MINNESOTA CHAMBER OF COMMERCE

GROWING MINNESOTA

May 10, 2021

Chair Nelson and Chair Marquart and Members of the Tax Conference Committee:

On behalf of the Minnesota Chamber of Commerce, representing more than 6,000 employers and their more than 500,000 employees across, I am writing in regards to your work in the tax conference committee, HF 991.

Re-opening the economy and managing the continued economic fallout due to the pandemic is one of the top concerns of Minnesota businesses. We urge your adoption of provisions to simultaneously support Minnesota's private sector's economic recovery in the short term and best position our private sector for long-term economic success. A "do no harm" approach is critically important so that additional tax burdens and mandates are not placed on employers who are doing their best to keep their doors open and Minnesotans employed.

We urge your adoption of the following provisions:

- **Full conformity on PPP loans (Senate position).** We strongly urge adoption of full federal tax conformity – including those loans above $350,000. Minnesota should not penalize businesses that took larger loans simply because these businesses retained more employees. Instead, Minnesota should join the majority of states - including all our neighboring states - that are not imposing this state tax hit. Minnesota businesses that received these loans are now facing uncertainty and hardship because unlike other income, they were not allowed to set aside any of the loan funds to pay state income taxes.
- **Other federal conformity provisions (House position):** We urge your adoption of other federal conformity provisions that were provided federally and adopted by most other states in order to help those hard hit industries by keeping more businesses viable and people employed. These include other forgivable loans similar for the shuttered venue grants; small business economic injury disaster loans; increase in charitable deductions; and expensing rules.
- **Pass-through election entity option (SALT) provisions (both House and Senate):** This provision results in a win/win – by lowering the federal tax burden for Minnesota business taxpayers without a state revenue loss. This has now been adopted in numerous other states to allow business taxpayers the ability to pay their state income taxes on their business income at the entity level without triggering the $10,000 federal SALT cap limit.
- **State property tax levy reduction (both House and Senate)**: This will further the progress that has been made on a bipartisan basis to improve our business tax climate by reducing a high fixed cost of doing business. Minnesota still imposes a higher tax burden than many other states. It also reduces a regressive tax as according to Department of Revenue's Tax Incidence study, the majority of this tax falls on Minnesota consumers, employees and business owners.
- **Other items**: We also urge your support for the vendor compensation allowance (Senate); the Section 179 clarifying fix (both House and Senate); the partnership federal audit update (both

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House and Senate); the private letter ruling (Senate); the angel tax credit (both House and Senate) and the June accelerated sales tax provision (both House and Senate).

We urge your opposition to the large and permanent tax increases contained in the House version. While we appreciate and support the tax relief included in this bill, most of the tax relief is temporary whereas the tax increases are permanent. These increases would make Minnesota an extreme tax outlier and undermine business competitiveness, investment, talent recruitment and retention - all items needed for a strong and growing private sector. Furthermore, the tax increases are unwise and unwarranted considering the state is experiencing a $1.6 billion budget surplus, has nearly $2 billion in reserves, is receiving billions in federal funds and is emerging from the worst economic downturn in 70 years. Specifically, we urge your opposition to the following:

- **New 5th tier individual income tax rate of 11.15%.** This top rate will greatly undermine Minnesota's competitiveness and harm our future growth. Minnesota would have 2nd highest rate in the nation (just behind California) and a tax rate much higher than all our neighboring states. State income tax rates are even more relevant and impactful in today's world of increased mobility, telecommuting, global competition and the 2017 federal tax law that capped the state and local tax deduction (SALT cap). Minnesota's tax burdens are already cited as a concern and impediment to growth by our members and business community. It is important that Minnesota's policies do not create a greater disincentive for those business owners and higher income individuals to remain in Minnesota, to relocate to Minnesota or to invest in Minnesota.
- **Corporate income tax changes on foreign earnings**. Minnesota will be an extreme tax outlier both nationally and internationally as no other state uses this method in calculating corporate income taxes and most do not tax income earned outside of their borders. This will give foreign competitors an advantage over Minnesota headquartered companies. The corporate tax is also an impediment to economic growth, is regressive, expensive to administer, and the most volatile of the major taxes. Minnesota's economic success relies on our ability to compete in a global marketplace and helps create high paying jobs here at home, strengthening small and mid-sized businesses that are customers and suppliers for these larger companies.
- **Residency Trust definition.** This language change should not be adopted as it will result in discouraging the hiring of Minnesota based accountants, lawyers and other trust service providers.

Thank you for your work on the conference committee to help advance policies to help speed Minnesota's economic recovery and best position our state for future success.

Sincerely,

Beth Kadoun

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