MINNESOTA BUSINESS PARTNERSHIP

Tax Conference Committee Members: May 5, 2021

On behalf of the Minnesota Business Partnership (MBP), representing the leaders of Minnesota's largest employers, I am writing regarding the House and Senate omnibus tax bills (HF991) under consideration by the conference committee.

We **support** these provisions that are in both the House and Senate bills:

- **PPP loan forgiveness federal conformity.** Although this provision will not directly impact MBP members, we support assisting those small businesses and industries hit hard by the pandemic.
- **Establishing a pass-through entity tax**, allowing a pass-through business to elect to pay income tax at the entity level. This will help mitigate some of the negative effects of the federal state and local tax deduction cap.
- **Reduction in the state general levy**. Businesses bear a disproportionate property tax burden due to higher local tax rates vs. other property types and the imposition of the state general levy. The state property tax can be 25-30 percent of a business' tax bill, a significant fixed cost of doing business in Minnesota.
- **Extension and funding of the angel tax credit** to incentivize investment in start-up businesses.
- **Partnership audit provisions.** These provisions are the result of years of work to respond to federal changes and adopt the MTC model that was developed by many stakeholders.

We also **support** the Senate provision establishing a **private letter ruling program**. Most states have a private letter ruling program. This provision will help provide guidance to taxpayers on how the Revenue Commissioner will apply tax laws to specific situations, alleviating cost and compliance burdens for taxpayers.

We appreciate that the Senate bill helps businesses and individuals that have been negatively impacted by the pandemic without imposing harmful and unnecessary tax increases on Minnesota businesses and families. The permanent tax increases included in the House bill would harm many Minnesota businesses, placing them at a competitive disadvantage and impeding Minnesota's economic recovery.

We **oppose** these provisions in the House bill:

Establishment of fifth-tier individual income tax rate of 11.15%.

- Minnesota has the fifth highest income tax rate in the country; the House bill 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.

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- Businesses and jobs have become highly mobile and the COVID pandemic has significantly accelerated the trend toward working remotely. 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 House bill will create a disincentive for attracting talent to Minnesota, resulting in negative consequences for the economy.

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

- 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 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.

Nonadmitted insurance premium tax increase. The provision would increase the nonadmitted insurance premium tax imposed on self-procured insurance from 2% to 3%. It is an especially challenging time for a Minnesota company to purchase insurance, as they are experiencing 30-50% annual increases in insurance costs.

Minnesota businesses are competing regionally and globally. The global job growth and investment environment is very competitive, and these tax increases would make Minnesota even more of an outlier, creating a risk of pricing the state out of the market for business growth and expansion.

At a time when Minnesota businesses and individuals already pay some of the highest taxes in the country, and the state has a budget surplus and will be receiving billions of dollars in new federal funds, we believe the legislature can provide targeted relief without increasing the cost of doing business in Minnesota.

Thank you for your consideration.

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