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April 11, 2023

**HF 442 (Her)**

Dear Chair Gomez and Members of the House Taxes Committee,

The National Federation of Independent Business (NFIB) represents over 10,000 members in every corner of Minnesota and our mission is to advocate for the best interests of Main Street.

NFIB Minnesota opposes the creation of a 5<sup>th</sup> Tier Income Tax rate of 12.45% in House File 442. In an era of increasing mobility for workers and employers, we believe this tax will end up taking Minnesota backward.

Our state's business community is largely comprised of small employers that are organized as pass through entities and pay taxes as individuals. Over 91,000 small employers with fewer than 100 employees that are organized as pass through entities could be impacted by this tax. Those small businesses represent 77% of all employers in the state.

A 12.45% top tax rate will impair the ability of small businesses to invest in and grow their businesses here in Minnesota. With a structural budget surplus in the billions, punishing small businesses with higher taxes is counterproductive for the state's long-term growth and for local communities that rely on the steady, good-paying jobs that small employers provide.

Minnesota's individual income tax system is already among the most progressive in the nation, with higher income earners paying both a higher rate and a higher share of income taxes than most other states.<sup>1</sup> Minnesota ranks in the top five states with the highest individual income tax burden for those at the levels targeted in this bill. No neighboring states rank in the top 10.

Tax burden and tax rates are key factors for small business owners looking to start or expand in a state. At a time when Minnesota small businesses face a slew of new taxes, fees, and mandates, we urge lawmakers to avoid making our tax system even less competitive with other states.

Sincerely,

A handwritten signature in black ink, appearing to read 'John L. Reynolds', is written over a light blue horizontal line.

John L. Reynolds  
Minnesota State Director  
National Federation of Independent Business  
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<sup>1</sup> Minnesota Center for Fiscal Excellence, "Comparison of Individual Income Tax Burdens by State," May 2021.