

April 6, 2021

Representative Paul Marquart, Chair
House Taxes Committee
597 State Office Building
St. Paul, MN 55155

Dear Chair Marquart:

I am writing to express support for many of the provisions included in A22-0407 amendment to HF3669.

When Governor Walz and Lt. Governor Flanagan proposed their budget in February they prioritized expanding economic opportunities for all Minnesotans; supporting children and families; and protecting Minnesotans' health, safety, and well-being. These shared priorities include supporting community prosperity with tax proposals for middle class Minnesota families and farmers while also investing in public safety, health care, and education.

Like the Governor's budget, this bill provides the resources needed to make significant investments to help Minnesota families thrive. It is our desire to work closely with the legislature to ensure that the Minnesota Department of Revenue can assist Minnesotans recover from the COVID-19 pandemic and thrive in the future.

We appreciate the provisions from the Governor and Lt. Governor's tax bill that are carried in HF3669. Instead of listing each provision, we will focus on the highlights of the bill that represent shared priorities.

Responding to Federal Changes

We all agree on the importance of responding to the federal tax changes enacted since our tax statutes were last updated in 2019. Individual taxpayers, CPAs, and businesses have all expressed the need to update our tax code to reduce complexity and compliance costs. This bill adopts the Governor's approach to update the general conformity date and provide important conformity for individuals and businesses. We look forward to continuing to work with members of the committee and stakeholders on the best approach to administer this update that could impact multiple years of returns and adjustments for taxpayers.

The Governor's budget proposes conforming with many of the tax changes made by the federal government over the past three years. At least six federal bills with tax changes have been enacted since our last general update of state tax laws. Adopting the federal changes for businesses and individuals provides an investment in Minnesota's tax system to ensure that it is stable, predictable, and less complex. Much of the state tax code is based on the federal calculation of income, so conforming with these federal tax changes will allow the benefit to flow through to state taxes.

Tax Items

The Governor's bill and this bill include targeted tax proposals that will make a difference to families and businesses in their everyday lives. These bills recognize the challenges Minnesota parents face in paying for quality, affordable childcare by increasing the income threshold and maximum credit amount for Minnesota's refundable Child and Dependent Care Credit, which will lower taxes for more Minnesotans. Additionally, these bills expand eligibility for the refundable K-12 Education credit and updates the measure of income to simplify calculation of the credit.

We appreciate the adoption of the expansion of the Working Family Credit to taxpayers that use an individual taxpayer identification number to file their taxes, instead of a social security number. The credit provides households with a refundable tax credit to help with the many financial constraints they face. This program is an important source of financial stability for low and moderate-income working families with children.

The bill includes numerous provisions that update and modify tax benefits for individuals. In particular, the bill includes a shift of the renter's property tax refund from a stand alone program to a refundable income tax credit. We know that the past few years have been especially difficult for people with low-incomes and those on fixed incomes, and these refunds provide effective and targeted support for these households. This is an important program for helping reduce the cost of housing and shore up taxpayers' ability to meet basic needs. As this provision moves forward, we look forward to working with the committee on how this changes the administration of the program by the department.

Property Tax Items

We commend Chairs Marquart and Youakim for including expansions to the Homeowner's Homestead Credit Refund and expanding it to taxpayers with ITINs. This amendment takes a new approach to the renter's credit by converting it to an income tax credit instead of the current standalone program. These are important programs that provide property tax relief to over 850,000 Minnesotans. We will continue to work with the authors to make sure this credit can be administered. Again, this is an important program for helping reduce the cost of housing and shore up taxpayers' ability to meet basic needs.

Additional Items

The bill contains the Governor and Lt. Governor's increase to the Angel Tax credit for tax year 2022. The Angel Tax credit provides incentive for investors or investment funds to put money into early-stage companies focused on high technology and new proprietary technology. The program has issued over \$100 million in credits to investors to spur economic growth.

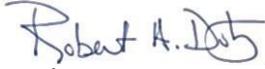
The bill includes a temporary version of the Governor's proposal to streamline the sales and use tax exemption for building, construction, or reconstruction materials, supplies, and equipment for buildings and facilities used primarily by local government and nonprofits. The bill also includes many sales and use tax exemptions that support our units of local government across the state of Minnesota.

We appreciate the inclusion of items from the department's policy and technical bill. One of our key strategies to achieve our mission is to engage in meaningful interaction with customers to provide superior service. During those interactions, we often hear or notice items in the tax code that could be clarified, updated, or corrected. These items may be small, but their important to ensure we are providing customers with the information, education, and services they need to efficiently navigate Minnesota's tax opportunities and obligations.

Closing

The department would like to reaffirm our commitment to making sure policies included in the final tax bill can be administered. As this bill move through the process, we will continue to share policy and administrative concerns on these proposals. Additionally, we will provide information about the administrative costs for the changes in the bill.

Sincerely,

A handwritten signature in blue ink that reads "Robert A. Doty". The signature is written in a cursive style with a large, stylized "D" at the end.

Robert A. Doty
Commissioner

Cc: Representative Greg Davids
Republican Lead, House Tax Committee