranking measurements began to drop. In 2006, Minnesota ranked 9<sup>th</sup> highest in total state taxes as a percentage of income and 7th highest in total state taxes per capita. At 9.1 percent of state personal income, Minnesota was 32 percent higher than the national average (6.9 percent of personal income). Total state taxes per capita (\$3,365) exceeded the national average by 41 percent. Minnesota's share of state collected taxes and how it affects tax rankings is also discussed in question 7 of this document.

**Chart 2-1. Minnesota State Tax Rankings, 1995-2006**



<sup>1</sup> The property tax rebates in 1997 and 1998 show up in the data as a reduction in income taxes, but the sales tax rebates of 1999, 2000, and 2001 are not accounted for in the Census data. Instead, taxes include sales tax before rebates. The numbers in this table are adjusted to correct for this distortion.

## 5. Which Minnesota taxes are ranked the highest?

Of the five major taxes in Minnesota's revenue portfolio, state and local individual income taxes and corporate franchise taxes ranked the highest. Table 2 shows Minnesota's 2006 tax rankings for: (1) state and local taxes; and (2) state only taxes. For each grouping, tax rankings are displayed for total taxes and by tax type.

**Table 2. 2006 Minnesota Tax Rankings in Detail Overall and by Tax Type**

	<b>2006 State &amp; Local Taxes</b>	
	Tax as a % of Income	Tax Per Capita
Total Taxes	21	14
Individual Income Taxes	8	8
Corporate Income Taxes	14	11
Total General Sales		
General sales tax only <sup>6</sup>	36	23
General sales tax + MVST	28	20
Property Taxes	35	28
	<b>2006 State Taxes</b>	
	Tax as a % of Income	Tax Per Capita
Total Taxes	9	7
Individual Income Taxes	8	8
Corporate Income Taxes	12	10
Total General Sales		
General sales tax only	22	17
General sales tax + MVST	18	9
Property Taxes	9	8

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

In 2006, Minnesota was in the top ten for individual income tax burden both as a percentage of income and in terms of taxes per capita. Minnesota ranked 8<sup>th</sup> highest in state and local individual income tax burden as a percentage of income and 8<sup>th</sup> highest in state and local individual income taxes per capita. At 3.6 percent of state personal income, Minnesota was 38 percent higher than the national average (2.6 percent of personal income). State and local income taxes per capita (\$1,332) exceeded the national average (\$899) by 48.1 percent.

<sup>6</sup> General Sales Tax Rankings excluding MVST were computed by Minnesota House of Representatives Fiscal Staff, September 2008 for Table 4.

Local governments do not levy income taxes in Minnesota, but 13 states reported local income tax revenue in 2005.

Table 2-1 and Table 2-2 compare the tax rankings for individual income tax and corporate income taxes for state and local taxes combined and state only taxes in FY2006 with the rankings for these two tax types in neighboring states. Minnesota's rankings for individual income tax and corporate income tax are in the top ten or very close to it in most cases.

**Table 2-1. 2006 Individual Income Tax Rankings: Minnesota and Neighboring States**

		Ratio	Rank	% of National Average*	% of State Average*	Rank for Neighboring States			
						IA	ND	SD	WI
2005 State & Local	Dollars Per Capita	\$1,332	8	148.2%	122.5%	27	42	--	15
	% of Personal Income	3.6%	8	138.4%	112.5%	30	42	--	16
2006 State Only	Dollars Per Capita	\$1,333	5	161.9%	133.3%	24	41	--	13
	% of Personal Income	3.6%	4	150.1%	124.1%	26	41	--	12

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

**Table 2-2. 2006 Corporate Franchise Income Tax: Minnesota and Neighboring States**

		Ratio	Rank	% of Nat'l Average	% of State Average	Rank for Neighboring States			
						IA	ND	SD	WI
2005 State & Local	Dollars Per Capita	\$208	11	117.3%	104.5%	41	14	45	25
	% of Personal Income	0.6%	14	120.0%	100.0%	41	12	46	29
2006 State Only	Dollars Per Capita	\$208	10	130.9%	116.2%	24	13	44	24
	% of Personal Income	0.6%	12	120.0%	150.0%	39	10	45	28

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

## 6. Which Minnesota taxes are not ranked as high?

At the other end of the spectrum, Minnesota ranks lower for state and local general sales taxes and property taxes. For these two major taxes, Minnesota state and local tax rankings are not in the top ten and the measures for these rankings (per capita, percent of personal income) are closer to the national average. (State only rankings for these tax types are still within the top ten).

Table 3-1 and Table 3-2 show tax rankings for sales and use tax and property tax for state and local taxes and state-only taxes. Both tables show data for FY 2006.

**Table 3-1. 2006 Sales & Use Tax: Minnesota and Neighboring States**

		Ratio	Rank	% of National Average	% of State Average	Rank for Neighboring States			
						IA	ND	SD	WI
2005 State & Local	Dollars Per Capita	\$979	20	102.0%	99.6%	35	23	12	34
	% of Personal Income	2.7%	28	96.4%	93.1%	34	19	11	35
2006 State Only	Dollars Per Capita	\$966	9	124.8%	121.9 %	37	23	15	25
	% of Personal Income	2.6%	18	113.0%	113.0%	33	20	15	27

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

**Table 3-2. 2006 Property Tax: Minnesota and Neighboring States**

		Ratio	Rank	% of Nat'l Average	% of State Average	Rank for Neighboring States			
						IA	ND	SD	WI
2005 State & Local	Dollars Per Capita	\$1,037	28	86.2%	Same	22	32	33	12
	% of Personal Income	2.8%	35	80.0%	Same	21	27	29	9
2006 State Only	Dollars Per Capita	\$123	8	312.0%	221.4%	-	30	-	19
	% of Personal Income	.3%	9	300%	150.0%	-	31	-	19

**\*NOTE: Percent of national average includes all states (even those without the tax). Percent of state average includes only those states with the tax. Also, Iowa and South Dakota do not collect property taxes at the state level and are not ranked.**

Minnesota's tax rankings are lower for measures that include own source revenue and intergovernmental revenue (These are the revenue sources listed in column 2 and column 3 of table 1). Tables 3-3 to 3-4 show these rankings for state and local taxes combined with other state and local own source revenue and intergovernmental revenue.

The measure of state and local own source revenue includes state and local taxes *and* charges and miscellaneous general revenue. In 2006, for this measure, Minnesota ranked 25<sup>th</sup> highest (16.9 percent) as a percentage of income and 11<sup>th</sup> highest (\$6,247) in taxes per capita. At 16.9 percent of personal income, Minnesota was at the national average. State and local per capita (\$5,338) scored above the national average by 10 percent, as shown in Table 3-3.

**Table 3-3. State and Local Own-Source Revenue**

		Ratio	Rank	% of Nat'l Average	Rank for Neighboring States			
					IA	ND	SD	WI
State & Local	Dollars Per Capita	\$6,247	11	107.6%	31	22	51	24
	% of Personal Income	16.9%	25	100.3%	20	25	50	23

This measure for state and local total general revenue is inclusive of all state and local taxes; state and local own source revenue, and intergovernmental revenue. In 2006, Minnesota ranked 33<sup>th</sup> highest (20.7%) in state and local general revenue and 17<sup>th</sup> highest (\$7,646) in dollars per capita. At 20.7 percent of personal income, Minnesota was 3 percent below the national average but 4.4 percent above that national average for total general revenue per capita. (See table 3-4)

**Table 3-4. State and Local General Revenue**

		Ratio	Rank	% of Nat'l Average	Rank for Neighboring States			
					IA	ND	SD	WI
State & Local	Dollars Per Capita	\$7,646	17	104.4%	27	16	45	29
	% of Personal Income	20.7%	33	97.1%	24	11	42	29

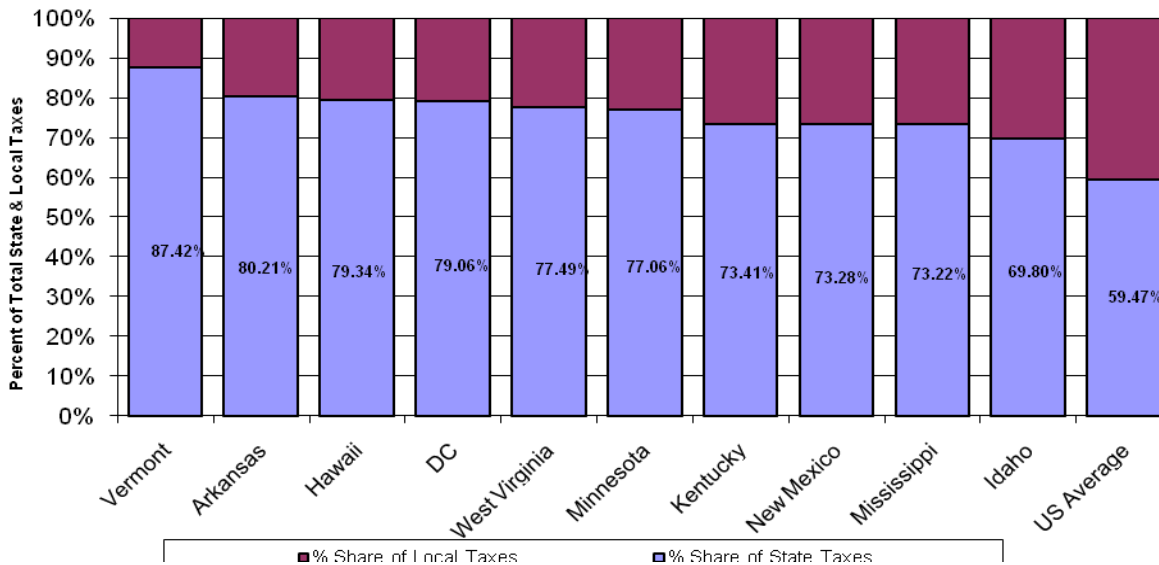
## 7. What are some caveats to consider when evaluating tax rankings?

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

As shown in the Chart 3 below, states differ greatly in how they allocate responsibilities between the state and local levels of government. This makes rankings based on state taxes alone (or local taxes alone) potentially misleading. In FY 2006, two states (Vermont and Arkansas) raised more than 80.2 percent of total state and local tax revenue at the state level while four others (Texas, New York, New Hampshire and Colorado) raised less than half at the state level. Comparing the state tax burden in these two groups of states might result in inaccurate conclusions about overall tax burdens. For the United States as a whole, an average of 59.47 percent of state and local tax revenue was raised at the state level.

**Chart 3. Top Ten States with the Highest Share of State Taxes**

Source: US Census, State & Local Government Finances by Level of Government and by State, FY 2004



Minnesota's share of state-only taxes is high, so Minnesota's rankings based on *state taxes alone* are generally higher than rankings based on *state and local taxes combined*. In FY 2006, Minnesota state taxes accounted for 77.1 percent of the total, while local governments (including school districts) accounted for 22.9 percent. Minnesota's share of state taxes is about 30 percent above the national average.

Tax rankings for individual tax types also differ greatly depending on whether the rankings include local taxes as well as state taxes. For example, Minnesota has no local income taxes, but a few states collect significant amounts of income tax at the local level. Similarly, Minnesota uses local sales taxes only sparingly, while many states raise a large share of local tax revenue from local sales taxes.

Unfortunately, state-specific and up-to-date measures of local tax collections are difficult to obtain. State tax collections are available on a more-timely basis. *It is tempting to use the newer (state-only) revenue data, despite the incomplete picture that data presents.*

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

Per capita income varies considerably among the states, from a low of \$25,280 in Mississippi to a high of over \$47,805 in Connecticut. The national average per capita income is \$34,319.

Minnesota is a high-income state with a per capita income of \$36,915. In 2006, Minnesota scored the 11<sup>th</sup> highest per capita income in the nation. Minnesota's per capita income exceeds the national average by 7.5 percent. If revenues or expenditures are measured in dollars per capita, Minnesota's rank largely reflects Minnesota's high income.

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

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

For total state and local taxes, Minnesota ranked 21<sup>st</sup> for taxes as a percent of income. In comparison, Minnesota ranks 25<sup>th</sup> for state and local own-source revenue (taxes plus fees) and 33<sup>st</sup> for total general revenue (taxes, fees, intergovernmental revenue) as a percent of income.

For total state and local taxes per capita, Minnesota ranked 14<sup>th</sup>, For state and local own source revenue per capita and total general revenue per capita, Minnesota ranked 11<sup>th</sup> and 17<sup>th</sup> respectively.

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

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

## 8. Are there other reports on tax rankings?

**The Tax Foundation.** This organization publishes annual state and local “tax burden” rankings by state. Their results are used in calculating each year’s “tax freedom day” for each state. Here are some examples of how the Tax Foundation rankings differ from those using Census data:

- The Tax Foundation uses calendar years rather than fiscal years.
- The Tax Foundation uses a different measure of income (net national product rather than income).
- The Tax Foundation estimates *tax burden on a state’s residents* rather than simply using each state’s tax *collections*. They adjust the tax collection data by assuming that some of each state’s taxes on minerals (severance taxes), corporate income, and tourism are exported to residents of other states. So each state’s *tax burden* is either larger or smaller than a state’s tax collections.
- The Tax Foundation forecasts both state and local tax collections, rather than using historical data. This allows them to release their annual rankings in April of each calendar year, subject to revision based on actual collections.
- The Tax Foundation also estimates the total burden of *federal*, state, and local taxes as a percent of income in each state.

Due to these differences, the Tax Foundation rankings vary quite a bit from those based on Census tax collections data. This can be seen by comparing the 2006 Tax Foundation rankings to the 2006 Census rankings (measured as percentage of income). The total U.S. tax burden reported by the Tax Foundation was ranked 11<sup>th</sup> or slightly lower than that reported by the Census. One reason for this difference may be due to the usage of net national product by the Tax Foundation. Net national product slightly exceeds the income measure used in the Census rankings (personal income).<sup>7</sup>

**Minnesota Department of Finance (Price of Government).** The Minnesota Department of Finance also publishes a document called the Price of Government. Price of government is a measure of the cost of all general government services statewide. Similar to the rankings computed by the US Department of Commerce, the price of government is a ratio of the revenues generated by state and local governments (including school districts) for each fiscal year relative to personal income. The result is stated as a percentage of personal income. The price of government data is unlike other rankings data because: (1) it focuses only on Minnesota and does not include national comparisons; (2) it includes a different mix of taxes than the rankings data in the computation of revenues to personal income (excluding state and local utility revenue); and (3) it compares the same year for tax revenues to personal income.

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<sup>7</sup> Net national product exceeded U.S. personal income by between 2 percent and 6 percent over the five years between 1999 and 2003. The Tax Foundation claims it is a better measure of “the income that is available to taxpayers for the payment of taxes.” Net national product includes corporate retained earnings, which are excluded from personal income. However, it excludes all transfer payments received from government (such as social security, unemployment compensation, and welfare). The choice of measure of income makes little difference in the rankings.

**The Minnesota Taxpayer's Association (MTA) Reports.** MTA also publishes a tax ranking document called "How Does Minnesota Compare?" Similar to the Department of Revenue's rankings, the MTA uses US Department of Commerce data for its tax collections and expenditure rankings and publishes these rankings based on a per capita amount and per \$1000 of income (which is the same as a percentage of income multiplied by \$1,000). At times, the rankings published by MTA differ slightly from the rankings published by the Minnesota Department of Revenue for two reasons: first, MTA does not adjust general sales tax for Minnesota and six other states to include MVST revenue; and, second, MTA uses a different release date for the personal income data published by the US Department of Commerce. MTA uses the August 2006 revision of the previous year's 2005 personal income. The Minnesota Department of Revenue uses most recent updates of personal income data for the year under consideration.

Tax rankings based on aggregate tax collections are a measure for decision makers to assess the state's overall aggregate cost of public services compared to other states. The one thing that decision makers are not able to access with these tax collection rankings is the distribution of the tax burden on taxpayers with different incomes. There are other sources for such incidence information, including a report called "Individual Income Tax Burdens for 2006, (March-April 2007) and "A 50-state Property Tax Comparison Study (2006)."

Other studies by Rick Mattoon and Wiliam Testa from the Federal Reserve Bank of Chicago estimated the relationship of state and local business taxes to estimated business benefits. Their analysis categorized states based on a ratio range 2.0 to greater than 5.9. For 2005, Mattoon and Testa computed the ratio of business taxes to business expenditures and found that, on average, businesses paid 3.7 times more in state and local business taxes to benefits received. One caveat about this ratio is that it is sensitive to the amount of state and local expenditures assumed to benefit businesses such as education. In Mattoon and Testa's current methodology, the assumption is that educational expenditures directly benefit *households* in the form of higher wages, rather than directly benefiting businesses. If educational expenditures and the amount of educational benefits assumed to benefit businesses is increased to 50 percent (50 percent households/ 50% percent), based on Mattoon and Testa's analysis, the US average falls from 3.7 to 1.25. In this study, Minnesota had a ratio of 4.5 for business tax to business expenditures.

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

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

**Table 4 – FY 2006 Tax Rankings Data - High and Low State and Local Tax Rankings compared to Minnesota**

<i>State &amp; Local Tax Rankings</i>	<i>State</i>	<i>Per Capita</i>		<i>State</i>	<i>% Income</i>	
		Rank	Ratio		Rank	Ratio
Total Taxes						
	DC	1	\$7,703	Wyoming	1	16.0%
	Alabama	51	\$2,782	South Dakota	51	8.9%
	<i>Minnesota</i>	<i>14</i>	<i>\$4,367</i>	<i>Minnesota</i>	<i>21</i>	<i>11.8%</i>
Income Tax						
	DC	1	\$2,088	DC	1	3.9%
	Tennessee	44	\$32	Tennessee	44	0.1%
	<i>Minnesota</i>	<i>8</i>	<i>\$1,332</i>	<i>Minnesota</i>	<i>8</i>	<i>3.6%</i>
Corporate Tax						
	Alaska	1	\$1,208	Alaska	1	3.4%
	Missouri	47	\$62	Missouri	47	0.2%
	<i>Minnesota</i>	<i>11</i>	<i>\$208</i>	<i>Minnesota</i>	<i>14</i>	<i>0.6%</i>
Sales Tax						
	Washington	1	\$1,854	Louisiana	1	6.0%
	Alaska	47	\$252	Alaska	47	0.7%
	<i>Minnesota</i>	<i>20</i>	<i>\$979</i>	<i>Minnesota</i>	<i>28</i>	<i>2.7%</i>
Property Tax						
	New Jersey	1	\$2,370	New Hampshire	1	5.7%
	Alabama	51	\$420	Alabama	51	1.4%
	<i>Minnesota</i>	<i>27</i>	<i>\$1,037</i>	<i>Minnesota</i>	<i>35</i>	<i>2.8%</i>

## 10. Do tax rankings indicate a state's competitiveness?

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

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**Appendix A: 2005 Personal income data (dollars in thousands) as 9/20/07**

Appendix A: 2005 Personal Income (dollars in thousands) as of September 18, 2008 from the Bureau of Economic Analysis (BEA) at <http://www.bea.gov/regional/spi/>.

	<u>2005 personal income</u>
Alabama	133,738,631
Alaska	24,123,055
Arizona	182,564,435
Arkansas	74,859,595
California	1,342,832,396
Colorado	175,365,664
Connecticut	167,077,998
Delaware	30,834,023
District of Columbia	31,874,543
Florida	614,408,462
Georgia	284,216,049
Hawaii	44,111,628
Idaho	40,852,558
Illinois	463,116,898
Indiana	191,136,891
Iowa	93,211,495
Kansas	88,107,321
Kentucky	116,909,945
Louisiana	110,813,966
Maine	40,379,638
Maryland	232,930,967
Massachusetts	278,734,060
Michigan	325,290,198
<b>Minnesota</b>	<b>190,296,195</b>
Mississippi	73,286,761
Missouri	180,511,998
Montana	27,521,224
Nebraska	57,535,700
Nevada	90,022,387
New Hampshire	48,673,618
New Jersey	376,825,655
New Mexico	53,376,542
New York	788,644,603
North Carolina	268,543,386
North Dakota	20,054,319
Ohio	362,701,490
Oklahoma	106,744,584
Oregon	114,392,624
Pennsylvania	429,505,764
Rhode Island	37,876,045
South Carolina	120,219,609
South Dakota	25,095,825
Tennessee	183,744,539
Texas	758,434,790
Utah	69,744,105
Vermont	20,275,372
Virginia	286,440,495
Washington	226,576,222
West Virginia	47,541,663
Wisconsin	181,163,246
Wyoming	19,609,823
<b>United States</b>	<b>10,252,849,000</b>

**Appendix B: 2006 State & Local Rankings, Rankings published by the MN Department of Revenue as of September 2008.**

These rankings can be found at:

[http://www.taxes.state.mn.us/taxes/legal\\_policy/research\\_reports/tax\\_rankings.shtml](http://www.taxes.state.mn.us/taxes/legal_policy/research_reports/tax_rankings.shtml). Rankings from the Minnesota Department of Revenue are subject to change due to updated tax or income data.