MINNESOTA BUSINESS PARTNERSHIP

Members of the House Taxes Committee: **April 7, 2021**

Thank you for the opportunity to provide comments on behalf of the Minnesota Business Partnership (MBP) regarding the delete everything (DE) amendment to HF 991. 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.

Lawmakers should be looking for ways to encourage these companies to stay in Minnesota, retain and add jobs here, and thrive. Unfortunately, the permanent tax increases included in the proposal would harm many Minnesota businesses, placing them at a competitive disadvantage and impeding Minnesota's economic recovery. Although we support the small business tax relief, and the partnership audit and pass-through entity election provisions, we oppose these tax increases:

We oppose the fifth tier individual income tax.

- Minnesota has the fifth highest income tax rate in the country; this proposal would give us the second 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 (SALT) deduction, making state income tax rates even more relevant as Minnesota competes with other states as a place for high-wage workers. For a taxpayer in the top federal tax bracket, the SALT deduction cap raised the tax price of state taxes by almost 60%.

- Businesses and jobs have become highly mobile and the COVID pandemic has significantly accelerated the trend toward working remotely, from virtually anywhere. Companies are rethinking their corporate headquarter locations and many employees can work for a Minnesota-based company from another state. Raising the income tax will accelerate that trend.

- Minnesota is in competition with other states for high-income talent, entrepreneurs, and venture capital. In addition to creating an incentive for higher income Minnesotans to leave the state, the proposal will create a disincentive for attracting talent to Minnesota, resulting in negative consequences for the economy.

We oppose the corporate tax increase provisions, including taxing previously taxed foreign income and the worldwide combined reporting provision.

- 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 Study finds 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.
- Minnesota has a long history of primarily only taxing income earned within the U.S. The foreign income provisions are a significant departure from Minnesota's and other states tax policies and would result in large tax increases on many Minnesota-based companies.
- Taxing foreign income at the state level puts Minnesota businesses at a serious competitive disadvantage with non-U.S. companies. Most countries do not tax income earned outside their country, so this additional Minnesota burden would give foreign companies an advantage when they compete with Minnesota companies.
- The proposal to treat certain foreign income as domestic, and effectively require worldwide combined reporting would make Minnesota an extreme outlier. No other state has mandatory worldwide reporting.
- Minnesota should be working to encourage exports and expansion into global markets, not penalizing that expansion. When Minnesota companies expand into global markets, it creates high paying jobs here at home.

Minnesota has a budget surplus, a robust budget reserve and will be receiving billions of dollars from the American Rescue Plan Act. These tax increases are unnecessary and uncompetitive, and we respectfully request that they not be adopted.

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