

2018 POLICIES

Tax Competitiveness

Minnesota's high tax burdens continue to rank as one of the top barriers to economic growth, according to business surveys and member visits. Minnesota businesses are required to pay taxes that are among the highest in the nation in many categories. In today's world of global competition and increased mobility, tax burdens and related costs do matter. It is important for Minnesota's state spending and tax systems to provide high quality public services at a competitive price in order to have a strong and growing economy. (See our Effective and Efficient State Spending Policy.) High taxes negatively impact innovation, entrepreneurial activities, talent recruiting and investment decisions - the very items needed to foster economic

OUR KEY PRIORITIES FOR THE 2018 SESSION INCLUDE:

- Use state revenue gains realized from federal tax reform to pay for state tax reform that improves Minnesota's tax competitiveness.
- Reduce corporate and individual income tax rates so Minnesota is no longer in the top 10 highest tax rate states.
- Enact tax relief for pass-through entities by reducing rates for business income and adopt federal conformity with expensing rules.
- Implement federal estate tax threshold conformity.
- Protect research-and-development tax credit.
- Reduce state property tax levy so Minnesota businesses no longer have property tax burdens that are among the nation's 10 most burdensome.
- Improve taxpayer procedural protections and administration.
- Protect the removal of the automatic tax inflators enacted in the 2017 session.

change and growth. Tax reform in the 2018 session will be challenging for many reasons as it a non-budget year, a short session and an election year. In addition, the fundamental differences on tax policy between Governor Dayton and the Republican majorities pose a large obstacle. The passage of federal tax reform (the Tax Cuts and Jobs Act) will spur the need and opportunity for state tax reforms. The last time major federal tax reform occurred was in 1986 and Minnesota followed suit in 1987 with major tax reform including tax rate reductions and simplification.

OUR GOALS

We support a pro-growth tax system that improves competitiveness, reduces complexity, improves predictability and stability, and increases accountability. Minnesota's state and local tax systems should be changed to ensure they cultivate innovation, attract investment and foster job growth and retention. Minnesota must enact a more competitive, pro-growth, simplified tax system and lower tax rates so Minnesota is no longer in the top 10 states for high taxes.

ENACT MEANINGFUL BUSINESS PROPERTY TAX RELIEF

Minnesota businesses property taxes are among the highest in the nation. Tax burdens on some properties are more than 90% higher than the national average and more than 200% higher than in neighboring states. Businesses pay a disproportionate share of the property tax; they represent 12% of the market value but pay 32% of the total property tax. Much of that disparity is due to the classification system and the state levy that businesses must pay in addition to all their local property taxes. Good progress was made in the 2017 session with the reduction of the state levy and elimination of the automatic inflator. We support continuing to reduce this fixed cost of doing business by phasing out the statewide levy. We oppose any additional shift of taxes to commercial/industrial properties.

ENHANCE RESEARCH-AND-DEVELOPMENT TAX CREDIT

Minnesota was the first state in the nation to enact an R&D credit in 1982 to encourage innovation and high-paying R&D jobs. Since then, many other states have surpassed Minnesota's R&D credit. Innovation remains a critical ingredient to Minnesota's continued economic strength. We support continuing the current credit and simplifying computation of the credit and increasing federal conformity for allowable research expenses.

CONFORM ESTATE TAX TO FEDERAL THRESHOLD

Minnesota is one of 13 states that still has an estate tax. The \$3 million threshold is much lower than other states and the federal estate tax threshold of \$11 million (indexed to inflation). The estate tax greatly impacts the ability of businesses and farmers to pass along the family business; the lack of federal conformity adds tremendous administrative cost and complicates financial planning. The estate tax is many times the tipping point on the decision to relocate outside of Minnesota, and it undermines investment in our state. We support elimination of the estate tax or, at minimum, conforming to the federal estate tax threshold.

PROVIDE INCOME-TAX RELIEF FOR PASS-THROUGH ENTITIES

More than 90% of businesses pay income taxes through the individual income tax system. These pass-through entities (S Corporations, LLCs, sole proprietors and partnerships) employ 56% of all private-sector employees in Minnesota and are the fastest growing types of businesses. Minnesota's individual/pass-through income tax rate of 9.85% is third highest in the nation. This cost reduces the ability of companies to reinvest in their businesses and employees. We support reducing our tax on pass-through companies to move Minnesota out of the top 10 of tax rates. We also support a reduction in the overall individual income-tax rate to encourage talent recruitment and investment. We support conforming to the federal business expensing to encourage investment by small business and farmers in their Minnesota operations.

LOWER CORPORATE INCOME TAX RATES

Minnesota's corporate income tax rate of 9.8% ranks third highest in the nation. The sales-only apportionment and

other positive tax provisions should be retained because they help offset this high rate for many companies with Minnesota headquarters. However, the high rate is a competitive issue for many types of businesses and undermines investment. This "billboard" rate hinders business attraction and growth. We support reducing the corporate income-tax rate so Minnesota is no longer in the top 10.

IMPROVE COMPETITIVENESS OF SALES TAXES

Businesses pay about 45% of the state's \$5 billion in annual sales tax revenues, making the sales tax one of Minnesota's largest business taxes. We support a competitive sales tax with a broad base and a low rate. We support joining the 27 other states that have a vendor compensation allowance to help offset some of the cost of collecting the sales tax on behalf of the state. We oppose imposing sales taxes on business-to-business transactions due to competitiveness issues and tax pyramiding. We support state efforts to promote a level playing field for the collection and remittance of sales tax by remote sellers and/or their customers who choose to compete in Minnesota's marketplace. We generally oppose expansion of local sales taxes and request limits on local authority by requiring voter approval, limiting the rate and enacting a sunset provision.

TAX ADMINISTRATION

Minnesota generally receives good marks with respect to tax administration. However, there has been a troubling trend of increased administrative complexity through lack of federal conformity, very short effective dates, retroactive dates, lack of clear statutory authority, numerous compliance initiatives and lack of notice to taxpayers. This has resulted in increased compliance costs and administrative difficulties for taxpayers. Tax administration should be improved by placing priority on federal conformity including conformity with business expensing, providing better and more comprehensive training for auditors, restoring the Private Letter Ruling process and increased taxpayer guidance to support voluntary compliance. ■