



**Minnesota should rise to  
meet the challenges of our times**

### **Why income tax increases on high-income households make sense**

- A tax increase focused on those with the most resources would allow Minnesota to rise to the challenges of our times.
- Our state and nation have seen a growing income gap and greater concentration of wealth, which is being made worse by the unequal impact of the recession. Soaring stock prices and property values have helped increase assets for those who already had the means to possess them.
- The 2017 federal tax bill provided the largest benefits to high-income households and corporations, which they continue to benefit from today.
- The income tax is the state's major progressive tax; it is based on ability to pay, and an increase can be focused on those Minnesotans with the highest incomes.
- An income tax increase focused on high-income Minnesotans would reduce racial inequality in the tax code.
- Minnesota has used this strategy before. The "4<sup>th</sup> tier" income tax bracket was created as part of a progressive tax reform package in 2013 that ended a decade of frequent budget deficits, and funded investments such as expanding all-day kindergarten, early childhood education opportunities, and making college more affordable.
- Despite what some argue, raising top income tax rates does not harm state economies, and differences in state top tax rates have little impact on a state's economic growth.
- Research shows that taxes and tax increases have little impact on high-income people's decisions about where to live.

### **How would it work and what's being considered?**

- The state's income tax applies to taxable income, which is a household's income after subtracting various exemptions and deductions.

- The state currently has four income tax brackets. For example, a married couple with \$100,000 in taxable income would pay 5.35 percent income tax on \$39,810 of their taxable income, and 6.80 percent on the remainder.

Minnesota income tax brackets			
	Married Filing Joint	Head of Household	Single
5.35 percent	\$0 - \$39,810	\$0 - \$33,520	\$0 - \$27,230
6.80 percent	\$39,810 - \$158,140	\$33,520 - \$134,700	\$27,230 - \$89,440
7.85 percent	\$158,140 - \$276,200	\$134,700 - \$220,730	\$89,440 - \$166,040
9.85 percent	Over \$276,200	Over \$220,730	Over \$166,040

- Policymakers have several options available for raising income taxes on high-income households, such as increasing the rate on the current top bracket, creating an additional 5<sup>th</sup> bracket or “millionaires tax” bracket on the very highest-income Minnesotans, or an additional tax on large amounts of capital gains.
- Depending on how the tax bracket and rate is determined, the state could raise hundreds of millions of dollars to fund schools, health care, and other public services and build a more equitable recovery.
- In his January budget proposal, Governor Tim Walz proposed a new 5<sup>th</sup> income tax bracket. It would apply a tax rate of 10.85 percent on taxable income above \$1,000,000 for married filers, above \$750,000 for head of household filers, and above \$500,000 for single filers. About 21,000 households – less than 1 percent of all taxfilers – would be subject to this new tax bracket. **The proposal would raise an estimated \$170 million in 2021.**
- The governor’s January budget also proposed an additional income tax surcharge on large amounts of long-term capital gains and qualified dividend income. It would apply a 1.5 percent rate on capital gains income from \$500,000 to \$1,000,000, and 4 percent on capital gains income over \$1,000,000. **About 6,800 households would be subject to this tax, which is estimated to raise over \$200 million a year.**

*Together We Rise is a public policy campaign coordinated by the Minnesota Council of Nonprofits and the Minnesota Budget Project.*