



April 30, 2021

Representative Michael Nelson, Chair
House State Government Finance Committee
585 State Office Building
St. Paul, MN 55155

Senator Mary Kiffmeyer, Chair
State Government Finance and Policy and Elections Committee
3103 Minnesota Senate Building
St. Paul, MN 55155

Dear Chair Nelson and Chair Kiffmeyer:

Thank you for your respective efforts to fund the important services provided by Minnesota agencies. As the conference committee on HF1952/SF1831 begins, we look forward to working with you to build a budget for the Department of Revenue that will best serve all Minnesotans. We are eager to provide Minnesotans with the information, resources, security, and systems they need to meet their obligations under Minnesota's tax laws and to ensure fairness among taxpayers. To do that, we need your help in securing the necessary funding to maintain existing services.

As we will detail further in this letter, both the House and Senate funding proposals are below what we need to maintain existing service levels. We are currently in one of the most complicated tax filing seasons in recent history. Minnesota individuals and businesses are seeking more services from us, not fewer. The Governor's recommendation for an operating increase will ensure we can continue to serve Minnesotans and do our job for the state. A reduction of the magnitude found in the Senate version of the bill will have widespread consequences on services provided to Minnesotans and weaken the tax system that funds Minnesota's future. Even a reduction of the magnitude within the House version of the bill will begin to impact our service delivery and imperil our ability to invest in technology to protect taxpayer information.

Department leadership looks forward to working closely with the conference committee to answer any questions or address any concerns to ensure that it has the information it needs to provide sufficient resources to the department, and to ensure an effective and efficient state government for all Minnesotans. To that end, this letter is intended to provide you with information about our concerns as the conference committee begins its work.

Services for Minnesotans

The Department of Revenue collects nearly \$27 billion through more than 30 different tax types each year. The largest of these is the individual income tax. Over 3 million Minnesotans rely on the department to file their individual income taxes securely and efficiently. To date, more than 2.1 million have already filed and we have issued over 1.3 million refunds for tax year 2020. But

individual taxpayers in Minnesota are not our only customers. In addition, we serve all 87 counties, nearly 850 property assessors, 850,000 property tax refund filers, and over 400,000 businesses.

We provide all of these customers with resources, forms, instructions, and information about their tax obligations, credits, and benefits. Through the Volunteer Income Tax Assistance (VITA) grant program, we supply funding that helps support over half of the VITA sites in Minnesota.

We also have robust outreach efforts aimed at helping our business tax customers understand their obligations under the law. Businesses can sign up for informational classes to learn about their tax obligations and how to file and pay online. These classes are offered in locations across Minnesota as well as by webinar for the convenience of the business owners.

Funding Cuts Will Hurt Minnesota

The Governor's budget recommendation included an operational increase to maintain Revenue's current service levels. All told, the Senate's budget proposal makes severe cuts of more than \$28.332 million over the biennium from the Governor's recommendation. The House proposal makes cuts of more than \$2.486 million over the biennium from the Governor's recommendation. The Governor's full recommended appropriation is needed to provide Minnesotans with the same level of customer support they receive right now.

During the COVID-19 pandemic and subsequent hiring freeze, Revenue reprioritized its work; but these were one-time operating shifts that are not sustainable in the long-run. The funding reduction combined with the hiring freeze will leave the department unable to fill vacancies and may result in additional staffing reductions. These reductions would put the state's general fund at risk and negatively impact our ability to administer the state's tax system. A fully staffed Department of Revenue is needed to serve Minnesotans across the state.

The various tax law changes at the federal level in response to the pandemic, as well as those being proposed at the state level, have created one of the most complex tax filing seasons in recent history. Several of these changes affect multiple tax years. The department completes a huge scope of work. We sort, open and process more than 2.5 million pieces of mail annually. We receive over 518,000 customer requests each year via phone, email, web services, and in person visits. We produce taxpayer education materials, revenue analyses, and update our website regularly. We audit and maintain enforcement activities that address patterns of non-compliance to ensure a fair tax system for all. We also regularly invest in strong and efficient technology and security systems which allow us to quickly respond to evolving tax and identity fraud efforts. Finally, budget reductions will hinder the department's ability to collect and process the \$27 billion it collects each year, which would affect all programs funded through tax revenue.

Necessary Policy Provisions

We would like to thank the House for including 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 the final state government finance conference committee report.

Support for Taxpayer Assistance Grant Program

We also appreciate the funding included in each proposal for the Volunteer Income Tax Assistance program (VITA). Through this program, thousands of low-and moderate-income tax filers receive free tax support from trained and certified volunteers across the state who help people claim income-boosting tax credits or meet their tax obligations. However, the demand for these high-quality free tax programs is greater than the availability.

The Governor's budget recommendation included a total of \$1.1 million for the VITA program. \$1 million in grant funding and \$100,000 for internal support and to build program capacity. The capacity building funding was specifically set aside in the Governor's recommendations for program support so the department would be able to build capacity within the VITA field and subsequently support new and current VITA providers in order to expand free tax preparation options in Minnesota.

The current Senate language appropriates \$600,000 for grants but does not allocate the \$100,000 for program support. The House language appropriates the full \$1 million for grants but also does not include the \$100,000 for program support. We urge you to include the full funding for grants and program support in your final conference committee report. This program is vital for supporting low- and moderate-income tax filers around the state and we appreciate your consideration.

Once again, we would like to thank you for your work and the assistance of your staff over the past several months. We are eager to serve Minnesota taxpayers as efficiently and effectively as possible. To do so, we need your help to secure the appropriate level of financial resources and to ensure that state agencies using FTI are in compliance with IRS requirements. As the conference committee moves forward, we will continue to advocate for a budget that supports the Department of Revenue's services to all Minnesotans and we appreciate your consideration of our requests.

Sincerely,



Robert A. Doty
Commissioner

CC: Senator Andrew Lang, Chair, Veterans and Military Affairs Finance and Policy
Senator Mark Koran, Chair, Technology and Reform Policy Committee
Senator Jeff Howe
Senator Jim Carlson, Ranking Member, State Government Policy and Finance and Elections Committee
Representative Tou Xiong
Representative Sandy Masin, Chair, Local Government Division
Representative Emma Greenman
Representative Jim Nash, Ranking Member, State Government Finance and Elections Committee