Tax Policy and Administration through an Equity Lens

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Policy Issue

- The correlations between race and economic well-being are well documented. By some measures, disparities in Minnesota are among the largest in the nation.
- There is a growing body of research on the connection between how laws have been structured and disparate impacts on BIPOC populations.
- Professor Dorothy Brown's recent book *The Whiteness of Wealth* described specific examples of bias in the federal income tax code that exacerbate racial disparities. These include the origins of the married-joint return, and various tax benefits related to housing, education, investment wealth and the labor market.
- ITEP just released a paper "State Income Taxes and Racial Equality" with specific policy recommendations to address racial wealth disparities.

Goal

Minnesota Revenue's Goal: Enhance equity review efforts by analyzing taxpayer data by demographic cohorts to deepen understanding and inform public discussions around tax policy and administration

Possibilities with demographic data analysis

- Analyze current tax distributions by racial and ethnic groups, or other demographic characteristics
- Analyze take-up rates for various tax benefits to better target outreach
- Analyze impacts of proposed law changes for potential disparate outcomes
- Analyze administrative practices for possible bias (e.g. audit selection, customer service interactions, collections activities)

Options We're Exploring

Most promising and feasible approaches in the short term

1. Compare census demographic data to summary tax data
2. Use targeted surveys to collect demographic data directly from taxpayers

Other approaches we discussed that could be considered in the future:

A. Acquire existing demographic data on individuals to match to our tax data

B. Use existing tax data to impute likely race/ethnic identification of taxpayers

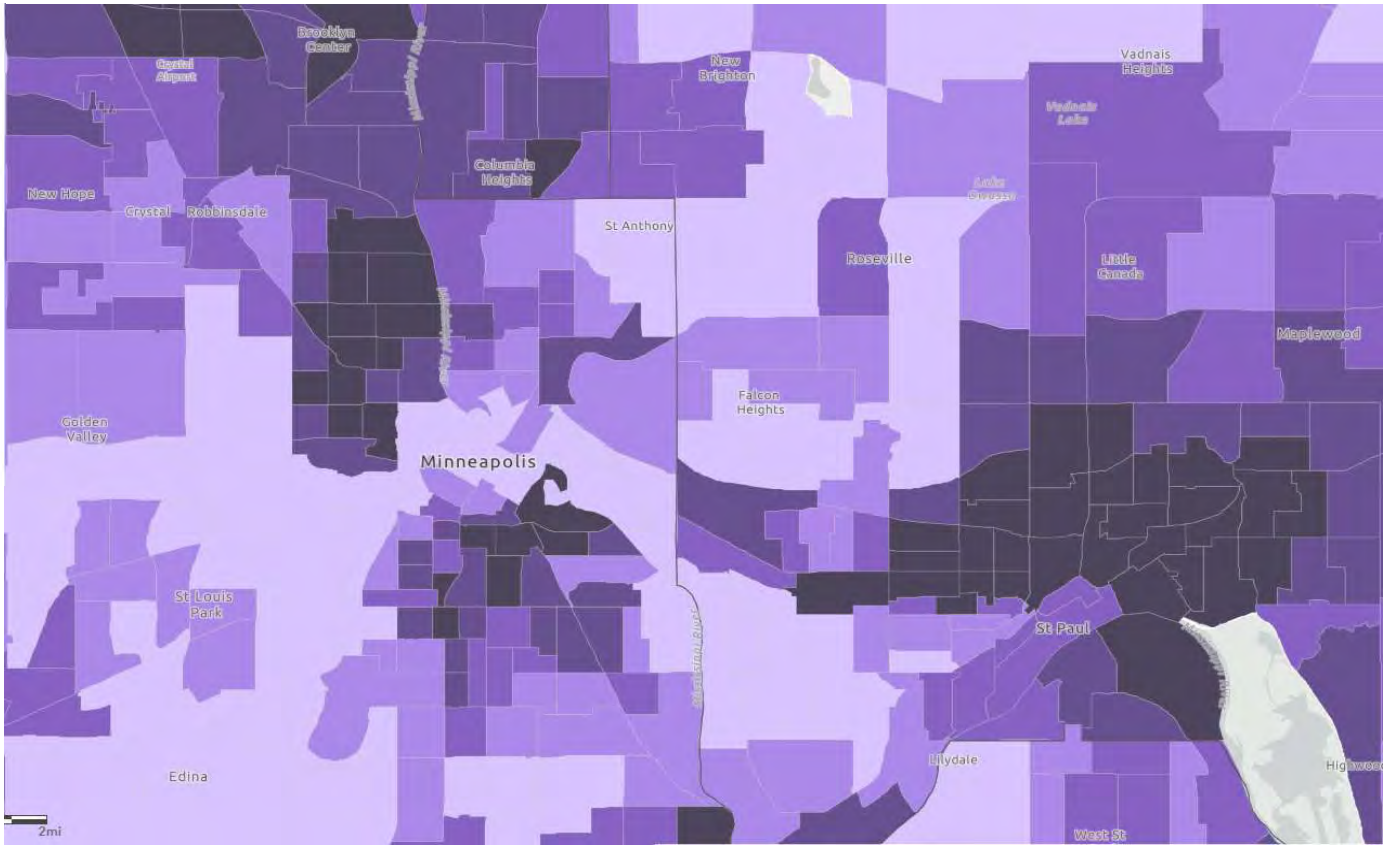
C. Collect race/ethnic data on tax forms

Option 1: Compare census demographic data to summary tax data

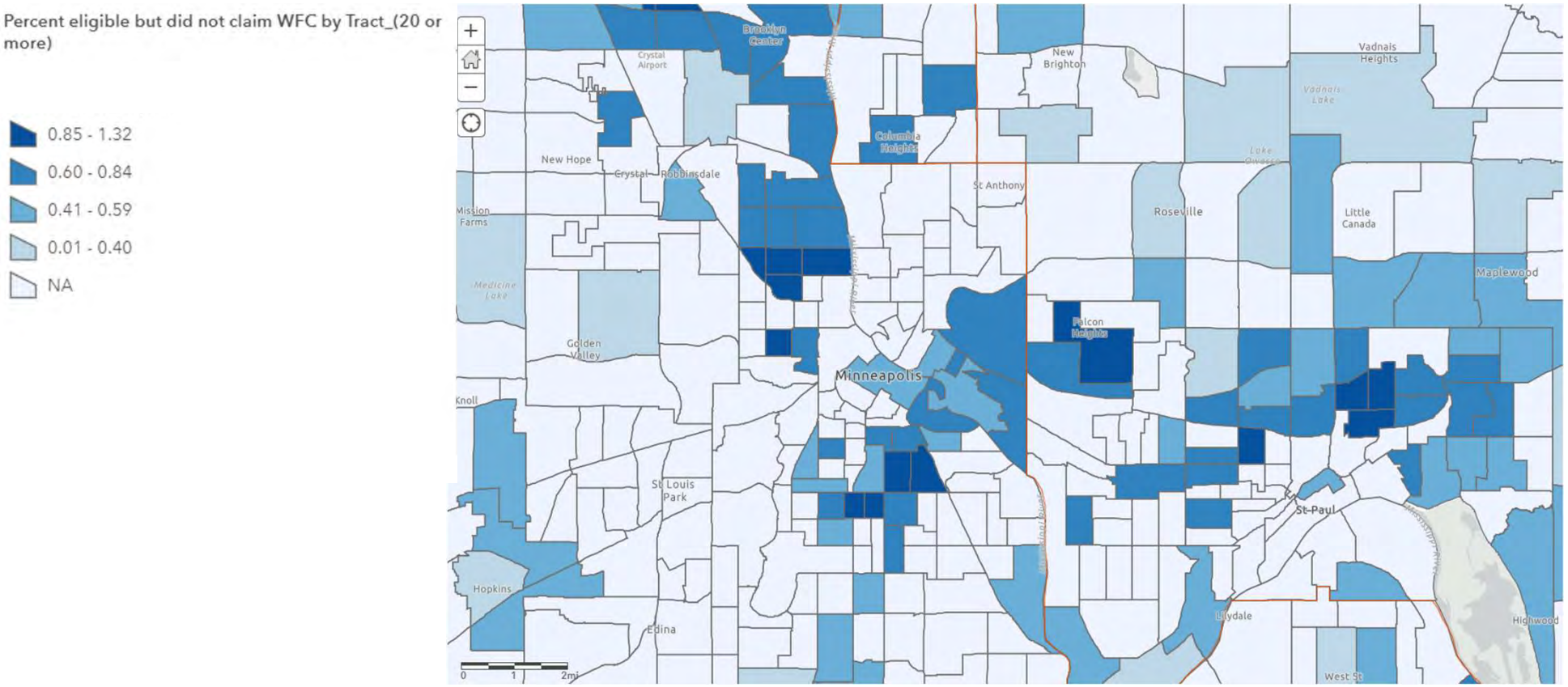
Working Family Credit

Percent population that claimed WFC

- > 11.1% - 18.2%
- 7.9% - 11.1%
- 5.4% - 7.9%
- 3.2% - 5.4%
- 0.8% - 3.2%



Unclaimed Working Family Credit



Predominant Racial/Ethnic Identification

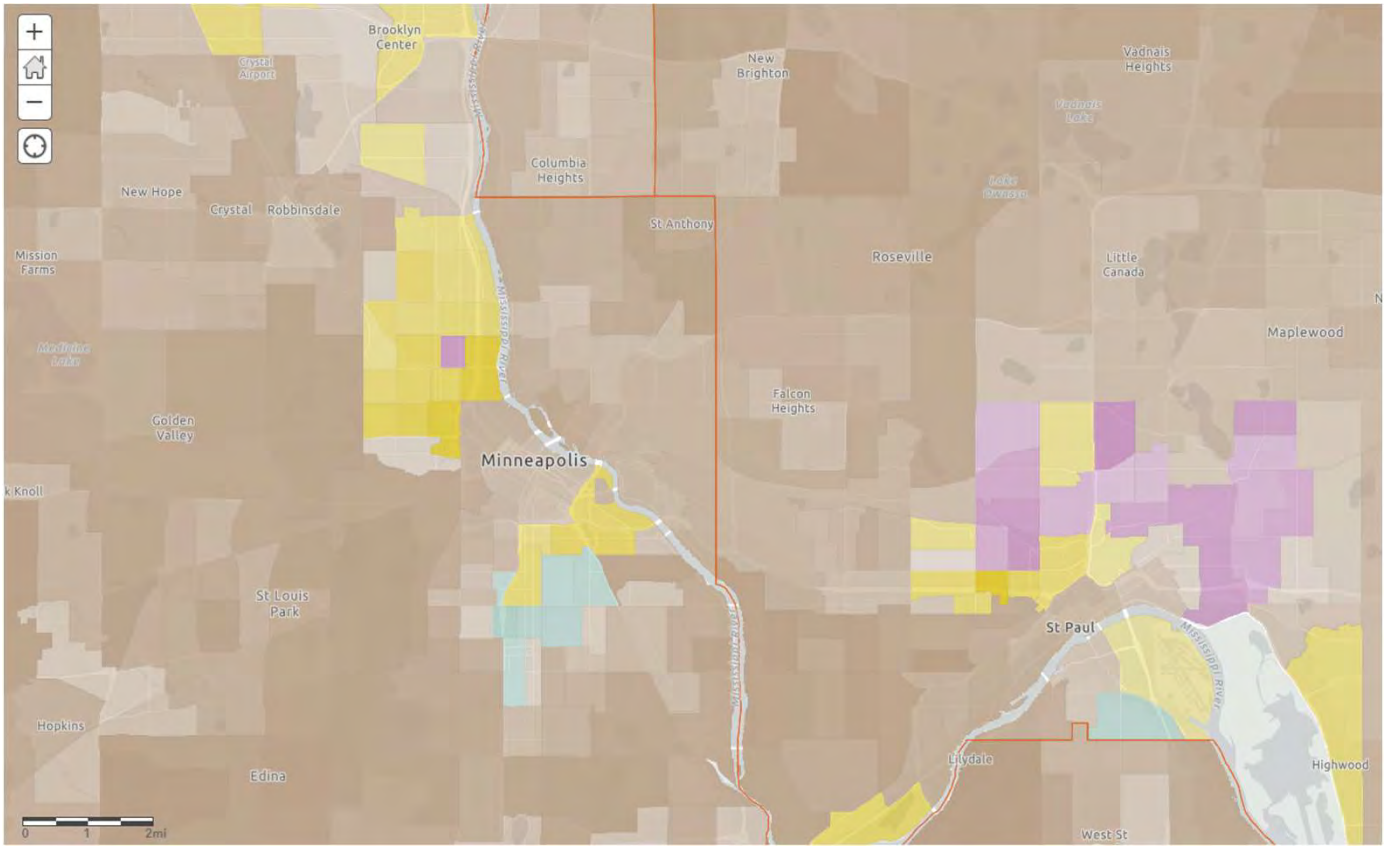
ACS Race and Hispanic Origin Variables - Boundaries - Tract

Predominant category

- Non-Hispanic White Population
- Hispanic or Latino Population
- Black or African American Population
- Asian Population
- American Indian and Alaska Native Population
- Two or More Races Population
- Native Hawaiian and Other Pacific Islander Population
- Some Other Race Population

Strength of predominance

- > 97
- < 13



Comparing summary data

20+ Tracts with highest percentage of eligible but unclaimed (.85 - 1.32)

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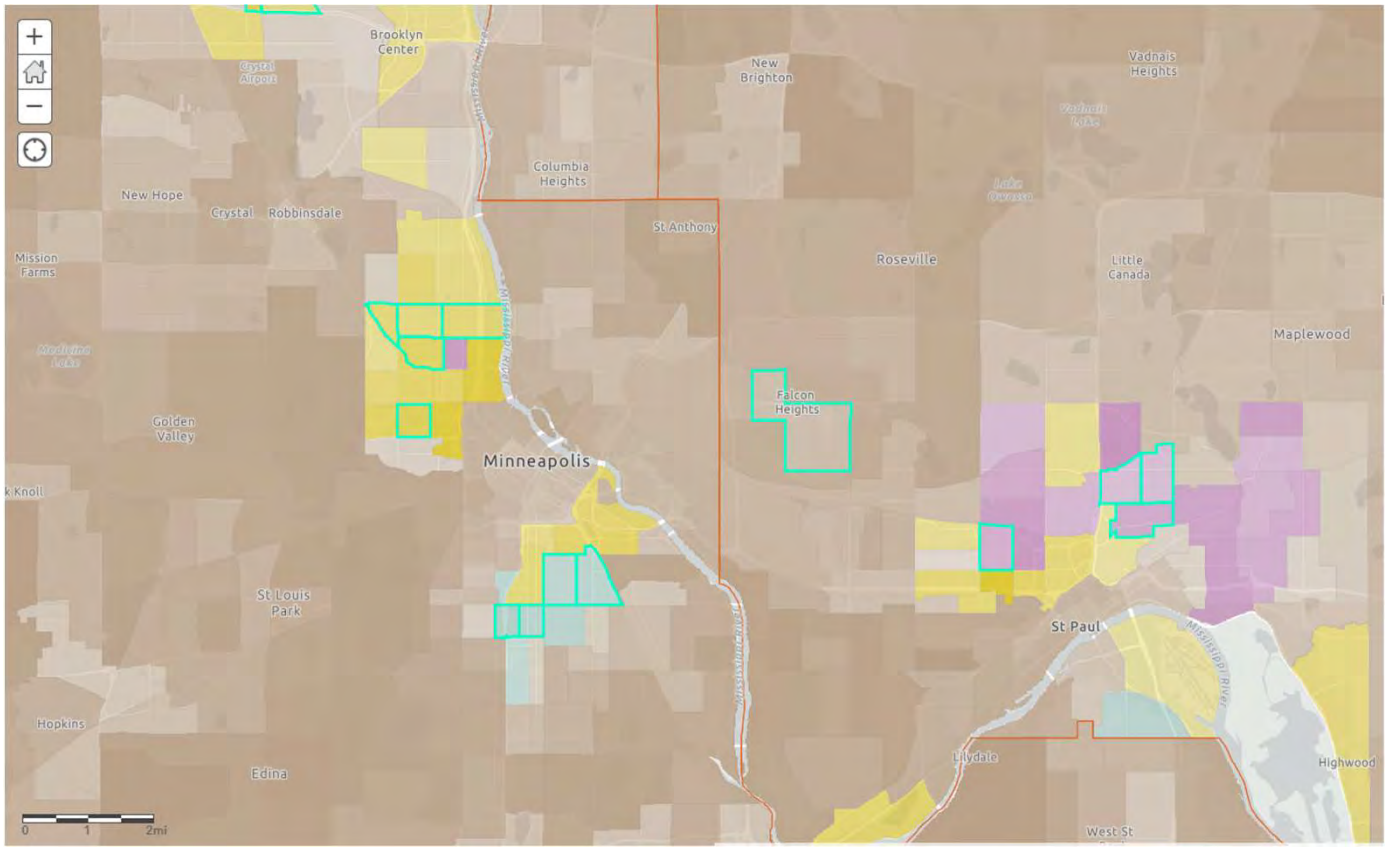


Limited English Ability

ACS English Ability and Linguistic Isolation Variables - Boundaries - Tract

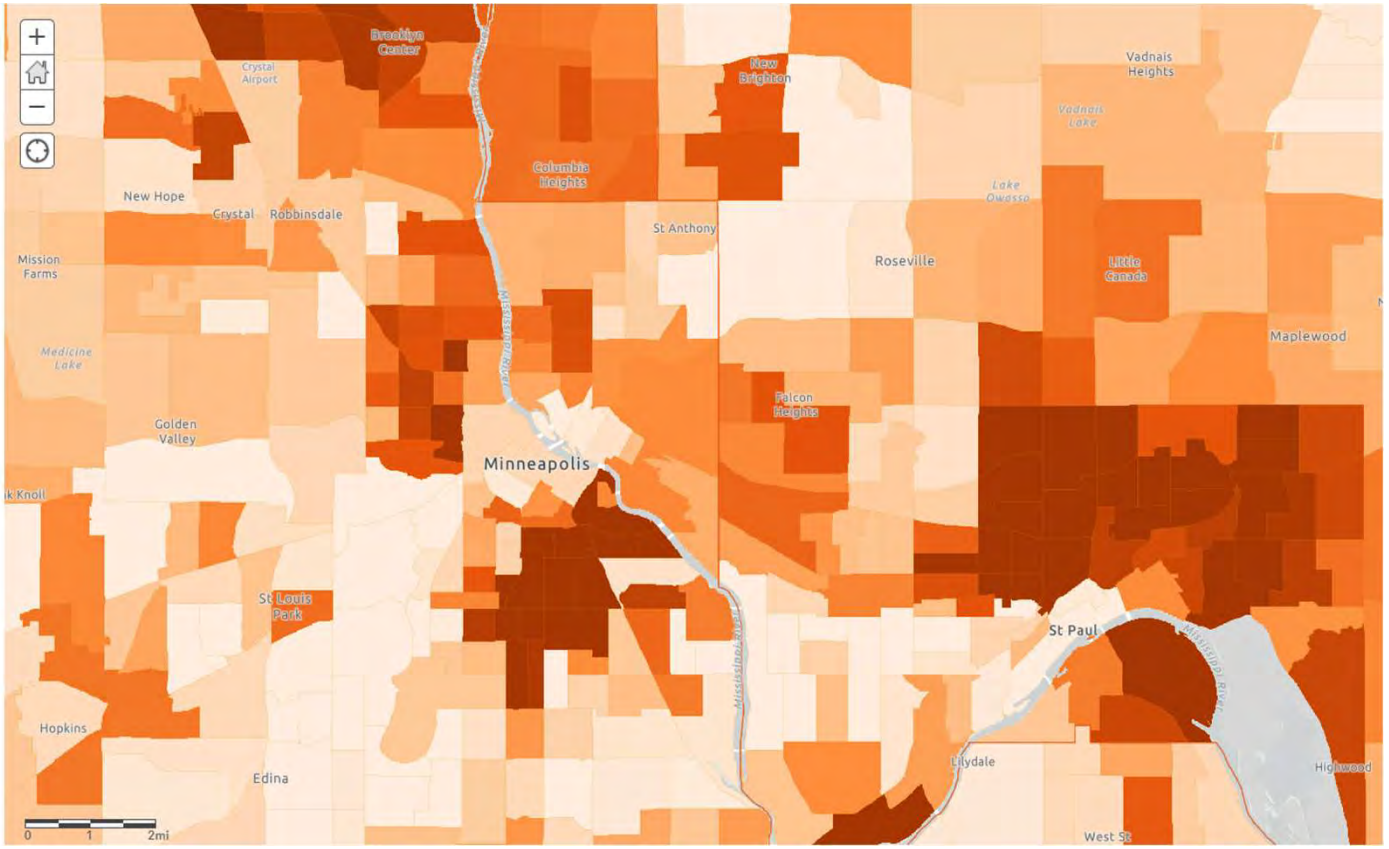
Percent of adults 18 years and over who have limited English ability

> 24%

9% - national figure

< 1%

No Value



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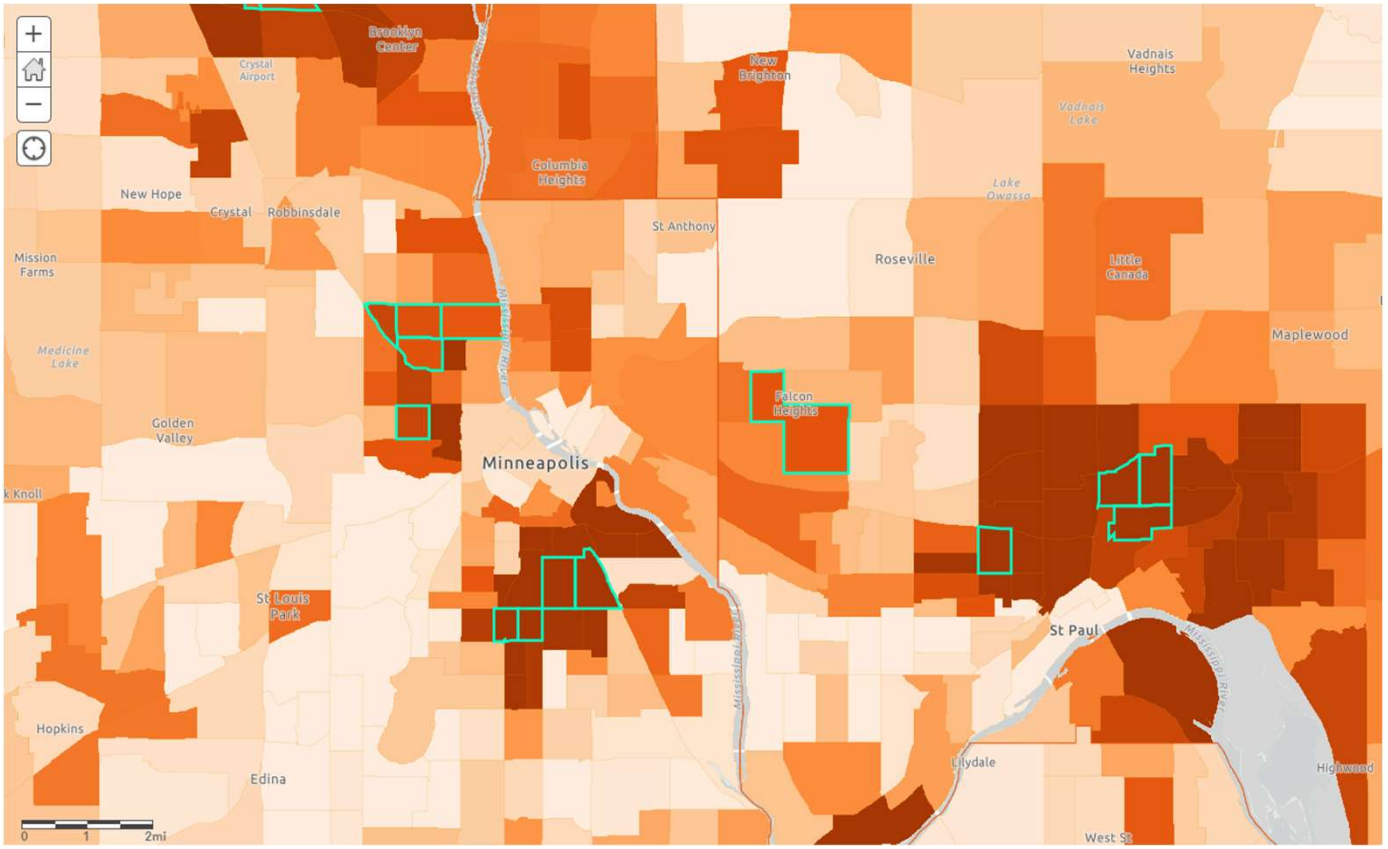

Pros and Cons of Geographic Comparisons

Pros

- Already have the tools needed
- Relatively easy to do
- Wide array of Census data to compare to tax data

Cons

- Reveals patterns of association across geography but not direct information about specific taxpayers
- Findings come with considerable uncertainty

Note: New block level data from the 2020 decennial census will allow more granular analysis.

Option 2: Targeted surveys of taxpayers

Use surveys to collect data from taxpayers

2a. Surveys of taxpayers who interact with the department on administrative practices such as customer service outcomes, audit selection, or collection actions:

2b. Anonymous public opinion surveys collecting both race/ethnicity and tax data on specific policy questions:

- Example – adequacy of student loan interest deduction by income and race/ethnicity
- Need new survey for every new research question

Other Options

Other options we explored

A. Acquire existing demographic data from other source to match to tax data

- No known comprehensive source for all taxpayers
- Options for subsets of taxpayers still will have imperfect match to tax records
- Reliability of results depend on share of taxpayers matched
- May require statutory change

Other options we explored

B. Impute likely race/ethnic identification of taxpayers using existing tax data (Bayesian Improved Surname Geocoding)

- Administratively complicated and labor intensive
- Would allow for more robust, flexible research over time
- Not exact, so results have some uncertainty

Other options we explored

C. Add race to tax forms

- Would allow for the most robust, flexible and reliable analysis
- Most obtrusive to taxpayers
- Would require a law change

Rough comparison of approaches

	Precision of results	Administrative Complexity	Intrusiveness/Risk to Taxpayers and Department	Cost
Most promising approaches				
1. Census tract comparisons	Low	Low	Low	Low
2. Targeted Surveys	Medium	Medium	Medium	Medium/High
Other approaches we explored				
A. Match to external data	Low/Medium	Medium	Medium	Low
B. Impute race data	Medium/High	High	Low/Medium	Medium
C. Collect race on tax forms	High	Medium	High	High

Summary

Analyzing tax data by demographic cohorts can identify and address inequities in tax policy and administration

The different approaches outlined here have varying:

- levels of statistical reliability,
- Administrative complexity,
- Intrusiveness to taxpayers and risk to public trust in the department, and
- Budgetary costs and staff resource demands

Questions?

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