



May 3, 2021

The Honorable Paul Marquart
Chair, House Tax Committee
597 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

The Honorable Carla Nelson
Chair, Senate Tax Committee
95 University Avenue W.
Minnesota Senate Bldg., Room 3235
St. Paul, MN 55155

Dear Chairs Marquart and Nelson:

Thank you for your leadership on your respective committees this session. As the conference committee on HF991 begins, I look forward to working with you and the committee as you work to build a final tax bill that will benefit all Minnesotans. The tax bill is, of course, a fundamental part of the state's two-year budget. It represents the opportunity to balance the needs of small businesses, working families, and those hit hardest by the COVID-19 pandemic. The Governor is committed to working with the Legislature to provide both targeted tax relief and adequate revenue to make needed investments for all Minnesotans, both now and as we continue to recover from the impacts of the pandemic.

When Governor Walz and Lt. Governor Flanagan proposed their budget, they prioritized those who have been hit hardest by the pandemic: working families, small businesses, and students. The Governor's tax and budget proposal raises important revenue in order to make critical investments in these communities. These investments include tax relief for Minnesota families in the form of increases to the Working Family Credit, a subtraction for unemployment insurance benefits, and increases to the property tax refund programs. Support for Minnesota businesses includes an extension of the Angel Tax Credit, conformity with federal tax changes, and a needed update to section 179 expensing. Their budget invests in the people of Minnesota and assists small businesses, all while maintaining fiscal stability.

There are several areas where the Governor's proposal and the House and Senate omnibus tax bills agree, including provisions regarding Section 179, the Angel Tax Credit, and reinstating the sales tax exemption for school fundraising. There are, however, a number of areas where the proposals do not align. These include how revenue should be raised, how to conform to changes in the tax code at the federal level, and to whom tax cuts are provided.

We stand ready to work with the committee to ensure that members have information about the Governor and Lt. Governor's proposals; the importance of investing in working families, small businesses, and students; and the department's technical and administrative perspective to ensure

implementation as intended. To that end, this letter is intended to provide information about provisions in the House and Senate versions of HF991. We look forward to the work of the conference committee in the coming days and weeks.

Tax Relief for Working Families

Even as the budget picture starts to improve, many Minnesotans are still out of work, struggling to pay the rent and put food on the table. The Governor's budget includes targeted tax relief to help families meet immediate needs and build a more equitable future.

The Governor's budget expands the first tier of income tax to tax more income at the lowest rate. The proposal increases the lower income threshold for the second tier to \$29,270 for an individual; \$21,400 for married filing separate; \$36,030 for head of household; and \$42,800 for a married couple filing jointly. This means that taxpayers with their last dollar of income in the 2nd tier will see a reduction in tax as more of their income is taxed at the 1st tier rate of 5.35%; rather than 6.8%.

The lower income thresholds for the 3rd tier bracket are reduced to offset the tax reduction from expanding the 1st tier. Returns with income in the 3rd bracket or higher will have no change in tax.

The Working Family Credit has proven to fight poverty and help our lowest wage earners across the state. What's more, it's shown to boost children's health and education outcomes in households that receive this effective and targeted tax credit.

The pandemic and recession have especially impacted low-wage sectors, such as restaurant, warehouse, grocery store workers, health aides, and more. Expanding the Working Family Credit to single adults or those who don't claim dependents, as well as younger adult taxpayers who have fewer supports, would help boost the income of many more Minnesotans, including those in low-wage jobs who are doing essential work during the pandemic. Recognizing that many low-and middle-income people have not seen their wages rise as their cost of living has increased, these expansions will offer important relief, helping recipients meet basic needs, address financial volatility, and save for emergencies and the future.

We encourage the conference committee to strongly consider the inclusion of the Governor's proposals to further increase the Working Family Credit amounts and phase-outs, expand the tax credit for working taxpayers who do not claim dependents, and extend eligibility for the credit to 19- and 20-year-olds. The Governor's budget recommendations increase the credit amount by over \$200 on average for about 345,000 households and expand access to the credit to tens of thousands of new households.

Unemployment Insurance Benefits Subtraction

Hundreds of thousands of Minnesotans lost their job because of the pandemic and relied on unemployment insurance this last year. We appreciate both the House and the Senate including provisions to allow a subtraction for unemployment insurance benefits received by workers in 2020. However, the House, Senate, and Governor's proposals offer varying degrees of assistance for Minnesotans who have lost their jobs.

We hope the conference committee will move forward with a subtraction to match the Governor's substantial investment of almost \$260 million, which allows for a subtraction for unemployment insurance benefits up to \$10,200.

Federal Conformity

The House enlists a similar approach to the Governor's proposal to provide simpler tax filing and long-term record keeping for individuals and businesses through conformity with many of the provisions of federal law that have been enacted since December 31, 2018. We must stress the importance of conforming with these provisions to reduce complexity for taxpayers of all types and ensure effective administration of tax laws. Therefore, we have great concern by the lack of federal conformity to the many federal tax changes enacted since December 31, 2018, as well as the lack of an update of the general conformity date, in the Senate's omnibus tax bill. Failing to update our tax statutes increases complexity of tax filing and long-term record keeping for Minnesota individuals and businesses, such as the failure to adopt annual tax extenders or changes to IRA distributions. The Senate position also fails to adopt the many changes that would provide additional tax relief, such as an exclusion from gross income for discharged mortgages on a principal residence, expansion of charitable deductions, and allowance of a tuition deduction.

We are grateful that the House's omnibus tax bill includes the Governor's targeted approach for businesses that receive federal forgiveness for their Paycheck Protection Program loans. Both the House and the Governor's proposals exclude the first \$350,000 of forgiven loans and focuses relief on the small businesses who received this important lifeline. Approximately 90% of the loans received in Minnesota are in amounts of less than \$350,000 and therefore the entire amount would be excluded. This will help ensure that Minnesota's small businesses remain an economic engine for communities across the state, while balancing the needs of low- and moderate-income Minnesotans.

The Senate's omnibus tax bill includes full conformity with the Paycheck Protection Program to allow the full amount of loans to be excluded from income, which can be up to \$10M for larger businesses. This is a less targeted and balanced approach than the Governor and House proposals.

Angel Tax Credit

Similar to the Governor's budget, the House and Senate positions contains an extension of the Angel Tax credit. The Angel Tax credit provides incentive for investors or investment funds to put money into early stage companies focused on high technology and new proprietary technology. The program has issued over \$100M in credits to investors to spur economic growth. Under both the House and Senate proposals, the credit is extended for an additional year for \$10M.

Property Tax Refunds

The Homestead and Renters' credit program is an important tool that provides property tax relief to about 800,000 Minnesotans each year. We commend the House Tax committee for including expansions to the Homestead and Renters' credit program. Unfortunately, the Senate's omnibus tax bill does not include these investments to provide needed relief.

We know this past year has been difficult for people with low-incomes and those on fixed incomes, including many seniors. Property tax refunds provide effective and targeted support for these households. This is an important program for helping reduce the cost of housing and shore up taxpayers' ability to meet basic needs. We hope that the conference committee will reach agreement and include this critical investment.

Private Letter Ruling

We are concerned by the Senate's inclusion of a requirement for the department to administer a Private Letter Ruling program. This program provides specialized and costly guidance only for those who can afford it. Minnesota already has many ways to provide guidance to taxpayers, including through published revenue notices. These notices provide guidance on complex questions that can be relied on by anyone – regardless of the ability to pay.

Vapor Taxes

The 2019 Minnesota Student Survey shows that e-cigarette use, or vaping, continues to escalate among youth, and from research we know that youth are more price sensitive. Governor Walz and Lt. Governor Flanagan recommended creating a new gross receipts tax applied to nicotine solution products at retail. They also proposed expanding the definition of nicotine solution product to include the devices and conform to the federal changes to the Prevent All Cigarette Trafficking (PACT) Act. These shared priorities are partially reflected in the House bill and we appreciate Chair Marquart's inclusion of the nicotine solution product expansion and the updates to align with the PACT Act. These are important changes that will allow Minnesota to keep up with the quickly evolving e-cigarette market place. We hope the Senate will consider these proposals during conference committee.

IRS Publication 1075 Provisions

We appreciate Chair Nelson's inclusion of the background check compliance provisions to align Minnesota with IRS Publication 1075 requirements. This is an important provision that Revenue needs and is also carrying on behalf of the Departments of Human Services, Employment and Economic Development, and MNsure that will enable agencies to maintain access to Federal Tax Information (FTI), which is vital for agencies' work. We urge you to include this provision in your final conference committee report.

Additional Concerns

The Governor also has concerns with recent additions to the Senate's omnibus tax bill which include: a prohibition on local fees and education savings account income subtraction. We look forward to discussing these concerns at greater length in conference committee.

Efficient Administration

We encourage the conference committee to include the department's policy and technical bill provisions. These changes will help ensure that the tax statutes provide clear and accurate guidance to taxpayers.

The department remains committed to making sure policies included in the final tax bill can be administered effectively for taxpayers, and that an appropriation is included to ensure our agency can carry out the tax law changes proposed.

We thank you for your work and further consideration of the Governor's tax proposals. We look forward to working with the legislature in the days ahead to deliver a fair and equitable tax bill for all Minnesotans. Thank you.

Sincerely,

A handwritten signature in blue ink that reads "Robert A. Doty". The signature is written in a cursive style with a large, stylized "D" at the end.

Robert A. Doty
Commissioner

Cc: Senator Bill Weber, Chair, Senate Property Tax Subcommittee
Senator Jeremy Miller
Senator Tom Bakk
Senator Ann H. Rest, Ranking Minority Member, Senate Tax Committee
Representative Cheryl Youakim, Chair, House Property Tax Division
Representative Kaohly Her
Representative Dave Lislegard
Representative Greg Davids, Ranking Minority Member, House Tax Committee