May 9, 2019

Dear Chair Chamberlain, Chair Marquart and Members of the Tax Omnibus Conference Committee for HF 2125:

**The Minnesota Chamber of Commerce representing 2,300 businesses statewide and over 500,000 employees, supports policies to best position our state for future success by advancing a business climate that encourages a growing economy, increased investment, entrepreneurship and the creation and retention of jobs in our state.**

The Chamber urges your support of provisions to make our state more attractive for investment, job creation, innovation, and talent recruitment and retention. We remain concerned over the business tax increases contained in both bills. We prefer the Senate approach that enacts pro-growth reforms to reduce the fixed cost of doing business, improvements for tax compliance and better offsets the tax increases from federal tax conformity. The Chamber strongly opposes the House's position due to the detrimental impacts the over $3 billion in new taxes will have on Minnesota's employers, employees and our private sector job climate. These tax increases will greatly increase the cost of doing business in Minnesota for businesses of all sizes, all industries, and in all regions. We are concerned that many of the House provisions will make our state a tax outlier regionally, nationally and internationally.

**We urge your adoption of the following provisions:**

- Full conformity of Section 179 business expensing provisions to help encourage investment in Minnesota operations by small businesses and farmers. We thank both Chairs for inclusion of this provision and would support the House's effective date of TY 2018.
- Senate position on reducing the state business property tax levy. This helps offset the tax increases from federal conformity and will continue progress in reducing a regressive tax for businesses of all sizes all across the state. Minnesota businesses already pay property tax burdens that are amongst the highest in the nation, 2nd highest for some.
- Senate position to reduce the 7.05% individual income tax rate. This is an important reform to help offset tax increases from federal conformity and to make progress in addressing an area where Minnesota is uncompetitive which is our income tax rates. We would urge you to continue to focus in the future on reducing all rates especially our top income tax and corporate tax rate that are amongst the highest in the nation. Numerous economic studies have found that high tax rates negatively impact investment, wages, entrepreneurship, talent recruitment and retention: the very items we need for a strong and growing economy.
- Senate position on enactment of new election for pass-through entities to be able to pay their business income taxes at the entity level. The federal change capping state and local tax deductions (SALT) made high income tax rate states such as Minnesota even more impactful on taxpayers as they are no longer able to deduct some of those taxes on their federal returns. This provision will provide an option to help our businesses mitigate federal tax increases resulting from Minnesota's high income tax rates.
- Adoption of provisions to ease compliance burdens including a needed fix for 163(j) interest limitation cap to clarify that is applies on combined reporting basis similar to federal and is not

400 Robert St. North, Suite 1500, St. Paul, MN 55101
www.mnchamber.com

MINNESOTA CHAMBER OF COMMERCE
GROWING MINNESOTA

retroactive; adoption of Governor's position corporate AMT repeal; and Senate position on federal audit adjustment; partnership audit and private letter ruling.

**We urge your opposition to the following provisions:**

- We urge you to join the majority of other states that are not adopting the new federal foreign income tax provisions. The adoption of the House position would undermine the competitiveness of our headquartered companies with a global presence. The taxation of foreign earnings and worldwide reporting would move Minnesota in the opposite direction of the U.S., other countries and other states that have moved to a territorial system, only taxing income earned within their countries. Such provisions are also likely subject to litigation due to constitutional ability of a state to tax 35 years of foreign earnings plus the additional concern and increased litigation exposure of adopting provisions retroactive to 2017.
- The new capital gains rate of 12.85% making Minnesota's taxes the 2nd highest in nation just behind California. Most states either have a lower rate on capital gains or treat them the same as other income. This would negatively impact investment and attraction of capital to Minnesota and would harm many small business owners that may have a one-time sale of an asset. Much of the appreciation is due to inflation and is also from income that has already been taxed which is why the U.S. and other states enact lower rates for capital gains.
- Removal of an economic development incentive on computer software purchases that was relied on by businesses that invested hundreds of millions in building data centers in Minnesota and now the state is backing out on their end of the deal putting the state's integrity at risk.
- Freezing the estate tax at $2.7 million. Minnesota is only one of 12 states that still have an estate tax and the threshold is currently much lower than other states with an estate tax and the $11.4 million federal threshold. This creates a powerful financial disincentive for wealthier Minnesotans to remain in Minnesota.
- We are also very concerned over the retroactive tax increases contained in both bills. Many of the business tax increases are retroactive to 2018 as well as 2017. This sets a very concerning precedence that will create great uncertainty for taxpayers regarding their ability to rely on Minnesota's laws and unduly impose increased tax burden for past years.

We urge you to enact provisions to offset tax increases from federal conformity and to adopt provisions to make important progress in helping make Minnesota more affordable for businesses owners to grow their business, employ workers and pay good wages.

Sincerely,

Beth Kadoun

Beth Kadoun
Vice President of Tax and Fiscal Policy
Minnesota Chamber of Commerce