79-0629

SPECIAL MESSAGE ON TAX RELIEF

Presented By

GOVERNOR ALBERT H. QUIE

To The

SEVENTY-FIRST LEGISLATURE

FEBRUARY 5, 1979

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Mr. Speaker, Mr. President, members of the seventy-first Session of the Minnesota Legislature, friends:

When I delivered my budget message two weeks ago, I indicated that I would be submitting to you for your consideration the details of my proposed $575 million tax relief plan.

This Special Message on Tax Relief contains those additional details. I have included in this report the specifics of each tax relief measure that I proposed in my budget message.

I believe that these proposals have been carefully developed. The State of Minnesota has the resources available to provide the substantial tax relief the people desire and deserve.

Few will argue that our state is not overtaxing its citizens. There will be debates as to which taxes should be cut and what methods should be used to accomplish these cuts, but I am confident that you, as Legislators, feel as strongly as I do that tax relief should be a top priority during this legislative session.

The proposals in my tax relief program are directed toward the areas where I believe the need is the greatest -- primarily in providing substantial income tax cuts. In fact, 72.4 percent of the cuts will provide individual income tax relief.

The next several pages describe, narratively and pictorially, the details of these proposals.

INDIVIDUAL INCOME TAX

Minnesota continues to have one of the highest individual income taxes in the country. While we do not rank number one in total collections, our rates are the highest in the nation at certain income levels. For example, a family of four earning $16,000 in 1977 paid more state income taxes in Minnesota than in any other state--even more than a similar family would have paid in New York, Alaska, or Wisconsin--all states with typically high rates.

Besides taxing many families at the highest rate in the nation, our present structure places an even harsher burden on Minnesotans, because it taxes all increases in income at progressively higher rates--whether those increases are real or merely due to cost-of-living adjustments. Progressive taxation is fair as long as the income growth being taxed represents increased buying power, but it is not fair when the income growth actually represents only a cost-of-living adjustment designed to offset inflation. Such taxation imposes an "inflation penalty" on all taxpayers, giving the state an "inflation bonus" to which it is not entitled.

This unfair taxation of inflationary growth in income has gone on for quite some time, and will continue unless we change our present tax system. For example, according to the U.S. Department of Labor, nationwide the cost of living rose nine percent during 1978, but at the same time, purchasing power actually fell three percent. Thus, the average taxpayer's income did not rise as fast as prices did. In spite of all this, the average taxpayer had a higher state income tax bill, because he earned more dollars; and, though they bought less, those extra dollars pushed him into a higher tax bracket. As a result, government gets an inflation bonus from those extra tax dollars. In fact, every time a person's income rises 10 percent, the tax on that income rises almost 14 percent.

Ten Percent Cut

The cornerstone of my tax proposal is the elimination of this inflation-induced tax bonus. The first step is to repair some of the damage inflation has already caused in the last three years.

Under my plan, all existing income tax brackets will be widened by 24 percent, effective January 1, 1979. Instead of taxing the first \$500 of taxable income at a rate of 1.6 percent, we will tax the first \$620 at 1.6 percent. The second rate of 2.2 percent will apply to the next \$620 of income instead of the next \$500 as is now the case, and so on. The top rate of 17 percent will, under my proposal, apply only to that portion of taxable income over \$49,600 instead of the present \$40,000. The following chart shows how much income will fall into each bracket under my proposal, as compared with how much income now falls into each bracket:

PRESENT AND PROPOSED
1979 TAX BRACKETS

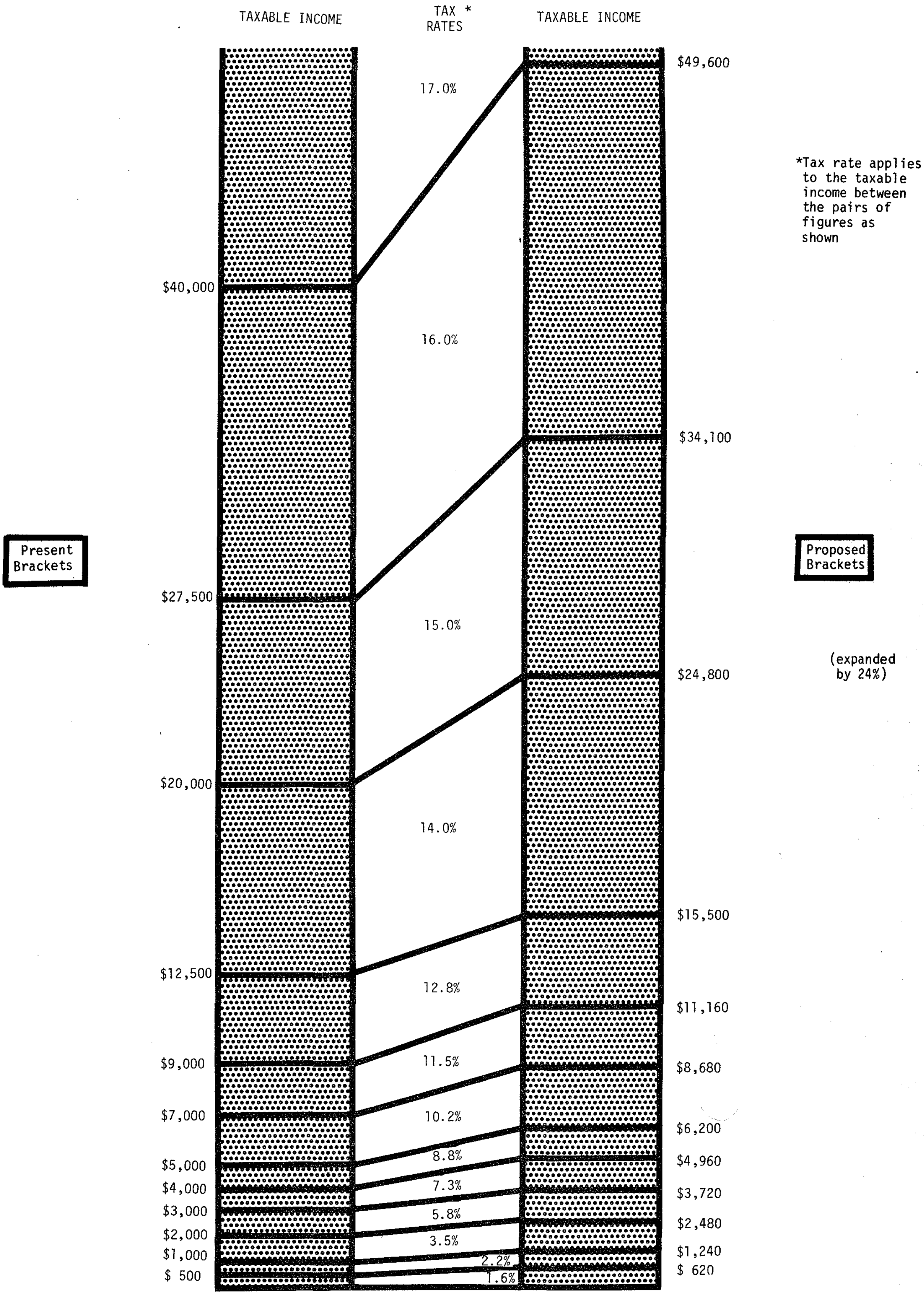


Table 1 is a comparison between Minnesota's tax brackets under the present law and the proposed brackets under my plan:

TABLE 1

PROPOSED INCOME TAX BRACKETS

TAX YEAR 1979

EXISTING RATES	EXISTING BRACKETS	PROPOSED BRACKETS
1.6 Percent	$ 1 - $ 500	$ 1 - $ 620
2.2	$ 501 - $ 1,000	$ 621 - $ 1,240
3.5	$ 1,001 - $ 2,000	$ 1,241 - $ 2,480
5.8	$ 2,001 - $ 3,000	$ 2,481 - $ 3,720
7.3	$ 3,001 - $ 4,000	$ 3,721 - $ 4,960
8.8	$ 4,001 - $ 5,000	$ 4,961 - $ 6,200
10.2	$ 5,001 - $ 7,000	$ 6,201 - $ 8,680
11.5	$ 7,001 - $ 9,000	$ 8,681 - $11,160
12.8	$ 9,001 - $12,500	$11,161 - $15,500
14.0	$12,501 - $20,000	$15,501 - $24,800
15.0	$20,001 - $27,500	$24,801 - $34,100
16.0	$27,501 - $40,000	$34,101 - $49,600
17.0	$40,001 AND OVER	$49,601 AND OVER

This one-time 24 percent bracket expansion, along with the adjustments to the Low Income Credit discussed below, will mean $136 million in tax relief for 1979. This amounts to a ten percent cut in the income tax that would otherwise be collected.

Low Income Credit

Inflation has hit hardest at low income taxpayers, and I am proposing additional relief through changes in the Low Income Credit provision. The Low Income Credit is, in effect, an alternative taxing system whereby certain taxpayers pay a tax of 15 percent of their total household income over a certain exclusion amount. My plan calls for increasing these exclusion amounts by 24 percent over the originally enacted amounts. Part of this increase was already accomplished by the 1978 Legislature. This will mean that many low income taxpayers will have their entire tax eliminated, and many others will see a substantial drop in their taxes. Table 2 below gives a comparison between the low income exclusion amounts as they now stand and the increased amounts under my plan, for the various family sizes:

TABLE 2

PRESENT AND PROPOSED
LOW INCOME EXCLUSION AMOUNTS FOR 1979

Family Size	1979 Present Amount	1979 Proposed Amount
Single	$4,800	$5,456
Married		
Two Member Household	5,800	6,448
Three Member Household	6,900	7,440
Four Member Household	7,800	8,308
Five Member Household	8,400	9,052
Six Member Household or larger	8,900	9,672

The 24 percent increase in the tax brackets for individual income taxpayers and the increase in the low income exclusion amounts will mean that 90 percent of all taxpayers will see a cut of at least 10 percent in their tax bill for 1979. Tables 3 - 6 show the amount and percent of tax reduction for 1979 that will result from my proposal.

TABLE 3
PROPOSED TAX RELIEF FOR TAX YEAR 1979

MARRIED - TWO WAGE EARNERS 75 - 25 SPLIT

Minnesota Gross Income	For Those Who Do Not Qualify for the Low Income Credit				For Those Who Qualify for the Low Income Credit			
	Existing Tax	Proposed Tax	Drop	Percent Drop	Existing Tax	Proposed Tax	Drop	Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	0	.0
4,000	0	0	0	.0	0	0	0	.0
5,000	2	0	2	100.0	0	0	0	.0
6,000	60	31	29	48.3	0	0	0	.0
7,000	128	88	40	31.3	0	0	0	.0
8,000	194	147	47	24.2	30	0	30	100.0
9,000	260	205	55	21.2	180	104	76	42.2
10,000	330	265	65	19.7	330	254	76	23.0
11,000	269	206	63	23.4	269	206	63	23.4
12,000	324	255	69	21.3	324	255	69	21.3
13,000	379	307	72	19.0	379	307	72	19.0
14,000	436	362	74	17.0	436	362	74	17.0
15,000	498	417	81	16.3	498	417	81	16.3
16,000	566	474	92	16.3	566	474	92	16.3
18,000	697	592	105	15.1	697	592	105	15.1
20,000	839	721	118	14.1	839	721	118	14.1
25,000	1,332	1,178	154	11.6	1,332	1,178	154	11.6
30,000	1,740	1,550	190	10.9	1,740	1,550	190	10.9
35,000	2,137	1,932	205	9.6	2,137	1,932	205	9.6
40,000	2,527	2,310	217	8.6	2,527	2,310	217	8.6
45,000	2,904	2,673	231	8.0	2,904	2,673	231	8.0
50,000	3,278	3,017	261	8.0	3,278	3,017	261	8.0
60,000	4,005	3,708	297	7.4	4,005	3,708	297	7.4
70,000	4,692	4,370	322	6.9	4,692	4,370	322	6.9
80,000	5,400	5,028	372	6.9	5,400	5,028	372	6.9
90,000	6,097	5,699	398	6.5	6,097	5,699	398	6.5
$100,000	6,794	6,396	398	5.9	6,794	6,396	398	5.9

TABLE 4
PROPOSED TAX RELIEF FOR TAX YEAR 1979

MARRIED - TWO WAGE EARNERS 50 - 50 SPLIT

Minnesota Gross Income	For Those Who Do Not Qualify for the Low Income Credit: Existing Tax	Proposed Tax	Drop	Percent Drop	For Those Who Qualify for the Low Income Credit: Existing Tax	Proposed Tax	Drop	Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	0	.0
4,000	0	0	0	.0	0	0	0	.0
5,000	0	0	0	.0	0	0	0	.0
6,000	30	0	30	100.0	0	0	0	.0
7,000	86	52	34	39.5	0	0	0	.0
8,000	146	100	46	31.5	30	0	30	100.0
9,000	202	152	50	24.8	180	104	76	42.2
10,000	268	208	60	22.4	268	208	60	22.4
11,000	234	178	56	23.9	234	178	56	23.9
12,000	290	224	66	22.8	290	224	66	22.8
13,000	344	270	74	21.5	344	270	74	21.5
14,000	400	320	80	20.0	400	320	80	20.0
15,000	464	374	90	19.4	464	374	90	19.4
16,000	532	432	100	18.8	532	432	100	18.8
18,000	662	550	112	16.9	662	550	112	16.9
20,000	792	680	112	14.1	792	680	112	14.1
25,000	1,266	1,108	158	12.5	1,266	1,108	158	12.5
30,000	1,674	1,476	198	11.8	1,674	1,476	198	11.8
35,000	2,064	1,852	212	10.3	2,064	1,852	212	10.3
40,000	2,470	2,230	240	9.7	2,470	2,230	240	9.7
45,000	2,858	2,586	272	9.5	2,858	2,586	272	9.5
50,000	3,224	2,940	284	8.8	3,224	2,940	284	8.8
60,000	3,938	3,654	284	7.2	3,938	3,654	284	7.2
70,000	4,610	4,302	308	6.7	4,610	4,302	308	6.7
80,000	5,304	4,950	354	6.7	5,304	4,950	354	6.7
90,000	5,986	5,606	380	6.3	5,986	5,606	380	6.3
$100,000	6,680	6,288	392	5.9	6,680	6,288	392	5.9

TABLE 5
PROPOSED TAX RELIEF FOR TAX YEAR 1979

MARRIED - ONE WAGE EARNER

Minnesota Gross Income	For Those Who Do Not Qualify for the Low Income Credit				For Those Who Qualify for the Low Income Credit			
	Existing Tax	Proposed Tax	Drop	Percent Drop	Existing Tax	Proposed Tax	Drop	Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	0	.0
4,000	0	0	0	.0	0	0	0	.0
5,000	69	36	33	47.8	0	0	0	.0
6,000	154	109	45	29.2	0	0	0	.0
7,000	246	189	57	23.2	0	0	0	.0
8,000	331	273	58	17.5	30	0	30	100.0
9,000	420	352	68	16.2	180	104	76	42.2
10,000	508	430	78	15.4	330	254	76	23.0
11,000	463	390	73	15.8	463	390	73	15.8
12,000	535	457	78	14.6	535	457	78	14.6
13,000	613	528	85	13.9	613	528	85	13.9
14,000	693	600	93	13.4	693	600	93	13.4
15,000	773	672	101	13.1	773	672	101	13.1
16,000	858	751	107	12.5	858	751	107	12.5
18,000	1,024	915	109	10.6	1,024	915	109	10.6
20,000	1,203	1,079	124	10.3	1,203	1,079	124	10.3
25,000	1,779	1,637	142	8.0	1,779	1,637	142	8.0
30,000	2,237	2,083	154	6.9	2,237	2,083	154	6.9
35,000	2,695	2,510	185	6.9	2,695	2,510	185	6.9
40,000	3,138	2,948	190	6.1	3,138	2,948	190	6.1
45,000	3,580	3,364	216	6.0	3,580	3,364	216	6.0
50,000	3,998	3,757	241	6.0	3,998	3,757	241	6.0
60,000	4,813	4,557	256	5.3	4,813	4,557	256	5.3
70,000	5,579	5,299	280	5.0	5,579	5,299	280	5.0
80,000	6,364	6,038	326	5.1	6,364	6,038	326	5.1
90,000	7,137	6,785	352	4.9	7,137	6,785	352	4.9
$100,000	7,911	7,559	352	4.4	7,911	7,559	352	4.4

TABLE 6
PROPOSED TAX RELIEF FOR TAX YEAR 1979

SINGLE TAXPAYER

Minnesota Gross Income	For Those Who Do Not Qualify for the Low Income Credit: Existing Tax	Proposed Tax	Drop	Percent Drop	For Those Who Qualify for the Low Income Credit: Existing Tax	Proposed Tax	Drop	Percent Drop
$ 2,000	$ 7	$ 4	$ 3	42.9%	$ 0	$ 0	$ 0	.0%
3,000	55	40	15	27.3	0	0	0	.0
4,000	109	87	22	20.2	0	0	0	.0
5,000	169	140	29	17.2	30	0	30	100.0
6,000	235	195	40	17.0	180	82	98	54.4
7,000	310	260	50	16.1	310	232	78	25.2
8,000	385	329	56	14.5	385	329	56	14.5
9,000	462	403	59	12.8	462	403	59	12.8
10,000	545	477	68	12.5	545	477	68	12.5
11,000	490	428	62	12.7	490	428	62	12.7
12,000	563	493	70	12.4	563	493	70	12.4
13,000	635	557	78	12.3	635	557	78	12.3
14,000	710	628	82	11.5	710	628	82	11.5
15,000	789	698	91	11.5	789	698	91	11.5
16,000	866	768	98	11.3	866	768	98	11.3
18,000	1,019	912	107	10.5	1,019	912	107	10.5
20,000	1,169	1,058	111	9.5	1,169	1,058	111	9.5
25,000	1,694	1,552	142	8.4	1,694	1,552	142	8.4
30,000	2,092	1,950	142	6.8	2,092	1,950	142	6.8
35,000	2,492	2,328	164	6.6	2,492	2,328	164	6.6
40,000	2,872	2,683	189	6.6	2,872	2,683	189	6.6
45,000	3,234	3,044	190	5.9	3,234	3,044	190	5.9
50,000	3,601	3,391	210	5.8	3,601	3,391	210	5.8
60,000	4,331	4,076	255	5.9	4,331	4,076	255	5.9
70,000	5,059	4,803	256	5.1	5,059	4,803	256	5.1
80,000	5,818	5,531	287	4.9	5,818	5,531	287	4.9
90,000	6,592	6,259	333	5.1	6,592	6,259	333	5.1
$100,000	7,365	7,013	352	4.8	7,365	7,013	352	4.8

Indexing

A one-time tax rate reduction based on bracket expansion is just not enough, however. Continued high inflation will soon make even these proposed wider brackets outdated. We must do more to ensure that future cost-of-living salary adjustments are not eaten up by progressively higher tax rates. Therefore, the second part of my proposal calls for tying the income tax brackets to an inflation indicator. That way, income tax rates will be based more on real earnings than on inflated earnings, and no taxpayer will be pushed into a higher tax bracket solely because of inflation.

Tying the tax brackets to the amount of inflation is called indexing. If, for example, the inflation rate during the year is 7 percent, the tax brackets--the amount of income taxed at any given rate--will be widened by 7 percent also. Once the tax brackets are so indexed, taxpayers will be affected in one of these ways:

(1) people whose incomes rise no faster than inflation will stay in the same tax brackets;

(2) those who are already near the bottom of one bracket may even drop back to a lower bracket if their incomes do not grow with inflation;

(3) those whose incomes grow faster than the rate of inflation may move into a higher tax bracket.

This last group, however, moves into a higher bracket only because of an actual increase in purchasing power.

I am proposing, then, that, beginning on July 1, 1980, the Commissioner of Revenue index the tax brackets each year. The indexing will be based on the amount of inflation as shown in the Minneapolis/St. Paul All Urban Consumer Price Index, as reported by the U. S. Department of Labor. Basically, here's how it will work:

Each year, by September 1, the Commissioner of Revenue will compute and then announce publicly the percent of change in the Minneapolis/St. Paul All Urban Consumer Price Index for the period from July 1 of the preceding year through June 30 of the current year. This percent will be used as the rate by which the income tax brackets for the current tax year will be expanded. For example: by September 1, 1980, the Commissioner of Revenue will compute the percent change in the Consumer Price Index (CPI) from July 1, 1979 to June 30, 1980. This rate of change will then be used to expand the tax brackets for tax year 1980. The tax tables that appear in the 1980 income tax booklets will be based on these expanded--or indexed--brackets.

The withholding tables will also be adjusted each year. The Department of Revenue, using information available on March 31, will adjust the withholding tables no later than June 30 of each year, based on its estimate of the inflation likely to occur during the tax year.

The tax brackets must be made "inflation-proof" for low income taxpayers especially. So, just as my plan calls for expanding the Low Income Credit exclusion amount immediately, this part of the plan also calls for indexing the low income credit. Each year, these exclusion amounts will be increased, using the same inflation factor that is used to adjust the income tax brackets.

Assuming a 7 percent inflation rate, Table 7 shows how the tax brackets would expand to accomodate that inflation in 1980 and 1981:

TABLE 7

INFLATION ADJUSTED TAX BRACKETS
ASSUMING 7% INFLATION

EXISTING RATES	1980 PROPOSED BRACKETS	1981 PROPOSED BRACKETS
1.6 Percent	\$ 1 - \$ 641	\$ 1 - \$ 686
2.2	\$ 642 - \$ 1,283	\$ 687 - \$ 1,373
3.5	\$ 1,284 - \$ 2,566	\$ 1,374 - \$ 2,746
5.8	\$ 2,567 - \$ 3,850	\$ 2,747 - \$ 4,119
7.3	\$ 3,851 - \$ 5,133	\$ 4,120 - \$ 5,492
8.8	\$ 5,134 - \$ 6,416	\$ 5,493 - \$ 6,866
10.2	\$ 6,417 - \$ 8,983	\$ 6,867 - \$ 9,612
11.5	\$ 8,984 - \$11,550	\$ 9,613 - \$12.359
12.8	\$11,551 - \$16,042	\$12,360 - \$17,165
14.0	\$16,043 - \$25,667	\$17,166 - \$27,464
15.0	\$25,668 - \$35,293	\$27,465 - \$37,764
16.0	\$35,294 - \$51,335	\$37,765 - \$54,929
17.0	\$51,336 AND OVER	\$54,930 AND OVER

Note: Because my plan calls for indexing to begin on July 1, 1980, the brackets are indexed at the assumed rate of seven percent for the inflation that occurs during the last half of 1980.

Also assuming a 7 percent inflation factor, Table 8 shows the inflation-adjusted low income exclusion amounts:

TABLE 8

INFLATION ADJUSTED LOW INCOME EXCLUSION AMOUNT*

Family Size	1980 Exclusion	1981 Exclusion
Single	$ 5,647	$ 6,042
Married		
Two Member Household	6,674	7,141
Three Member Household	7,700	8,239
Four Member Household	8,599	9,201
Five Member Household	9,369	10,025
Six Member Household or larger	10,011	10,712

*Assumes 7% inflation rate
1980 indexed one half of year

By indexing both the tax brackets and the Low Income Credit exclusion amounts, my plan will mean continued tax relief on into the future, as shown in the following tables:

TABLE 9
PROPOSED TAX RELIEF 1979, 1980, 1981 WITH PROPOSED INDEXING

1980 and 1981 Existing Tax Assumed Equal to Existing 1979 Tax

MARRIED - TWO WAGE EARNERS 75 - 25 SPLIT

For Those Who Do Not Qualify for the Low Income Credit

Minnesota Gross Income	1979 Existing Tax	1979 Proposed Tax	1979 Drop	1979 Percent Drop	1980 Proposed Tax	1980 Drop	1980 Percent Drop	1981 Proposed Tax	1981 Drop	1981 Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	.0	0	0	.0
4,000	0	0	0	.0	0	0	.0	0	0	.0
5,000	2	0	2	100.0	0	2	100.0	0	2	100.0
6,000	60	31	29	48.3	24	36	60.0	16	44	73.3
7,000	128	88	40	31.3	81	47	36.7	71	57	44.5
8,000	194	147	47	24.2	136	58	29.9	123	71	36.6
9,000	260	205	55	21.2	195	65	25.0	179	81	31.2
10,000	330	265	65	19.7	253	77	23.3	236	94	28.5
11,000	269	206	63	23.4	194	75	27.9	178	91	33.8
12,000	324	255	69	21.3	244	80	24.7	224	100	30.9
13,000	379	307	72	19.0	293	86	22.7	272	107	28.2
14,000	436	362	74	17.0	348	88	20.2	321	115	26.4
15,000	498	417	81	16.3	403	95	19.1	376	122	24.5
16,000	566	474	92	16.3	460	106	18.7	434	132	23.3
18,000	697	592	105	15.1	576	121	17.4	546	151	21.7
20,000	839	721	118	14.1	700	139	16.6	665	174	20.7
25,000	1,332	1,178	154	11.6	1,149	183	13.7	1,096	236	17.7
30,000	1,740	1,550	190	10.9	1,519	221	12.7	1,463	277	15.9
35,000	2,137	1,932	205	9.6	1,894	243	11.4	1,824	313	14.6
40,000	2,527	2,310	217	8.6	2,272	255	10.1	2,198	329	13.0
45,000	2,904	2,673	231	8.0	2,631	273	9.4	2,552	352	12.1
50,000	3,278	3,017	261	8.0	2,975	303	9.2	2,893	385	11.7
60,000	4,005	3,708	297	7.4	3,652	353	8.8	3,563	442	11.0
70,000	4,692	4,370	322	6.9	4,314	378	8.1	4,203	489	10.4
80,000	5,400	5,028	372	6.9	4,973	427	7.9	4,861	539	10.0
90,000	6,097	5,699	398	6.5	5,627	470	7.7	5,510	587	9.6
100,000	6,794	6,396	398	5.9	6,322	472	6.9	6,172	622	9.2

For Those Who Qualify for the Low Income Credit

Minnesota Gross Income	1979 Existing Tax	1979 Proposed Tax	1979 Drop	1979 Percent Drop	1980 Proposed Tax	1980 Drop	1980 Percent Drop	1981 Proposed Tax	1981 Drop	1981 Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	.0	0	0	.0
4,000	0	0	0	.0	0	0	.0	0	0	.0
5,000	0	0	0	.0	0	0	.0	0	0	.0
6,000	0	0	0	.0	0	0	.0	0	0	.0
7,000	0	0	0	.0	0	0	.0	0	0	.0
8,000	30	0	30	100.0	0	30	100.0	0	30	100.0
9,000	180	104	76	42.2	60	120	66.7	0	180	100.0
10,000	330	254	76	23.0	210	120	36.4	120	210	63.6
11,000	269	206	63	23.4	194	75	27.9	178	91	33.8
12,000	324	255	69	21.3	244	80	24.7	224	100	30.9
13,000	379	307	72	19.0	293	86	22.7	272	107	28.2
14,000	436	362	74	17.0	348	88	20.2	321	115	26.4
15,000	498	417	81	16.3	403	95	19.1	376	122	24.5
16,000	566	474	92	16.3	460	106	18.7	434	132	23.3
18,000	697	592	105	15.1	576	121	17.4	546	151	21.7
20,000	839	721	118	14.1	700	139	16.6	665	174	20.7
25,000	1,332	1,178	154	11.6	1,149	183	13.7	1,096	236	17.7
30,000	1,740	1,550	190	10.9	1,519	221	12.7	1,463	277	15.9
35,000	2,137	1,932	205	9.6	1,894	243	11.4	1,824	313	14.6
40,000	2,527	2,310	217	8.6	2,272	255	10.1	2,198	329	13.0
45,000	2,904	2,673	231	8.0	2,631	273	9.4	2,552	352	12.1
50,000	3,278	3,017	261	8.0	2,975	303	9.2	2,893	385	11.7
60,000	4,005	3,708	297	7.4	3,652	353	8.8	3,563	442	11.0
70,000	4,692	4,370	322	6.9	4,314	378	8.1	4,203	489	10.4
80,000	5,400	5,028	372	6.9	4,973	427	7.9	4,861	539	10.0
90,000	6,097	5,699	398	6.5	5,627	470	7.7	5,510	587	9.6
100,000	6,794	6,396	398	5.9	6,322	472	6.9	6,172	622	9.2

TABLE 10
PROPOSED TAX RELIEF 1979, 1980, 1981 WITH PROPOSED INDEXING

1980 and 1981 Existing Tax Assumed
Equal to Existing 1979 Tax

MARRIED - TWO WAGE EARNERS 50 - 50 SPLIT

	For Those Who Do Not Qualify for the Low Income Credit										For Those Who Qualify for the Low Income Credit									
	1979				1980			1981			1979				1980			1981		
Minnesota Gross Income	Existing Tax	Proposed Tax	Drop	Percent Drop	Proposed Tax	Drop	Percent Drop	Proposed Tax	Drop	Percent Drop	Existing Tax	Proposed Tax	Drop	Percent Drop	Proposed Tax	Drop	Percent Drop	Proposed Tax	Drop	Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	.0	0	0	.0	0	0	0	.0	0	0	.0	0	0	.0
4,000	0	0	0	.0	0	0	.0	0	0	.0	0	0	0	.0	0	0	.0	0	0	.0
5,000	0	0	0	.0	0	0	.0	0	0	.0	0	0	0	.0	0	0	.0	0	0	.0
6,000	30	0	30	100.0	0	30	100.0	0	30	100.0	0	0	0	.0	0	0	.0	0	0	.0
7,000	86	52	34	39.5	46	40	46.5	34	52	60.5	0	0	0	.0	0	0	.0	0	0	.0
8,000	146	100	46	31.5	94	52	35.6	82	64	43.8	30	0	30	100.0	0	30	100.0	0	30	100.0
9,000	202	152	50	24.8	140	62	30.7	128	74	36.6	180	104	76	42.2	60	120	66.7	0	180	100.0
10,000	268	208	60	22.4	196	72	26.9	178	90	33.6	268	208	60	22.4	196	72	26.9	120	148	55.2
11,000	234	178	56	23.9	168	66	28.2	150	84	35.9	234	178	56	23.9	168	66	28.2	150	84	35.9
12,000	290	224	66	22.8	214	76	26.2	196	94	32.4	290	224	66	22.8	214	76	26.2	196	94	32.4
13,000	344	270	74	21.5	258	86	25.0	242	102	29.7	344	270	74	21.5	258	86	25.0	242	102	29.7
14,000	400	320	80	20.0	304	96	24.0	286	114	28.5	400	320	80	20.0	304	96	24.0	286	114	28.5
15,000	464	374	90	19.4	358	106	22.8	332	132	28.4	464	374	90	19.4	358	106	22.8	332	132	28.4
16,000	532	432	100	18.8	416	116	21.8	386	146	27.4	532	432	100	18.8	416	116	21.8	386	146	27.4
18,000	662	550	112	16.9	528	134	20.2	500	162	24.5	662	550	112	16.9	528	134	20.2	500	162	24.5
20,000	792	680	112	14.1	658	134	16.9	616	176	22.2	792	680	112	14.1	658	134	16.9	616	176	22.2
25,000	1,266	1,108	158	12.5	1,080	186	14.7	1,036	230	18.2	1,266	1,108	158	12.5	1,080	186	14.7	1,036	230	18.2
30,000	1,674	1,476	198	11.8	1,446	228	13.6	1,386	288	17.2	1,674	1,476	198	11.8	1,446	228	13.6	1,386	288	17.2
35,000	2,064	1,852	212	10.3	1,812	252	12.2	1,738	326	15.8	2,064	1,852	212	10.3	1,812	252	12.2	1,738	326	15.8
40,000	2,470	2,230	240	9.7	2,190	280	11.3	2,110	360	14.6	2,470	2,230	240	9.7	2,190	280	11.3	2,110	360	14.6
45,000	2,858	2,586	272	9.5	2,546	312	10.9	2,466	392	13.7	2,858	2,586	272	9.5	2,546	312	10.9	2,466	392	13.7
50,000	3,224	2,940	284	8.8	2,886	338	10.5	2,800	424	13.2	3,224	2,940	284	8.8	2,886	338	10.5	2,800	424	13.2
60,000	3,938	3,654	284	7.2	3,600	338	8.6	3,492	446	11.3	3,938	3,654	284	7.2	3,600	338	8.6	3,492	446	11.3
70,000	4,610	4,302	308	6.7	4,248	362	7.9	4,142	468	10.2	4,610	4,302	308	6.7	4,248	362	7.9	4,142	468	10.2
80,000	5,304	4,950	354	6.7	4,896	408	7.7	4,788	516	9.7	5,304	4,950	354	6.7	4,896	408	7.7	4,788	516	9.7
90,000	5,986	5,606	380	6.3	5,536	450	7.5	5,426	560	9.4	5,986	5,606	380	6.3	5,536	450	7.5	5,426	560	9.4
100,000	6,680	6,288	392	5.9	6,218	462	6.9	6,074	606	9.1	6,680	6,288	392	5.9	6,218	462	6.9	6,074	606	9.1

TABLE 11
PROPOSED TAX RELIEF 1979, 1980, 1981 WITH PROPOSED INDEXING

1980 and 1981 Existing Tax Assumed Equal to Existing 1979 Tax

MARRIED - ONE WAGE EARNER

For Those Who Do Not Qualify for the Low Income Credit

Minnesota Gross Income	1979 Existing Tax	1979 Proposed Tax	1979 Drop	1979 Percent Drop	1980 Proposed Tax	1980 Drop	1980 Percent Drop	1981 Proposed Tax	1981 Drop	1981 Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	.0	0	0	.0
4,000	0	0	0	.0	0	0	.0	0	0	.0
5,000	69	36	33	47.8	30	39	56.5	22	47	68.1
6,000	154	109	45	29.2	100	54	35.1	87	67	43.5
7,000	246	189	57	23.2	180	66	26.8	165	81	32.9
8,000	331	273	58	17.5	262	69	20.8	241	90	27.2
9,000	420	352	68	16.2	341	79	18.8	320	100	23.8
10,000	508	430	78	15.4	419	89	17.5	398	110	21.7
11,000	463	390	73	15.8	379	84	18.1	358	105	22.7
12,000	535	457	78	14.6	443	92	17.2	422	113	21.1
13,000	613	528	85	13.9	513	100	16.3	485	128	20.9
14,000	693	600	93	13.4	585	108	15.6	555	138	19.9
15,000	773	672	101	13.1	657	116	15.0	628	145	18.8
16,000	858	751	107	12.5	733	125	14.6	704	154	17.9
18,000	1,024	915	109	10.6	895	129	12.6	856	168	16.4
20,000	1,203	1,079	124	10.3	1,059	144	12.0	1,019	184	15.3
25,000	1,779	1,637	142	8.0	1,610	169	9.5	1,557	222	12.5
30,000	2,237	2,083	154	6.9	2,056	181	8.1	2,002	235	10.5
35,000	2,695	2,510	185	6.9	2,483	212	7.9	2,430	265	9.8
40,000	3,138	2,948	190	6.1	2,913	225	7.2	2,843	295	9.4
45,000	3,580	3,364	216	6.0	3,329	251	7.0	3,258	322	9.0
50,000	3,998	3,757	241	6.0	3,721	277	6.9	3,650	348	8.7
60,000	4,813	4,557	256	5.3	4,510	303	6.3	4,413	400	8.3
70,000	5,579	5,299	280	5.0	5,252	327	5.9	5,156	423	7.6
80,000	6,364	6,038	326	5.1	5,991	373	5.9	5,894	470	7.4
90,000	7,137	6,785	352	4.9	6,721	416	5.8	6,622	515	7.2
100,000	7,911	7,559	352	4.4	7,495	416	5.3	7,362	549	6.9

For Those Who Qualify for the Low Income Credit

Minnesota Gross Income	1979 Existing Tax	1979 Proposed Tax	1979 Drop	1979 Percent Drop	1980 Proposed Tax	1980 Drop	1980 Percent Drop	1981 Proposed Tax	1981 Drop	1981 Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	.0	0	0	.0
4,000	0	0	0	.0	0	0	.0	0	0	.0
5,000	0	0	0	.0	0	0	.0	0	0	.0
6,000	0	0	0	.0	0	0	.0	0	0	.0
7,000	0	0	0	.0	0	0	.0	0	0	.0
8,000	30	0	30	100.0	0	30	100.0	0	30	100.0
9,000	180	104	76	42.2	60	120	66.7	0	180	100.0
10,000	330	254	76	23.0	210	120	36.4	120	210	63.6
11,000	463	390	73	15.8	360	103	22.2	270	193	41.7
12,000	535	457	78	14.6	443	92	17.2	420	115	21.5
13,000	613	528	85	13.9	513	100	16.3	485	128	20.9
14,000	693	600	93	13.4	585	108	15.6	555	138	19.9
15,000	773	672	101	13.1	657	116	15.0	628	145	18.8
16,000	858	751	107	12.5	733	125	14.6	704	154	17.9
18,000	1,024	915	109	10.6	895	129	12.6	856	168	16.4
20,000	1,203	1,079	124	10.3	1,059	144	12.0	1,019	184	15.3
25,000	1,779	1,637	142	8.0	1,610	169	9.5	1,557	222	12.5
30,000	2,237	2,083	154	6.9	2,056	181	8.1	2,002	235	10.5
35,000	2,695	2,510	185	6.9	2,483	212	7.9	2,430	265	9.8
40,000	3,138	2,948	190	6.1	2,913	225	7.2	2,843	295	9.4
45,000	3,580	3,364	216	6.0	3,329	251	7.0	3,258	322	9.0
50,000	3,998	3,757	241	6.0	3,721	277	6.9	3,650	348	8.7
60,000	4,813	4,557	256	5.3	4,510	303	6.3	4,413	400	8.3
70,000	5,579	5,299	280	5.0	5,252	327	5.9	5,156	423	7.6
80,000	6,364	6,038	326	5.1	5,991	373	5.9	5,894	470	7.4
90,000	7,137	6,785	352	4.9	6,721	416	5.8	6,622	515	7.2
100,000	7,911	7,559	352	4.4	7,495	416	5.3	7,362	549	6.9

TABLE 12
PROPOSED TAX RELIEF 1979, 1980, 1981 WITH PROPOSED INDEXING

1980 and 1981 Existing Tax Assumed Equal to Existing 1979 Tax

SINGLE TAXPAYER

For Those Who Do Not Qualify for the Low Income Credit

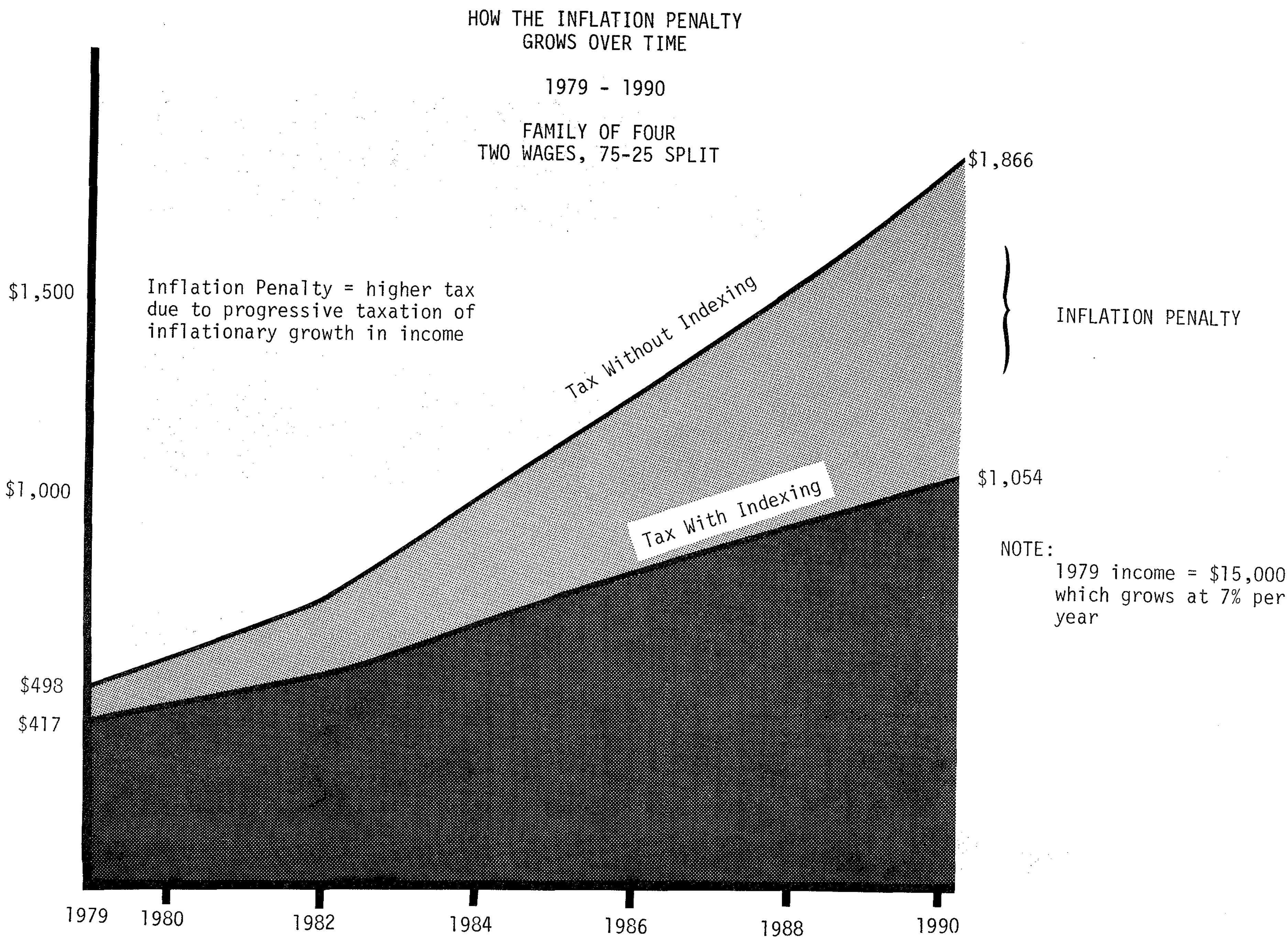
Minnesota Gross Income	1979 Existing Tax	1979 Proposed Tax	1979 Drop	1979 Percent Drop	1980 Proposed Tax	1980 Drop	1980 Percent Drop	1981 Proposed Tax	1981 Drop	1981 Percent Drop
$ 2,000	$ 7	$ 4	$ 3	42.9%	$ 2	$ 5	71.4%	$ 1	$ 6	85.7%
3,000	55	40	15	27.3	37	18	32.7	32	23	41.8
4,000	109	87	22	20.2	84	25	22.9	78	31	28.4
5,000	169	140	29	17.2	134	35	20.7	125	44	26.0
6,000	235	195	40	17.0	188	47	20.0	180	55	23.4
7,000	310	260	50	16.1	252	58	18.7	237	73	23.5
8,000	385	329	56	14.5	318	67	17.4	302	83	21.6
9,000	462	403	59	12.8	392	70	15.2	371	91	19.7
10,000	545	477	68	12.5	465	80	14.7	445	100	18.3
11,000	490	428	62	12.7	416	74	15.1	396	94	19.2
12,000	563	493	70	12.4	482	81	14.4	461	102	18.1
13,000	635	557	78	12.3	545	90	14.2	524	111	17.5
14,000	710	628	82	11.5	613	97	13.7	587	123	17.3
15,000	789	698	91	11.5	683	106	13.4	654	135	17.1
16,000	866	768	98	11.3	753	113	13.0	723	143	16.5
18,000	1,019	912	107	10.5	892	127	12.5	860	159	15.6
20,000	1,169	1,058	111	9.5	1,038	131	11.2	998	171	14.6
25,000	1,694	1,552	142	8.4	1,525	169	10.0	1,478	216	12.8
30,000	2,092	1,950	142	6.8	1,924	168	8.0	1,870	222	10.6
35,000	2,492	2,328	164	6.6	2,301	191	7.7	2,248	244	9.8
40,000	2,872	2,683	189	6.6	2,656	216	7.5	2,603	269	9.4
45,000	3,234	3,044	190	5.9	3,009	225	7.0	2,941	293	9.1
50,000	3,601	3,391	210	5.8	3,356	245	6.8	3,284	317	8.8
60,000	4,331	4,076	255	5.9	4,041	290	6.7	3,969	362	8.4
70,000	5,059	4,803	256	5.1	4,756	303	6.0	4,660	399	7.9
80,000	5,818	5,531	287	4.9	5,484	334	5.7	5,388	430	7.4
90,000	6,592	6,259	333	5.1	6,212	380	5.8	6,116	476	7.2
100,000	7,365	7,013	352	4.8	6,949	416	5.6	6,844	521	7.1

For Those Who Qualify for the Low Income Credit

Minnesota Gross Income	1979 Existing Tax	1979 Proposed Tax	1979 Drop	1979 Percent Drop	1980 Proposed Tax	1980 Drop	1980 Percent Drop	1981 Proposed Tax	1981 Drop	1981 Percent Drop
$ 2,000	$ 0	$ 0	$ 0	.0%	$ 0	$ 0	.0%	$ 0	$ 0	.0%
3,000	0	0	0	.0	0	0	.0	0	0	.0
4,000	0	0	0	.0	0	0	.0	0	0	.0
5,000	30	0	30	100.0	0	30	100.0	0	30	100.0
6,000	180	82	98	54.4	53	127	70.6	0	180	100.0
7,000	310	232	78	25.2	203	107	34.5	144	166	53.5
8,000	385	329	56	14.5	318	67	17.4	294	91	23.6
9,000	462	403	59	12.8	392	70	15.2	371	91	19.7
10,000	545	477	68	12.5	465	80	14.7	445	100	18.3
11,000	490	428	62	12.7	416	74	15.1	396	94	19.2
12,000	563	493	70	12.4	482	81	14.4	461	102	18.1
13,000	635	557	78	12.3	545	90	14.2	524	111	17.5
14,000	710	628	82	11.5	613	97	13.7	587	123	17.3
15,000	789	698	91	11.5	683	106	13.4	654	135	17.1
16,000	866	768	98	11.3	753	113	13.0	723	143	16.5
18,000	1,019	912	107	10.5	892	127	12.5	860	159	15.6
20,000	1,169	1,058	111	9.5	1,038	131	11.2	998	171	14.6
25,000	1,694	1,552	142	8.4	1,525	169	10.0	1,478	216	12.8
30,000	2,092	1,950	142	6.8	1,924	168	8.0	1,870	222	10.6
35,000	2,492	2,328	164	6.6	2,301	191	7.7	2,248	244	9.8
40,000	2,872	2,683	189	6.6	2,656	216	7.5	2,603	269	9.4
45,000	3,234	3,044	190	5.9	3,009	225	7.0	2,941	293	9.1
50,000	3,601	3,391	210	5.8	3,356	245	6.8	3,284	317	8.8
60,000	4,331	4,076	255	5.9	4,041	290	6.7	3,969	362	8.4
70,000	5,059	4,803	256	5.1	4,756	303	6.0	4,660	399	7.9
80,000	5,818	5,531	287	4.9	5,484	334	5.7	5,388	430	7.4
90,000	6,592	6,259	333	5.1	6,212	380	5.8	6,116	476	7.2
100,000	7,365	7,013	352	4.8	6,949	416	5.6	6,844	521	7.1

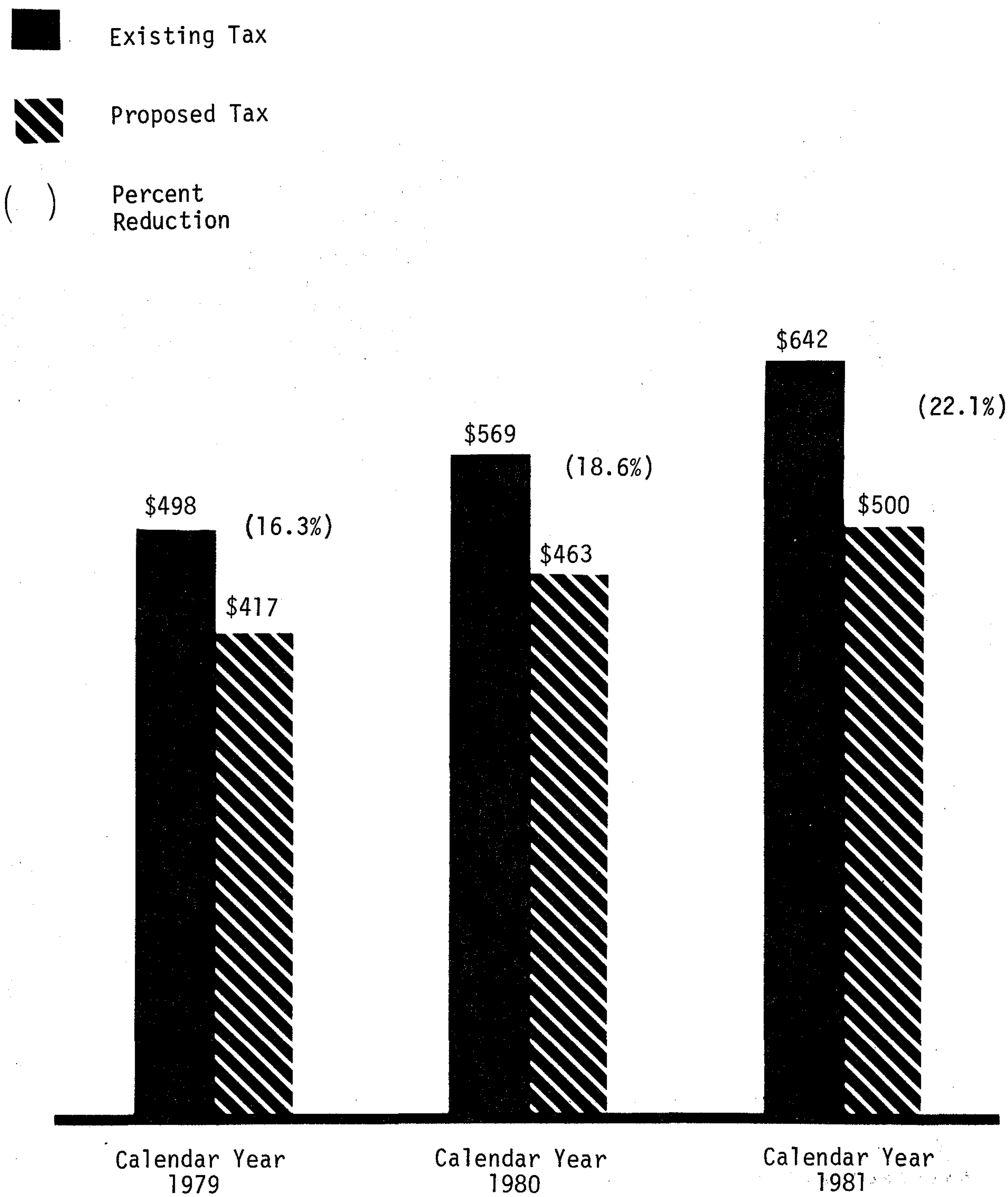
Under my plan, taxes will be based more on real earnings than on the artifically high income caused by inflation. The preceding tables show how those extra tax dollars the state would receive without indexing will be eliminated from state revenues.

The graph on the next page shows how, without indexing, the inflation penalty paid by a family of four with a $15,000 income in 1979 would grow over the next ten years (the graph assumes a 7 percent rate of inflation). The shaded area represents tax revenues to which the state is not entitled. My plan, through indexing, will ensure that taxpayers do not suffer this "inflation penalty."


HOW THE INFLATION PENALTY
GROWS OVER TIME
1979 - 1990
FAMILY OF FOUR
TWO WAGES, 75-25 SPLIT
Inflation Penalty = higher tax due to progressive taxation of inflationary growth in income
$1,500
$1,000
$498
$417
Tax Without Indexing
Tax With Indexing
$1,866
$1,054
INFLATION PENALTY
NOTE:
1979 income = $15,000 which grows at 7% per year
1979
1980
1982
1984
1986
1988
1990

IMPACT OF PROPOSED TAX CUT

FAMILY OF FOUR

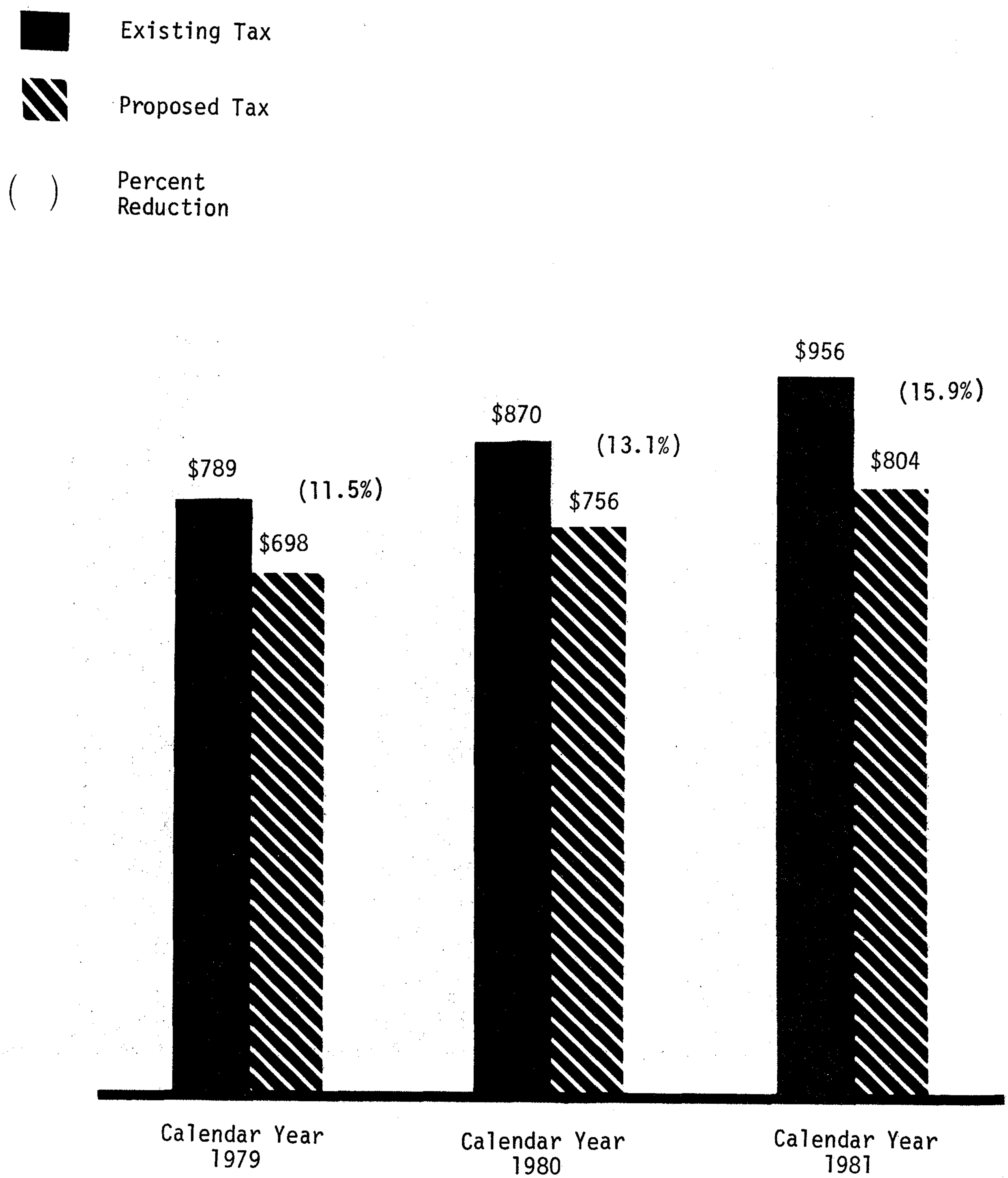


Income:	$15,000	$16,050	$17,174

Note: Income Increased 7% per year
Two wages, 75-25 split

IMPACT OF PROPOSED TAX CUT

SINGLE TAXPAYER

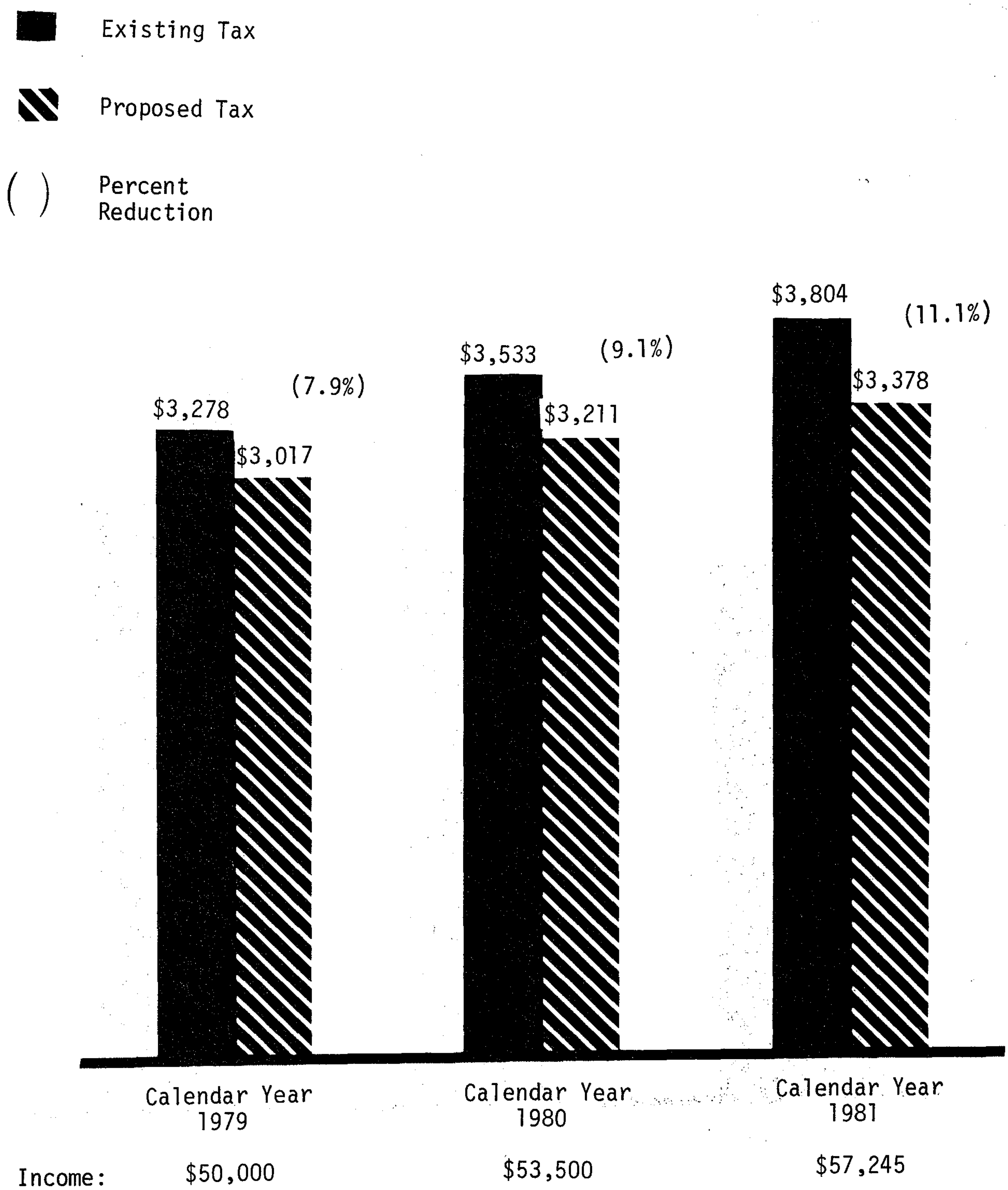


Income: $15,000 $16,050 $17,174

Note: Income Increased at 7% per year

IMPACT OF PROPOSED TAX CUT

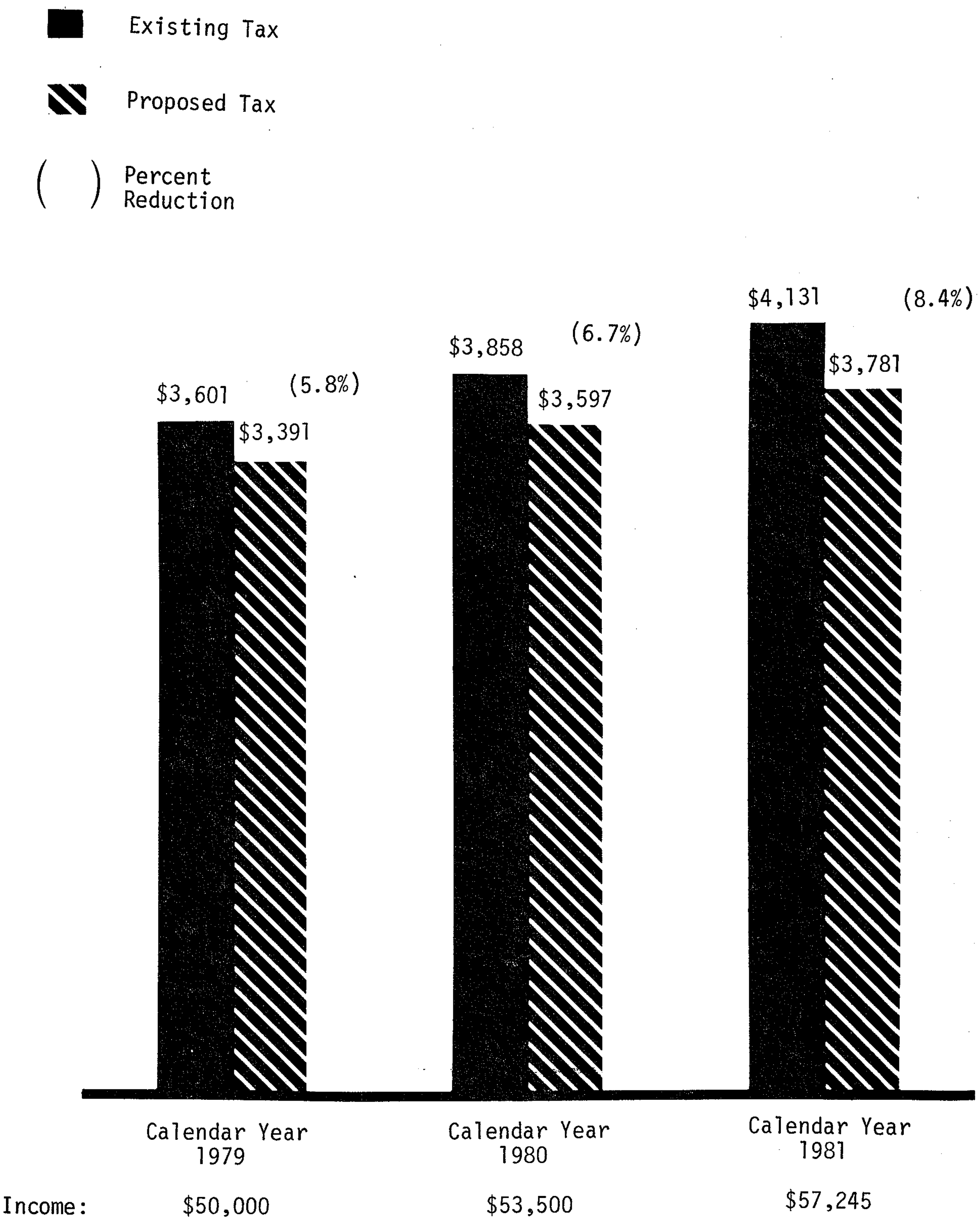
FAMILY OF FOUR



Note: Income Increased at 7% per year
Two wages, 75-25 split

IMPACT OF PROPOSED TAX CUT

SINGLE TAXPAYER



Note: Income Increased at 7% per year

TAX RELIEF FOR BUSINESS

Minnesota must do everything it can to ensure a healthy, strong business climate. Many of the factors that make up a state's business climate, such as weather and geography, are beyond anyone's control. However, we can do something about one of the most important aspects of business climate--taxes. To encourage healthy growth of business activity and the state's economy as a whole, I am calling for major changes in the way Minnesota's corporations are taxed.

Presently, Minnesota levies tax at a statutory rate of 12 percent on all corporate taxable income. This flat 12 percent rate applies to all corporations, regardless of size. The current structure allows multi-state companies doing a portion of their business outside the state to exempt some of their income from taxes (this is accomplished through the three-factor weighted apportionment formula). Many other companies who do most of their business within Minnesota find that the 12 percent rate applies to most or all of their income.

My tax plan includes a change in the corporate income tax that is specifically designed to provide relief for those Minnesota firms who do most or all of their business within the state. I propose that we help these firms in two ways:

First, we should change the corporate tax rates. My plan calls for taxing the first $20,000 of a corporation's taxable income at 6 percent, and only applying the present 12 percent rate on the remaining income.

In fiscal year 1980, this will provide $19.2 million in tax relief to all corporations who pay more than the present $100 minimum tax. An additional $21 million in relief will come from this rate change in 1981. While all firms not paying the minimum tax will benefit from this change, smaller companies will receive proportionately larger tax reductions.

The second part of my plan limits the total amount of tax any company must pay to no more than 10 percent of its total net income. If a company's total tax bill based on 6 percent of the first $20,000 and 12 percent of the remainder comes to more than 10 percent of its total net income, that company will get a tax credit to bring its tax bill down to the 10 percent maximum.

Right now, provisions in the corporate tax law keep many large multi-state firms below the 10 percent maximum; the most benefit under this proposal will go to Minnesota-based companies doing most or all of their business within Minnesota. This change will give over $9 million in tax relief each year. More than 40 percent of the firms that stand to gain the most from this change are wholesale and retail trade firms. Table 13 on the next page shows the number of firms affected by my proposal.

TABLE 13

NUMBER OF FIRMS AFFECTED BY
CORPORATE INCOME TAX RELIEF
(Based on 1977 returns)

Proposal	Number of Firms Receiving Tax Relief	Percent of All Firms	Type of Firms	Amount of Relief (Biennium) (millions)
6% on first $20,000	15,500	50%	all corporations not paying minimum tax	$40.2
10% effective Rate	1,300*	4%	corporations with high taxable income who do most of their business in Minnesota	$18.6
TOTAL	16,800	54%		$58.8

*While these corporations benefit by the six percent rate, their taxes are further reduced by the ten percent effective rate ceiling.

The following are two examples of how the corporation tax proposals impact two hypothetical corporations:

HOW A MINNESOTA BASED CORPORATION WILL BENEFIT FROM THE PROPOSED RATE OF 6% ON THE FIRST $20,000 OF TAXABLE INCOME

	Without Tax Cut	With Tax Cut
Total Net Income	$ 15,000	$ 15,000
Minnesota Net Income	15,000	15,000
Credits*	1,000	1,000
Taxable Income	$ 14,000	$ 14,000
Tax	$14,000 @ 12% = $1,680	$14,000 @ 6% = $840
Reduction Due to Lower Rate	-	$ 840
% Reduction	-	50%

HOW A MINNESOTA BASED CORPORATION WILL BENEFIT FROM THE PROPOSED 10% EFFECTIVE RATE CEILING

	Without Tax Cut		With Tax Cut
Total Net Income	$1,000,000		$1,000,000
Minnesota Net Income	1,000,000		1,000,000
Credits*	20,000		20,000
Taxable Income	$ 980,000		$ 980,000
Tax Before 10% Limitation	$980,000 @ 12% = $117,600	$ 20,000 @ 6% $960,000 @ 12%	$ 116,400
Credit to Reduce Effective Rate to 10%	-		$ 16,400
Tax	$ 117,600		$ 100,000
% Reduction	-		15%

* Credits such as $500 specific credit, contributions, and dividends received.

Taxation of Railroads

For many years our Minnesota law required that railroads pay five percent of their gross receipts instead of paying property tax. These amounts were paid into the state treasury.

The gross earnings tax paid by railroads was close to the property tax they would have paid in the days when personal property was taxed and railroads were profitable. However, now that personal property is exempt and many of the railroads are unprofitable or in bankruptcy or receivership, the amount they now pay under the gross earnings tax is much higher than the amount of property tax they would pay.

Congress, in 1976, recognized that many of the states imposed a higher property tax burden on railroads than on other businesses and mandated that states end these inequities by February 5, 1979.

The gross earnings tax due from railroads in 1978 was approximately $25 million. The amount they would have paid in property tax is approximately $10 million.

I am proposing that railroads be taxed on the same basis as other companies. The gross earnings tax must be repealed; railroads will be subject to property tax in the same way as other businesses are. The legislature will then need to address the need for adjustments in the local aids formulas.

My plan will set up a central assessment system through the Minnesota Department of Revenue. First, the Revenue Department will determine the value of the entire railroad--both the part within Minnesota, and the part outside Minnesota. Then it will determine how much of the total value of the railroad should be allocated to Minnesota. The Department of Revenue will then notify each local community containing railroad property of its share of the Minnesota value. Finally, each local community will collect property tax based on its own mill rates.

INHERITANCE TAX

Equal Treatment

Minnesota's inheritance tax law now places a heavy burden on widows and widowers who held family farms or other small family businesses in joint tenancy with their spouses. The present law subjects that entire property to inheritance tax when one spouse dies, even though both husband and wife may have worked as equal partners in the business.

It is possible, under present law, for the surviving spouse to get part of the property exempted from the inheritance tax--but that spouse must prove that he or she contributed money, or its equivalent in labor or goods, to the business. Thus, the present law places the burden of proof on the surviving spouse. In practice, a widow ends up paying more inheritance tax than does a widower, because husbands usually have an easier time documenting their contributions to a family business.

My plan changes the inheritance tax law so that it recognizes the partnership nature of marriage where property is held in joint tenancy. Under my proposal, a wife--or husband--won't have to prove she or he contributed to the business or farm; the law will assume that each spouse made an equal contribution. Half of the property held in joint tenancy--the half assumed to represent the surviving spouse's contribution--will be exempt from inheritance tax.

The following example shows the difference in the amount of inheritance tax a widow now owes on a farm held in joint tenancy, and the amount she would owe under my proposal:

Estate of John Doe includes the following assets held jointly by John Doe and Mary Doe, his wife, prior to his death.

Homestead farmland 120 acres at $1,000		$ 120,000
Jointly held savings accounts, stocks, personal property		80,000
		$ 200,000

Current Law

Mary Doe, surviving spouse		
Personal exemption	$60,000	
Homestead exemption	45,000	
		$105,000
Subject to tax (ignoring all other deductions)		$ 95,000
Tentative tax		3,400
Less: Maintenance Credit		270
Tax owed		$ 3,130

Proposal

Mary Doe, surviving spouse		
Jointly held assets (1/2)	$100,000	
Personal exemption	60,000	
Homestead Exemption	45,000	
	$205,000	
Tax owed		-0-

My plan also provides for fair treatment in cases where the surviving spouse actually contributed more than half of the goods and services needed to run the farm or business. If such a person can show that he or she contributed more than the 50 percent which will automatically be exempt from inheritance tax, then the portion of the property subject to tax will be reduced accordingly. This proposal will provide $10.6 million in inheritance tax relief during the biennium.

Indexing the Homestead Exemption

I believe another change in the inheritance tax laws is also necessary. This one concerns the amount of the homestead exemption. For years, the first $30,000 of a homestead's value was exempt from inheritance tax. Then, in 1976, the legislature changed that amount to $45,000, because it recognized that property values, especially in rural Minnesota, had skyrocketed.

In fact, the average selling price of a home in Minnesota rose 28 percent last year alone. Inflation and the growing demand for housing are pushing property values higher, and as a result, the state collects more and more inheritance tax on a homestead.

I propose to remedy this situation by indexing the amount of the inheritance tax homestead exemption. Under my plan, the Department of Revenue will determine the amount of the homestead exemption each year. The Department already collects data on the selling prices of homes for property tax purposes; that same data will be used to determine how much the inheritance tax homestead exemption should be. That way, the homestead exemption will change to allow for rapidly increasing prices in the housing market.

This example compares the amount of a homestead's value subject to inheritance tax now with the amount subject to tax after indexing:

1978 value of home	$40,000	
1979 value (28% increase)	51,200	
Current Exemption	45,000	
	$ 6,200	subject to inheritance tax
Indexed Exemption (28% increase)	57,600	
	$ 0	subject to inheritance tax

Sales Tax Relief for Farmers

A thriving agricultural economy is vital to Minnesota's continued economic well-being. But farmers are in a difficult time. The sharp increases in yields, crop prices, and demand for foodstuffs in the early 1970s have been replaced by declining prices, declining demand, and steep increases in production costs -- most notably, for petroleum-based fuels and fertilizers and for farm equipment.

The state can do little to control the costs of imported oil, but it can help farmers reduce the costs of farm machinery. Before explaining the details of my proposal to reduce the sales tax on farm machinery, I think it is important to look at some examples of the costs a Minnesota farmer faces today:

> In 1978, a farmer spent about $8,300 to buy a new 20-foot disk, which is used for about 21 days a year -- until it wears out in a few years.
>
> A new self-propelled combine/picker-sheller cost about $71,000 last year; a farmer gets about 3 weeks' use a year from it, and it wears out in 7 years.

The point is, farm equipment wears out quickly, even though it is used for only a short time each year. I am, therefore, proposing $11.4 million in tax relief to farmers by reducing the sales tax on farm machinery.

My plan calls for lowering the sales tax from 4 percent to 3 percent in 1980, and then still further to 2 percent in 1981. This proposal includes used equipment and repair parts as well as new equipment. The Department of Revenue will prepare precise definitions of "farm machinery" to make sure this partial tax exemption is not abused.

GIFT TAX

The current laws relating to the taxing of gifts contain blatant sex discrimination. I am proposing changes to eliminate this discrimination. As the law now stands, a husband can give his wife up to $31,750 worth of property or money and pay no state gift tax. A wife, however, can give her husband only $9,000 without owing state gift tax. Under my plan, a wife will be able to give just as much to her husband without paying the state a tax on the gift as a husband can now give his wife.

This example shows the differences between the tax on a gift from a husband to his wife and a gift from a wife to her husband under the present law, and how my plan will correct that inequity:

		Present Plan	Proposed Plan
	Husband's gift to wife	Wife's gift to husband	Wife's gift to husband
Amount of Gift	$31,750	$31,750	$31,750
Annual exclusion	3,000	3,000	3,000
Subject to tax	$28,750	$28,750	$28,750
Specific exemption	10,000	5,000	5,000
	$18,750	$23,750	$23,750
Tentative Tax	300	554	375
Less Credit	300	20	20
			355
Extra Credit			355
Actual amount owed	$ 0	$ 534	$ 0

But my plan does more than make sure gifts from either spouse will be taxed equally in the future. It is also designed to correct the unfairness in the current law as it has affected gifts from wives to husbands in the past. Gift tax is figured on a cumulative basis.

This means that a husband giving money or property to his wife over a number of years has paid less total taxes on those gifts than a wife has paid on the same amount of gifts over the same period of time. The legislation I propose will give those wives an extra credit for the tax they've already paid when they figure the amount of tax due on any future gift.

This example shows how wives who have already paid more tax on gifts will get credit when the tax on a new gift is calculated:

	From Husband to Wife	From Wife to Husband
Prior Gifts	$150,000	$150,000
Prior Tax	6,725	11,400
Credit	300	20
Prior payment	$ 6,425	$ 11,380
1979 Gift	$100,000	$100,000
Using new rates		
Tentative tax	$ 12,725	$ 12,800
Prior Tax Paid	6,725	11,400
	$ 6,000	$ 1,400
Proposed Credit		355
		$ 1,045
Compilation		
Prior tax paid	$ 6,425	$ 11,380
Current liability	6,000	1,045
Total liability for $250,000 gift	$ 12,425	$ 12,425

PROPERTY TAX RELIEF

Property taxes in Minnesota go to pay for the costs of local government services and programs which have been voted into existence by city, town, county and local school elected officals. Property taxes have been increasing in recent years, for two main reasons.

First, cities and counties have been adding new programs and services and expanding existing programs and services. Costs of new programs, along with the costs for existing ones, have been increasing. Since a portion of these costs are incurred due to State laws, the State provides financial assistance. But other costs are to support locally initiated programs which should be funded by revenue from local sources.

Second, real estate values have increased in recent years, due to inflation and the high demand for housing and farm land. To the extent that resulting higher property taxes are necessary to fund local programs, it is the responsibility of local elected officials to control the costs of those programs.

The State of Minnesota has already acted to ease the financial burden imposed on local taxpayers by property taxes. It has increased the foundation school aid formula from $820 per pupil unit in 1975 to $1,252 per pupil unit for 1981--a 65.5 percent increase. It has reduced the local effort required for school finance, decreasing the local mill rate from 30 mills in 1975 to 27 mills for 1980. I have proposed a further increase in foundation aids to $1,272 in 1981 and a further reduction in the mill rate to 26.

State government aids other local programs besides education. It has increased the share it pays of local medical assistance costs from 50 percent to 90 percent. If my budget recommendations are adopted, total state aid to local government (including schools) will increase by $464.7 million--27 percent--over the next biennium.

It will have made available, by the end of the 1979-81 biennium, more than $1.5 billion for the construction and rehabilitation of housing.

These increases in state aids more than compensate for the inflation-related increases in the costs of local government. We must remember that local taxpayers have the responsibility to support locally initiated programs. True, the State of Minnesota has traditionally been an active financial contributor to local government. But local legislative bodies and local taxpayers cannot and should not expect the State to assume the costs of operating local government activities.

There is one class of taxpayers, however, which I believe should be afforded some relief from property taxes. Senior citizens must have some assurance that rising property taxes will not force them from their homes. My plan, therefore, calls for special relief for senior citizens.

Senior Citizen's Freeze

Most senior citizens live on fixed incomes. The purchasing power of this income has been less and less each year because of inflation. Often, senior citizens must make difficult choices on how to spend the limited amount of income they receive. The choices often come down to whether to spend money on necessities such as food, clothing, and utility bills or pay the property taxes on the home.

The legislature addressed this problem in 1973 by adopting a property tax freeze program for senior citizens. Under this program, homeowners could receive a cash refund for any increase in property taxes they had to pay after reaching age 65. This program, in effect, provided a guarantee to senior citizens that their savings and fixed retirement income would not be eroded by escalating property taxes each year.

However, this law was repealed in 1977. Now, senior citizens fear that they may again be faced with rising property tax bills. While few senior citizens actually had to pay more property taxes as a result of the repeal of the law, senior citizens were concerned that increases in property taxes might continue in future years up to a point where they no longer could afford to live in their homes. I am proposing that a limit be placed on the amount of property taxes senior citizen homeowners have to pay. This limit will guarantee senior citizens that their property taxes will not be more than 1-1/2 percent of the limited market value placed on their homes. Those senior citizens whose property taxes are more than 1-1/2 percent of the limited market value would receive a refund from the state for the amount of the property taxes they have to pay over 1-1/2 percent.

Here is now this limit would operate to keep property taxes down on a home owned by a senior citizen with an $8,000 annual income in Minneapolis:

Sale price of home	$60,000
Limited market value as a percent of sale prices--Minneapolis	81.5
Limited market value (rounded to nearest thousand)	49,000
Assessed Value	$13,524
Mill Rate--Mpls. (Payable 1979)	130
Gross Tax	1,758
Homestead Credit (45% up to $325)	325
Tax before property tax refund	1,433
Property tax refund ($8,000 income)	475
Net tax	$ 958
1-1/2 percent of limited market value	735
Senior citizen freeze refund	$ 223

Every senior citizen will qualify, regardless of the size of the homestead or the amount of income. The only restriction is a limit on the amount of the refund, which could not exceed $900 per home. This is intended to make sure that those very few senior citizens who live in expensive homes do not receive unusually high cash refunds.

This freeze should help reduce the concerns and anxieties of our senior citizens that rapidly rising property taxes will force them from their homes.

Tax Court Decision on Property Tax Values

Last Thursday, Feburary 1, the Minnesota Tax Court in a unanimous decision declared the limited market value feature of our property tax laws unconstitutional, as it applied in a particular case. Should this decision stand, our property tax system will need a thorough review and substantial revision.

I regard this situation as the result of attempts to provide quick solutions to complex problems--solutions which do not stand the test of time.

The potential changes that may come from this decision are such that my office and the legislature will require a prompt analysis of its potential impact and an understanding of the options for change.

Therefore, I have directed our Department of Revenue to prepare statements of impact and to list options which can be considered. Rather than formulating a stopgap approach, we should pursue solutions that are equitable and fair to all taxpayers and that will continue to serve us well into the future.

TAX RELIEF FOR PENSIONERS

Public pensions were first subjected to Minnesota income tax in 1978. Many senior citizens who had planned for a tax-free pension suddenly found themselves receiving a smaller annual income due to the taxes they owed the State.

The 1978 Legislature attempted to remedy the inequities of the pension tax law by excluding the first $7,200 of pension income. But this exclusion is offset by Social Security, railroad retirement, and other income in excess of $13,000.

I don't think the Legislature went far enough. Therefore, I am recommending that the pension exclusion be increased to $10,000. In addition, all present offsets that reduce this exclusion should be eliminated.

This proposal will mean that over 95 percent of those receiving pensions will pay no tax on that income in the future. This will provide $32.2 million in tax relief during the next two years.

The next page shows how this change will cut the tax bill for a person receiving pension income.

HOW THE PROPOSED PENSION EXCLUSION COMPARES TO EXISTING LAW

(Married - one income, no children)

	Present Law	Proposed Law
Pension Income	$ 8,000	$ 8,000
Social Security	3,200	3,200
Income From Dividends and Interest	8,000	8,000
Total Income	$19,200	$19,200
Maximum Pension Exclusion	7,200	10,000
Less Social Security	-3,200	0
Less Other Income Over $13,000	-3,000	0
Pension Exclusion Allowed	1,000	10,000
Pension Income	8,000	8,000
Less Pension Exclusion	-1,000	-8,000
Taxable Pension Income	7,000	0
Taxable Pension Income	7,000	0
Other Income Subject to Tax	+8,000	+8,000
Total Income Subject to Tax	15,000	8,000
Minnesota Tax Liability	$ 860	$ 92
% Reduction		89%

TAX EQUITY FOR MILITARY RESERVISTS

The 1978 Legislature enacted legislation which permitted most members of the National Guard to take a $140 tax credit. The law did not permit members in other branches of the military reserve to take this credit.

It is my belief that tax laws should be based on a sense of fairness, treating all members in the same class equally. Therefore, I am recommending that the $140 tax credit be extended to all military reservists. This will allow an additional 7,700 authorized reserve personnel the opportunity to take the $140 tax credit. The total amount of additional tax relief provided by this proposal would amount to $2.8 million during the biennium.

PRESENT AND PROPOSED MILITARY RESERVE TAX CREDIT

	Present Law National Guard[1]	Present Law Other Reservists	Proposed Law All Reservists[1]
Gross Income[2]	15000	15000	15000
Tax Before Credit[3]	498	498	498
Credit	140	--	140
Tax	358	498	358

1 Rank of Captain or below.

2 Includes military income.

3 Assumes married filer with two incomes (75-25 split).

SOLAR ENERGY INCENTIVES

Currently Minnesota has no major energy resources - no bituminous coal or lignite, no crude oil, no natural gas liquids or natural gas, no uranium or thorium.

But, we do have one resource with unlimited potential. We have the sun. Every 40 minutes the sun delivers to the Earth's surface as much energy as the entire world uses in a year.

Solar energy not only has the potential to become a major energy resource, but it is also very attractive for other reasons. It's clean, it's safe, it's unlimited, and it will be economical.

Current available hardware and systems have the potential of supplying about 50% of Minnesota's hot water and space heating. In the future, if technical advances in long-term thermal storage prove economically feasible, 100% of our hot water and space heating needs could be met with solar energy. This would result in a 30% reduction in the total energy used in Minnesota.

But at the present time it is not always economically feasible to install solar energy equipment.

The Minnesota Energy Agency has estimated that, without State and Federal incentives to develop solar energy, less than one-half of one percent of Minnesota's energy needs could be met by solar energy by 1995. With incentives, this figure would almost triple so that an equivalent of 400,000 Minnesota homes would be equipped with solar collectors providing one-half the homeowners' heating needs.

I believe that incentives are necessary at present, because of the high initial costs compared with the relatively inexpensive costs of conventional fuels.

I am, therefore, recommending a five-year tax incentive program which will allow taxpayers to take a 10% tax credit, up to $1,000, on the purchase of solar equipment.

I am also recommending that the 4% sales tax be eliminated on solar equipment purchased before July 1, 1984.

The estimated tax relief these two incentives would provide is estimated at $700,000 for the biennium.

CONCLUSION

In closing, let me say that the myriad of details which constitute my tax relief proposals have been carefully developed. After you have had the opportunity to study them, I believe that you will agree with me that they will stand the test of close public scrutiny.

These proposals are fair. They are comprehensive. They are sound. Above all, they will target tax relief to the areas where it is most needed.

During the forthcoming weeks you will all be working diligently to assure a tax cut for our citizens. I want to work with you. Only by working together can we best serve the people of Minnesota.

APPENDIX

SUMMARY OF GOVERNOR'S $575 MILLION TAX RELIEF PLAN 1979-81 BIENNIUM

Type of Relief			Amount (millions)	Percent
Individual Income Tax				
-10% Tax cut	$341.8	(59.4%)		
-Indexing	50.0	(8.7%)		
-Low income credit expansion	24.5	(4.3%)		
-subtotal			$416.3	72.4
Business Tax Relief				
-Reduction from 12% to 10%	$ 18.6	(3.2%)		
-Reuction from 12% to 6% on first $20,000	40.2	(7.0%)		
-subtotal			$ 58.8	10.2
Pension Exclusion Increase			$ 32.2	5.6
Railroad Tax Relief			$ 30.0	5.2
Senior Citizens Property Tax Freeze			$ 12.1	2.1
Farm Machinery Sales Tax Reduction			$ 11.4	2.0
Inheritance and Gift Tax Reform			$ 10.6	1.8
Military Reserve Credit			$ 2.8	0.5
Solar Energy Incentives			$ 0.7	0.1
Total Tax Relief			$575.0	99.9*

*Due to rounding figures don't add to exactly 100%.

TAX COMPUTATION ASSUMPTIONS

All tax liabilities are computed assuming all income is from wages. The 1979 Federal tax liabilities are incorporated into the computations. Standard deductions are taken for income up to $10,000, and itemized deductions are assumed to equal 23 percent of gross income up to $20,000, and 16 percent thereafter.

EFFECTIVE DATES OF PROPOSED TAX RELIEF

January 1, 1979	July 1, 1979	July 1, 1980
1. 24% bracket expansion	1. Sales Tax on Farm Machinery lowered to 3%	1. Sales Tax on Farm Machinery lowered to 2%
2. Low Income Exclusions adjustment	2. Corporate Tax Cuts	2. Income Tax Indexing
3. Military Reserve Credit	3. Solar Energy Relief	
4. New Pension Exclusion	4. Inheritance Tax Changes	
5. Railroad Tax Relief		
6. Senior Citizens Freeze Credit (1979 Tax, Payable 1980)		