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February 27, 2023

Senate File 1811/House File 1983 (Governor’s Tax Bill)

Dear Taxes Committee Members,

The National Federation of Independent Business (NFIB) represents 10,000 small businesses in every corner of Minnesota. Our average member employs 10 Minnesotans and earns \$500,000 in gross annual sales. NFIB’s mission is to advocate for the best interests of Main Street.

Small businesses are struggling right now, with inflation, worker shortages, and supply disruptions taking their toll on mom-and-pop shops across Minnesota. Many have not fully recovered from the pandemic. According to the most recent NFIB data:

- *Staffing Challenges*
 - 68% of small businesses are experiencing a staffing shortage
 - 91% report few or no qualified applicants for open positions
 - 78% are losing sales due to staffing challenges
- *Supply Chain Disruptions*
 - 94% of small businesses are impacted by supply disruptions
 - 78% are losing sales due to supply disruptions
 - 74% report that supply issues are the same or worse than six months ago
- *Post-Pandemic Recovery*
 - 65% report sales below pre-pandemic levels
 - 55% don’t expect their local economy to normalize until late 2023, 2024 or later

In light of these conditions and a historic surplus north of \$17 billion, we are disappointed in the lack of permanent tax relief for small businesses proposed in Governor Walz’s bill.

The surplus presents an opportunity for historic tax reform that recognizes Main Street’s contribution to Minnesota’s economy. It’s also a chance to give small business a break after three difficult years and a murky economic future.

Instead, the bill leaves untouched high state tax rates that contribute to Minnesota having the largest total per capita tax burden among neighboring states – nearly 30% higher than the next state – and the sixth worst business tax climate according to the nonpartisan Tax Foundation.

Moreover, small businesses face significant proposed tax increases in the form of a \$1 billion per year Paid Family and Medical Leave Payroll Tax and Governor Walz’s \$300+ million per year

capital gains surcharge. These proposals will further stifle small business growth and innovation, and the latter tax is particularly painful for mom-and-pop shop owners that put everything they have into their small business and are counting on the capital gains to retire.

While we appreciate and support Governor Walz's proposal to increase the school building bond agricultural credit to 80% in 2025 and beyond, we urge the committee to take this opportunity to give Main Street a break.

Thank you for considering the concerns of small business.

Sincerely,

A handwritten signature in black ink, appearing to read 'JL Reynolds', with a stylized flourish at the end.

John L. Reynolds
Minnesota State Director
National Federation of Independent Business
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