Chair Marquart and Members of the House Taxes Committee:

We Make Minnesota is a coalition of labor and grassroots organizations united in recognition of our state's numerous public funding needs, and the essential role that government leadership must play in structuring a more equitable society and a stronger, more inclusive economy. We are writing today to express our concerns about HF 2788, which would fully exempt all Social Security income from taxation. We oppose this change because it would be costly and regressive, and would ultimately hurt seniors by consuming revenues sorely needed to support the public programs they rely on.

Minnesota already has progressive policies in place, which protect low- and middle-income retirees from taxation on their Social Security benefits. First and foremost, under current law, no Minnesota retiree living on Social Security alone pays any taxes on their benefits. This is an important reminder given widespread myths and dishonest rhetoric that have suggested that the benefits of this policy will flow to "fixed income" retirees. In fact, a typical single senior earning the maximum Social Security benefit of $40,140 per year currently pays no income taxes until they report nearly $14,000 of additional income. This means Minnesota seniors are able to earn more than $54,000 of income tax free. And even beyond that threshold, Minnesota's income tax structure ensures that liabilities remain modest until incomes reach much higher levels.

Minimal tax burdens at lower and middle income levels mean that the benefits of HF 2788 go overwhelmingly to higher-income retirees. To illustrate, compare two seniors both receiving the maximum Social Security benefit—one earning $20,000 of additional income, and another earning $70,000. Under full exemption, the senior making a total of $60,000 per year would save less than $300 in annual income taxes, or just $6 per week. Meanwhile, the senior making over $110,000, would save $2,300 per year or $45 per week. According to the Institute on Taxation and Economic Policy, retirees making more than $100,000 would receive 49 percent of the HF 2788's total cost. These high-income retirees do not need a tax cut and they too will be worse off in the long-run as the state loses funding for the public services Minnesotans of all ages depend on and enjoy.

Already, Minnesota's seniors are suffering as a result of the care worker shortage affecting nursing homes and domestic care providers across the state. This money would be better off funding those broken systems. Similarly, local officials from 14 cities and counties recently presented proposals for $500 million in local option revenue to fund public facilities including parks, campgrounds, and community centers. These are precisely the sort of amenities that bring structure and joy to the lives of Minnesota's retirees. But by cutting revenues, HF 2788 would push us further towards a system in which these community-building investments are optional and difficult to fund. Underfunded transit, childcare, public schools and universities, and many more public services are also important to seniors that want their children and grandchildren to have the same opportunities they did.

At more than $1 billion per biennium, full social security exemption would meaningfully threaten our ability to fund key services. And while much has been made of the state's historic surplus, Minnesotans still have no guarantee that any of their investment needs will be addressed. Issuing large, permanent tax cuts now poses a serious danger to the many public investments that keep our state running and we urge that it not pass.

Sincerely,

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