

2019 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 catalysts needed to foster economic change and growth.

OUR KEY PRIORITIES FOR THE 2019 SESSION INCLUDE:

- Return any state revenue gains realized from federal tax conformity by enacting state tax reform that improves Minnesota's tax competitiveness.
- Reduce corporate and individual income tax rates so Minnesota is no longer in top ten 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 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 ten most burdensome.
- Improve taxpayer procedural protections and administration.

Major federal tax reform was enacted in December 2017 that greatly impacted Minnesota business and individual taxpayers as Minnesota along with other states bases its income tax on federal tax definitions. The federal tax changes provided a necessity as well as an opportunity for major tax reforms at the state level. The 2018 session ended without a final agreement on the tax bill as Governor Dayton vetoed two omnibus tax bills. The end result will be additional compliance cost and confusion for Minnesota taxpayers when filing their 2018 state income taxes. It will be important to pass a tax bill in the 2019 session in order to both reduce compliance costs and to improve Minnesota's competitiveness.

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 ten 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 as many states have conformed to the federal estate tax threshold of \$11.8 million (indexed to inflation). The estate tax greatly impacts the ability of businesses and farmers to pass along the family business while 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 while its lowest rate of 5.35% is higher than the top rate of most states. 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 ten 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 flat corporate income tax rate of 9.8% ranks third highest in the nation. The single sales-factor 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 ten.

IMPROVE COMPETITIVENESS OF SALES TAXES

Businesses pay about 45% of the state's \$6 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. The complexity of the sales tax continues to increase adding additional administrative compliance burdens. We support efforts to minimize those compliance cost burdens. 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. As a result of the U.S. Supreme Court decision, the state is expected to see increased sales tax revenue. We support state efforts to promote a level playing field for the fair 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 and regulatory authority, application of the state's property valuation rule, 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. ■