MINNESOTA BUSINESS PARTNERSHIP

Members of the House Taxes Committee: **February 18, 2021**

Thank you for the opportunity to provide comments on behalf of the Minnesota Business Partnership (MBP) regarding HF 991, the Governor's tax proposals. The members of the MBP are the leaders of Minnesota's largest employers, most of which are headquartered in Minnesota. These employers span many industries, including manufacturing, health care, retail, and professional services, and they employ half a million Minnesotans.

These employers are a vital part of the state's economy and are a major factor in our state's high quality of living and economic strength and resilience. In addition to employing hundreds of thousands of Minnesotans, they support small and mid-sized businesses as customers of those businesses. Minnesota employers account for about half of all charitable grants in Minnesota, giving hundreds of millions of dollars every year to health, education, and cultural programs.

Although the COVID-19 pandemic has impacted Minnesota businesses in varying degrees, 2020 was a challenging year for all Minnesota businesses. Employers have been focused on responding to the pandemic, adapting to a changing work environment while making significant investments to keep employees and customers safe, and navigating state and federal directives.

Lawmakers should be looking for ways to encourage these companies to stay in Minnesota, retain and add jobs here, and thrive. Instead, the tax increases proposed in HF 991 would harm homegrown businesses and put them at a competitive disadvantage. With a fragile economy, imposing large tax increases creates significant new risks at a time when government should be trying to mitigate and reduce risks.

HF 991 proposes large tax increases at a time when Minnesota businesses and individuals already pay some of the highest taxes in the country.

- Minnesota has the fifth highest income tax rate in the country; the Governor's proposal would give us the 3rd highest rate. The high rate makes it difficult to recruit talent to Minnesota and puts businesses that file their taxes through the individual income tax at a competitive disadvantage.

- The federal TCJA law limited the state & local tax deduction, making state income tax rates even more relevant as Minnesota competes with other states as a place for high-wage workers.

- The capital gains and estate tax increases in the proposal will make Minnesota more of an outlier and will incent people to leave the state.

- At 9.8%, Minnesota currently has the 4th highest corporate income tax rate in the nation; the Governor's proposal would give us the highest rate.

Businesses and jobs have become highly mobile and are leaving high tax, high-cost states.

- The COVID pandemic has significantly accelerated the trend toward working remotely. Not only are many employees working from home, but they can also move to other states while working remotely. The number of executives who are choosing to move from Minnesota is increasing; raising the personal income tax rate will hasten that movement.
- The work-from-home phenomenon has led many higher-income individuals to leave high tax, high-cost states such as California and New York for lower-cost states such as Texas, Florida and Arizona.
- Minnesota risks losing businesses and employees who can work remotely from lower-cost states. Tax climate is not the only factor considered when deciding where to locate, invest, or expand, but it is a significant factor.
- If Minnesota wants to continue attracting investment, it cannot keep adding costs and regulations that discourage companies from investing here.

Raising corporate taxes is regressive and uncompetitive.

- The corporate tax is regressive, volatile, expensive to administer, and leads to higher prices and lower wages. The Minnesota Department of Revenue's Tax Incidence Studies have found that corporate taxes are paid by consumers in the form of higher prices, employees in the form of lower wages and benefits, and investors in the form of lower returns.
- Retroactively taxing income earned outside the United States will make Minnesota's tax system more regressive, make Minnesota companies less competitive, and due to likely constitutional challenges, create fiscal uncertainty for the state.
- Minnesota has a long history of primarily only taxing income earned within the U.S. The foreign income provisions in the proposal are a significant departure from Minnesota's and other states tax policies and would result in large, *retroactive* tax increases on many Minnesota-based companies, impeding their ability to compete with foreign companies.
- Minnesota businesses are competing regionally and globally. The global job growth and investment environment is very competitive and being an outlier in so many tax categories creates a risk of pricing the state out of the market for business growth and expansion.

The state should honor agreements made with businesses that invested billions of dollars in Qualified Data Centers.

- Many Minnesota companies made decisions to locate data centers in Minnesota because of the sales tax exemption in current law.

- This exemption is an economic development tool, which is marketed across the country by the Department of Employment & Economic Development. It's worked.

- Companies went through the certification process, made the required investments, and met the requirements in law in return for receiving this exemption for 20 years.

- The proposal reneges on agreements made just a few years into the program by severely limiting, and in some cases eliminating the sales tax exemption.

Raising taxes in the midst of a global pandemic and fragile economic recovery is counterproductive.

- Minnesota has a surplus in the current biennium and the most recent revenue update from Minnesota Management and Budget shows that revenues for FY21 are $459 million above November projections.

- The state's upcoming fiscal forecast is expected to reflect an improving budget situation. This improvement coupled with previous and likely future federal COVID relief funds should preclude raising taxes on Minnesota businesses and families.

A better way to increase revenue to provide funding for needed government services is by growing the economy—helping employers recover from the pandemic, allowing more employees to return to work and making Minnesota a place where people and businesses want to invest. We look forward to working with you to find solutions that ensure Minnesota is a great place to live, work, and grow.

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