

2017 Policies

TAX COMPETITIVENESS

Minnesota's high tax burdens rank as one of the top barriers to economic growth, according to annual surveys and Grow Minnesota! 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 change and growth.

How is our cost 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.

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

OUR KEY PRIORITIES FOR THE 2017 SESSION INCLUDE:

- Enact meaningful business property tax relief.
- Enhance research-and-development tax credit.
- Conform estate tax to federal threshold.
- Provide income-tax relief for pass-through companies.
- Adopt federal conformity including Section 179 expensing.
- Improve taxpayer procedural protections and administration.

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. We support reducing this fixed cost of doing business by phasing out the statewide levy and eliminating the automatic inflator. 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 expanding the current credit and simplifying computation of the credit and increasing federal conformity on for allowable research expenses.

CONFORM ESTATE TAX TO FEDERAL THRESHOLD

Minnesota is one of 14 states that still has an estate tax. The \$2 million threshold is much lower than other states as many states have conformed to the federal estate tax threshold of \$5.4 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 COMPANIES

More than 90% of businesses pay income taxes through the individual income tax system. These pass-through companies (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 by capping the top rate at 7.85% or by exempting a portion of business income. We also support a reduction in the overall individual income-tax rate to encourage talent recruitment and investment. We support conforming with the federal Section 179 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 lowering the corporate income-tax rate.

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 elimination of the automatic tax inflator on tobacco products as this inflator exacerbates our competitive disadvantage as our tax rate is already seventh highest in nation. 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, fairness and compliance costs should be improved with priority on federal conformity including Section 179 expensing and increased taxpayer guidance to support voluntary compliance.