



## Minnesota Budget Project

An Initiative of the Minnesota Council of Nonprofits

# 1999 Minnesota Tax Cuts: How Much and For Whom?

The 1999 Minnesota Legislature passed a tax bill that contained \$1.4 billion in income tax relief and a \$1.3 billion rebate. The income tax cuts include rate reductions in all three income tax rates: from 6.0% to 5.5%, 8.0% to 7.25%, and 8.5% to 8.0%. A marriage penalty credit was introduced to reduce the taxes of the approximately half of married couples who pay more in taxes under federal and state tax rules than they would if they were not married. In addition, \$12.1 million was provided for the 2000-2001 biennium to provide expanded tax relief for low-income working families through the Working Family Tax Credits. In the 1999 tax year, eligible families will receive credits that are an average of 10% higher. The income tax changes were designed particularly to help middle-income families and married couples, and they receive the largest percentage cuts.

A sales tax rebate of \$1.3 billion was also enacted. The rebate returns 69% of the sales taxes paid in 1997. The rebate was returned automatically to taxpayers based on an estimate of what a family with that particular income and filing status would have paid in sales tax.

Estimated outcomes for various families are as follows:

| <b>Family type<br/>and federal adjusted gross income</b> | <b>Dollar amount<br/>income tax<br/>reduction</b> | <b>Percentage<br/>income tax<br/>reduction</b> | <b>Estimated Sales<br/>Tax Rebate</b> |
|--|---|--|---------------------------------------|
| \$10,000 income  |   |  |                                       |
| • Married couple, 2 dependents                           | \$76  | 10%  | \$371                                 |
| • Head of household, 1 dependent                         | \$44  | 9.6%   | \$371                                 |
| • Single filer, no dependents                            | \$15  | 8.4%   | \$258                                 |
| \$25,000 income  |   |  |                                       |
| • Married couple, 2 dependents                           | \$67  | 80%*   | \$521                                 |
| • Head of household, 1 dependent                         | \$73  | 10.5%  | \$569                                 |
| • Single filer, no dependents                            | \$92  | 8.4%   | \$481                                 |
| \$50,000 income  |   |  |                                       |
| • Married couple, 2 dependents                           | \$309   | 17.8%  | \$716                                 |
| • Head of household, 1 dependent                         | \$198   | 8.8%   | \$790                                 |
| • Single filer, no dependents                            | \$229   | 9%   | \$591                                 |
| \$100,000 income   |   |  |                                       |
| • Married couple, 2 dependents                           | \$601   | 12.4%  | \$1,111                               |
| • Head of household, 1 dependent                         | \$491   | 9.1%   | \$1,205                               |
| • Single filer, no dependents                            | \$475   | 8.2%   | \$994                                 |
| \$500,000 income   |   |  |                                       |
| • Married couple, 2 dependents                           | \$2,454   | 7.4%   | \$3,608                               |
| • Head of household, 1 dependent                         | \$2,166   | 6.5%   | \$3,608                               |
| • Single filer, no dependents                            | \$2,105   | 6.3%   | \$2,577                               |

\* This percentage may seem surprising, but it should be taken in context, as the dollar amounts involved are not large. This family receives a net \$84 credit in 1998 and a net \$151 credit in 1999, for an increase of \$67. \$67 is 80% of \$84.

Assumptions: Families have the same income in 1997 and 1999. Families making under \$50,000 claim the standard deduction and families making \$50,000 or more claim itemized deductions of 22% of gross income. Families receive the Working Family Credit when eligible.

*Thanks to Family & Children's Service for assistance in the initial preparation of this fact sheet. The data about income tax reductions was determined by the Minnesota House of Representatives Research Department.*