



May 16, 2022

Dear Members of the Taxes Conference Committee:

The projected state budget surplus represents a historic opportunity to build toward a future in which all Minnesotans are healthy, safe, and financially secure.

As you put together your 2022 tax conference report, we ask you to be guided by the following principles to build a stronger, more equitable recovery:

- To prioritize those who were hit hardest by the pandemic and the disparities and disinvestment that preceded it: low- and moderate-income Minnesotans and people of color, their families, and communities;
- To avoid poorly targeted permanent tax cuts that give the largest benefits to those with the most resources;
- To take a fiscally responsible approach to tax policy that protects sustainable funding for public services in the future.

Our top priority for inclusion in the omnibus tax bill is the House's expansion of the Renters' Credit, which lowers the cost of housing by refunding a portion of the property taxes that renters have paid through their rents. The House proposal would benefit low- and modest-income Minnesotans in every corner of the state, including seniors, people with disabilities, workers, and families.

This proposal would make two important changes:

1. Simplify the income definition used to qualify for and calculate the Renters' Credit, changing from the complex "household income" to more common Adjusted Gross Income (AGI), and
2. Convert the Renters' Credit to a refundable tax credit on the income tax form, instead of having a separate application process later in the year.

This proposal would have several high-impact results:

- 120,000 Minnesota households would start receiving the Renters' Credit – these are Minnesotans who already qualify for the Renters' Credit but face barriers to applying for it through the current mechanism;
- These dollars would get into renters' pockets sooner, after they file their income taxes rather than in the late summer or fall;
- Changing the income definition to Adjusted Gross Income, like many other credits and provisions in our tax code, makes it simpler for Minnesotans to apply for and for the Department of Revenue to administer; and
- More than 60 percent of currently eligible households would qualify for larger refund amounts than they currently receive because of the change to AGI, and an additional 36,000 would become eligible.

These game-changing outcomes would occur while still maintaining the sliding-scale structure of the Renters' Credit that prioritizes lower-income Minnesotans and folks whose property taxes are particularly high in relation to their incomes.

In addition to the Renters' Credit expansion, we ask you also to include other targeted tax policies so that low- and moderate-income Minnesotans can better afford the costs of raising a family, starting a career, and maintaining a home. These include:

- Making long-overdue updates and simplification of the **K-12 education credit** (House/Governor's proposal preferred);
- **Removing arbitrary restrictions** that keep some homeowners from gaining homestead status, and prevent some workers and their families who meet the earnings requirements from accessing the Working Family Credit, only because they use an Individual Taxpayer Identification Number (ITIN);
- Expanding **tax credits for child care expenses** – which we see as a companion, *but not a replacement for*, increased funding for Child Care Assistance and early education programs;
- **Reducing property taxes on homeowners**, with an emphasis on lower-income households; and
- Expanding the **student loan credit and making it refundable**.

In addition, we ask that there be **an application option for any one-time payments or rebates** that may be included in the tax bill. Minnesotans who meet income and family-size requirements should not be excluded simply because they were not required to file an income tax return or did not file for a property tax refund in a prior year.

We ask you to reject proposals that provide substantial tax cuts to those already doing well, including the Senate's proposed income tax rate reduction and allowing all income levels to exempt all their Social Security benefits from taxation. These proposals are poorly targeted. They leave out the most struggling Minnesotans while providing the largest tax cuts to high-income Minnesotans.

According to analysis from the Institute on Taxation and Economic Policy, the Senate's income tax rate reduction would provide no benefit to about 1 in 5 Minnesota households, and the highest-income Minnesotans – those with incomes over \$134,000, the top 20 percent of the income distribution – would receive the largest tax cuts. That kind of distribution pattern will likely hold if the size of the rate cut is reduced to fit within the conference committee's target.

We also call on you to **continue to take a targeted approach to taxation of Social Security benefits**, and not provide large tax cuts for wealthy seniors simply because Social Security is one of their income sources. Exempting all Social Security income provides the largest tax cuts to higher-income seniors and its cost would grow over time as the number of seniors grows. The most struggling seniors would see no benefit from the proposed tax cut but would feel the greatest harm from potential cuts to services in the future.

We also strongly oppose tax cuts that phase-in substantially over time, such as the Senate proposal to gradually eliminate the state general levy, which would reduce state revenues by about \$1.5 billion per biennium when fully in effect.

Phasing in a tax cut obscures its true fiscal impact. Putting the full effect years into the future divorces these tax cuts from the inevitable trade-offs that will have to be made to pay for them – whether that is failing to fund schools, health care, or other critical public services, or raising other taxes. It prioritizes cutting taxes more and more, year after year, even if it would create or worsen a state budget deficit.

If you choose to do additional tax reductions for businesses this year, please prioritize those who were hardest hit by the pandemic and continue to struggle in the uneven recovery, rather than provide blanket tax reductions that benefit the most profitable.

Please contact me at nmadden@mnbudgetproject.org or 651-757-3084 if I can provide additional information that would be helpful to you.

Sincerely,

A handwritten signature in black ink that reads "Nan Madden". The signature is fluid and cursive, with a long horizontal stroke at the end.

Nan Madden
Director, Minnesota Budget Project

The Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits, identifies and promotes public policies so that economic security is available to all Minnesotans, regardless of who they are or where they live.