

February 27, 2023



To Governor Tim Walz and Members of the Minnesota Legislature:

We believe that the projected state budget surplus represents a historic opportunity to make transformational changes to build a future in which all Minnesotans are healthy, safe, and financially secure. We can't go back to a status quo that leaves too many of our neighbors behind and keeps Minnesota's racial disparities – some of the worst in the nation – in place.

Now is the time for bold public investments to strengthen everyday Minnesotans, their families, and communities, focusing on those who face the greatest barriers to participating in our state's prosperity.

But the state won't be able to make and sustain these investments if policymakers spend billions of dollars to exempt all Social Security income from the state's income tax. These poorly targeted tax cuts do little for the most struggling Minnesotans and erode resources for the services they count on, while giving large tax cuts to those with the most resources.

Minnesota already takes a responsible and targeted approach to taxation of Social Security benefits. Current federal and state tax laws mean that **the lowest-income seniors don't pay any income taxes on their Social Security, and all Minnesotans have some of their Social Security exempt.**

In contrast, expanding this exemption to include higher-income people and all Social Security income would cost more than \$1.3 billion in FY 2024-25, and the cost grows substantially in the future along with an increasing number of seniors. Lower-income seniors would see little to no benefit, but would feel the greatest harm from a failure to invest in services today, and from potential cuts in services in the future.

The tax cuts from full Social Security exemption are not targeted to the seniors who struggle most to get by. More than half of the tax cuts would go to households with incomes above \$143,000, who would get annual tax reductions averaging more than \$2,000, according to the Institute on Taxation and Economic Policy. These high-income households would get big tax cuts simply because Social Security benefits are one of their sources of income.

Minnesota should continue to take a targeted approach to Social Security taxation. Instead of large tax cuts for high-income seniors, so much more could be achieved by investing in things so that everyday seniors, their children, grandchildren, and neighbors, can thrive. These include services that allow seniors to stay in their homes, high-quality nursing home care, affordable child care and early learning opportunities, affordable housing, Paid Family and Medical Leave, high quality education for every student, clean air and water, infrastructure, and health care.

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Together We Rise Minnesota is a public policy campaign coordinated by the Minnesota Budget Project and Minnesota Council of Nonprofits. 2314 University Ave. W., Ste. 20 St. Paul, MN 55114 | 651-642-1904

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