

LABOR MANAGEMENT COMMITTEE  
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TCAL0057412

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MEMORANDUM

FROM: Caleb Marshall  
TO: Debbie Schoonmaker  
RE: More Media Coverage of Minnesota CTJ Press Conference  
May 10, 1989

I have enclosed three additional clippings from Minnesota. One is an editorial that was run by Minnesota Suburban Newspapers, a multiple publisher whose releases cover some 18 papers and have a statewide circulation of around 500,000. While it doesn't cite the CTJ study directly, it uses the same statistics and arguments.

The Post News article was run the following week in the same 18 newspapers. The third piece appeared in a labor newspaper with a circulation of 40,000.

I think the coverage of the event itself has by now run its course, but clearly the CTJ study has become a significant reference point in the debate over the Minnesota state tax code.

cc: Beth Bring  
Brennan Dawson  
Carol Hrycaj  
Richard Marcus  
Jim Savarese  
Susan Stuntz

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## State tax system needs more equity

A tax credit that is taken away rarely returns. The same is true that when a new tax is created, rarely is it repealed. However, as the predicted property tax revolt continues to build momentum, hopes are held out for continued reform in the state's tax system.

The income tax system needs further reform if it is to accomplish equity based on a person's income and ability to pay. This is especially true for middle-income persons who are being squeezed right now. However any reform attempts would be rendered irrelevant if the Legislature creates new taxes to raise revenue. Raising revenue through taxes other than income taxes has a regressive effect on the middle-income segment of the population.

To the credit of the governor and legislative leaders, property tax reform for middle-income persons has received priority status. However, the irony is if legislators also pass a gas tax index, a tax on charitable gambling and a tax on garbage, they will obliterate any tax relief for middle-income persons.

Minnesota is on its way to reducing overall taxes. But lawmakers have much to do before it can claim significant reform. There are still areas where the state ranks at or near the top nationally.

For one thing, families making \$25,000 a year pay the same percentage of income in taxes as do families earning more than \$700,000 annually. The system is also unfair because it taxes rental property owners and thus renters with the heaviest taxes of their kind in the nation.

Legislators need to keep the needs of middle income taxpayers at the forefront of their agenda in the closing weeks of this session. There will be many distractions. But they need to remain focused on reform for this segment of the population or risk an even wider gap in inequities.

## Middle-income families squeezed by disproportionate tax burdens

By John Rajkowski

Middle-income families still pay more than their fair share of taxes and it's up to legislators to give them relief, a tax lobby group said recently.

Minnesota Citizens for Tax Justice director Wayne Cox released a study last week indicating the state has made progress in tax reform since 1985. However, income and property tax burdens continue to mount for moderate- and middle-income families, according to Cox.

These families have annual incomes of \$25,000 to \$33,200. (See chart.)

"That means," Cox said, "there has been less of a cushion to soften the blows of recent property tax increases for these families."

House and Senate leaders are beginning to line up behind Gov. Rudy Perpich who has in recent weeks been pushing for tax relief for owners of middle-valued homes and rental properties. Perpich recommended the bulk of the \$220 million in new state money announced in the March reve-

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nue forecast should go to directly aid these groups.

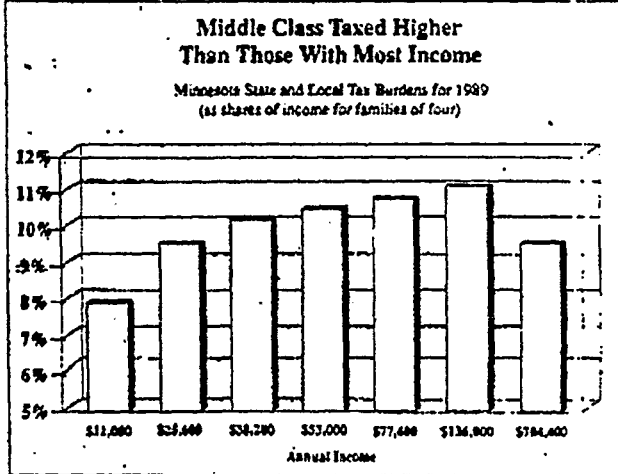
But the tax group's goes further in its recommendations.

It also recommends that the Legislature fully restore rent credit and homeowner circuit breaker refunds which have been gutted or eliminated in the past few years.

If these were restored, Cox predicted, families hardest-hit by double-digit property tax increases would be helped the most.

He said \$30 million in relief would be needed to restore the cuts. "Most of the money would go for those in the \$30,000 to \$40,000 income range," Cox said.

Most of the governor's tax proposals this season, Cox said, "take a much bigger bite out of ordinary people's pockets. We don't think that's the way to raise revenue. We think the best way is to raise



Source: Minnesota Citizens for Tax Justice

taxes for those making \$700,000 per year."

He said families making \$25,000 a year pay the same percentage of income in taxes as do families earning more than \$700,000 annually. "That outrage needs to be corrected."

Cox said his group will be meeting with leaders of the House and Senate this week to push its proposals.

"I think it will be fairly well received on both sides of the aisles. What we are most concerned about is if you are going to raise revenue, don't use taxes that take the biggest

bite out of middle-income families. Do it with those with the most income."

Cox said families earning \$700,000 a year pay 1 percent; to 1.5 percent less of their incomes for property tax than any other group. In fact, Cox said, families making \$25,000 a year pay a higher share of income in property tax than any other group.

To correct these inequities, the group wants the state to use a "five-tier" rating system instead of what is basically a two-tier system now. This would remove the squeeze now felt by middle-income families, Cox added.

# State must ease tax burden for middle class, MCTJ says

ST. PAUL — Minnesota's state tax system is substantially more fair in 1989 than in 1985. However, income and property tax burdens continue to mount on moderate- and middle-income families, according to a new report by Minnesota Citizens for Tax Justice entitled *Making Progress: Minnesota's Tax System Since 1985*.

The study, which examined the impact of income, property, sales and excise taxes at seven different income levels, found that:

- Four years ago, Minnesota taxes were relatively unfair. Families living below the poverty line paid 7.8 percent of their income in taxes while families with 60 times more income paid only 6.6 percent.

- In 1989, however, the state of income paid by families living below the poverty line decreased to 7.7 percent while the richest families in Minnesota are now contributing a much higher share of 9.6 percent.

"Minnesota state legislators deserve a congratulatory pat on the back for their role in making the tax code fairer," said Wayne Cox, executive director of Minnesota Citizens for Tax Justice (MCTJ). "By adopting the changes made by the Federal Tax Reform Act of 1986, state lawmakers eliminated many of the loopholes that the rich used to shelter their incomes from taxes."

"But," cautioned Cox, "we need to make our tax system even fairer. Right now, families making \$25,000 a year pay the same percentage of income in taxes as do families earning over \$700,000 annually. That outrage needs to be corrected."

The study also showed that many of the recent tax changes have hurt moderate- and middle-income families. Specifically:

- For families making \$25,000 a year, income taxes have increased from 2.5 per-

cent of income in 1987 to 2.7 percent in 1989. Over the same period, however, income taxes as a share of income for all other groups have remained about the same or have decreased.

- Property taxes on moderate-income families have increased continually since



MCTJ Director Wayne Cox fields questions at a news conference.

1985. In fact, families making \$25,000 a year pay a higher share of income in property tax than any other group.

Renters have been hit especially hard by recent tax changes. While other renters have experienced a net decrease in property taxes as a share of income, families making \$25,000 and \$38,000 a year have seen their taxes skyrocket 25 percent and 20 percent, respectively.

"It's quite clear that the tax changes since 1987 have put the squeeze on moderate- and middle-income families," Cox said.

According to Cox, the squeeze comes from two sources: the income tax and the circuit breaker/renters' credit program. "In 1988, Minnesota changed from a four-rate income tax schedule to a two-rate system. This resulted in reduced tax burdens for almost everyone but moderate-income families — they were squeezed into a tax bracket with a higher marginal rate.

"Similarly, when the legislature made cutbacks in the property tax refund program, benefits were squeezed away from moderate- and middle-income families and toward the lowest income groups."

"If Minnesota is going to improve its tax system," Cox said, "then the burdens on working families have to be reduced."

To improve Minnesota's tax system, the study makes the following recommendations:

- **Income taxes:** To give much-needed relief to moderate- and middle-income families, Minnesota should adopt a five-rate income schedule that has a lower marginal rate on the first several thousand dollars in taxable income. If additional revenue is needed, legislators should consider first increasing the top marginal income tax rate. Though an increase in the marginal rate would boost state tax burdens for wealthier families, close to a third of this increase will be offset by reduced federal income taxes.

- **Sales and excise taxes:** Any type of consumption tax is by nature regressive, hitting hardest those families with the least ability to pay. Minnesota lawmakers should avoid increasing these taxes.

- **Property taxes:** Funding for the property tax refund program should be restored to its pre-1987 level.

## UNION ADVOCATE

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