

Citizens lobby seeks more taxes on rich

By BILL McALLISTER

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ST. PAUL — The Legislature should increase the number of income tax brackets from two to five and perhaps use the resulting \$94 million in increased revenue to offset the burden of other taxes on low- and moderate-income Minnesotans, says a citizens lobbying group.

Minnesota Citizens for Tax Justice called Thursday for a continuing effort to provide "progressivity" in the taxing structure. Progressive taxes are those that require wealthy Minnesotans to pay a higher percentage of their income, while regressive taxes put more of a burden on the poor and middle class.

Wayne Cox, the group's executive director, said in a news conference at the State Office Building that he didn't really expect the Legislature to go along with an overhaul of income taxes, given the election next year for governor and all 201 legislative seats. Key lawmakers have said there will be no income tax increase this year.

But Cox said he did have realistic hopes that lawmakers would restore the renter's credit and the property tax relief program for low- and moderate-income homeowners to their pre-1987 funding levels, a cost he estimated at \$30 million. Lawmakers have talked about providing up to \$300 million in property tax relief.

Citizens for Tax Justice was formed in the late 1970s in reaction to tax-cut fever in California. Since then, it has gained attention for attacking major corporations that don't pay any taxes.

The group's annual analysis on Minnesota taxes found the state structure more progressive since 1985 but less so since 1987.

Cox took a slap at "millionaire CEOs" in the Minnesota Business Partnership, which recently launched a statewide advertising campaign to "put a cap on state spending."

Those executives "pay a smaller percentage in state and local taxes than the people who run their machines and sell their computers. We don't think that's fair," Cox said. "Those earning \$700,000 a year are paying a smaller rate than those earning \$30,000 and \$40,000."

Last year, Minnesotans at the poverty level paid 7.7 percent of their income for taxes, he said. "We did take them off the income tax rolls, but we still sock them with sales taxes, gas tax, property tax and the like."

A family of four with a household income of \$25,600 paid 9.6 percent of that income in various taxes last year, according to the report.

That's the same overall tax rate as for the 0.7 percent wealthiest Minnesotans, who make \$700,000 or more, the report says.

The 60 percent of Minnesotans with moderate to upper class incomes paid more than 10 percent in taxes in 1989.

A turning point, according to Citizens for Tax Justice, was the switch from a four-rate income tax structure to a two-rate structure during the 1987 legislative session.

The adoption of 6 percent and 8 percent income tax rates has increased the income tax burden for poor Minnesotans, from 2.5 percent to 2.7 percent. Meanwhile, the burden for the richest Minnesotans has been lowered, from 7 percent to 6.8 percent.

The citizens group recommended five income-tax rates: 5, 6, 8.1, 8.8 and 8.9 percent, with the top rate going to those earning \$165,000 or more.

That rate structure would mean the same or lower taxes for 95 percent of Minnesotans, said policy analyst Doug Kelly. It's similar to a bill by Rep. Peter McLaughlin, DFL-Minneapolis.

"We would support a \$100 million income-tax increase to pay for needed services — either that or to put that same dollar (amount) into reducing the regressive taxes," Cox said.

While that sounds unlikely, lawmakers are rebuffing many requests for spending, he noted.

"They still have not figured how to pay for the kind of dollars the education system thinks it needs or the number of dollars that (University of Minnesota

President) Nils Hasselmo thinks he needs. And it looks like the children's agenda is in real jeopardy. The way I look at it, the Legislature has not identified adequate revenues to do the kind of things that a lot of people think are very important to do this session.

"So if the concern for those items is strong enough, they may well turn to traditional revenues, and if they do, they ought to go to the income tax."

The inclusion of more items under the state sales tax, along with increased taxes on cigarettes and gasoline, has hit low-income Minnesotans hardest, Cox said. Since 1987, the 6 percent sales tax has been applied to non-prescription drugs. Since 1985, the gas tax has been raised from 17 cents to 20 cents a gallon and the cigarette tax from 23 cents to 38 cents a pack.

A family of four with \$11,000 in annual income pays about 5.8 percent of that income on sales and excise taxes, or more than five times the rate for Minnesotans who earn \$700,000 or more.

The group recommended no further increases in consumption taxes, unless the Legislature taxed now-exempt services used mostly by the wealthy, such as watch and jewelry repair, accounting, legal advice and boat docking. Specifically, the group opposed Gov. Rudy Perpich's proposal for gas tax indexing, which would allow periodic increases without legislative action.

The Legislature's effect on property taxes also has been regressive, according to Citizens for Tax Justice.

The Legislature does not collect property taxes; cities, counties, townships and school boards do that. But state lawmakers, through their taxing guidelines and property tax relief programs, greatly affect what local governments charge property owners.

In 1987, the Legislature changed its "circuit breaker" program for property tax relief by lowering the income eligibility limit from \$40,000 to \$35,000 and also by lowering the maximum amount of property tax that the state would pay for. The renters' credit also was cut back so much that some individual renters saw an 83 percent loss of benefits, the report said.

"There's interest in the Legislature in providing tax relief for apartments. We think that's fair," Cox said. "However, you've got to remember that putting dollars in the pockets of landlords is not the same thing as putting dollars in the pockets of renters."

A family of four making \$25,600 a year has seen a larger increase in its property tax burden than any other income group, according to the report. The rich benefit most by the services that property taxes provide, such as police and fire protection, and they should pay more for them, Kelly said.

Minneapolis home values and property taxes were used as the base figures in the report.

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