

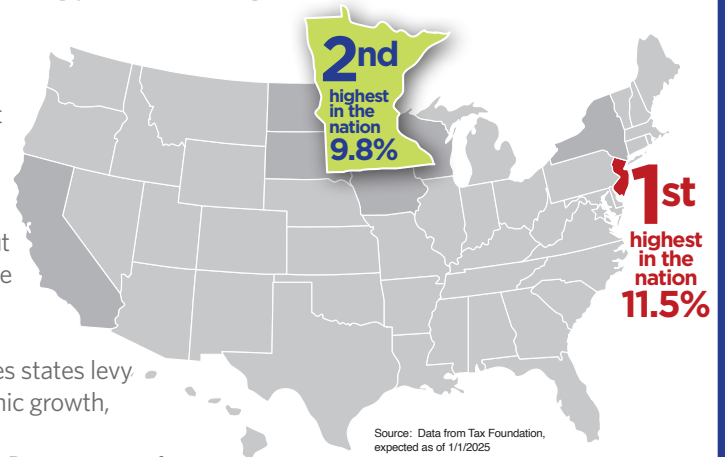
Minnesota's unsustainable tax burden

Minnesota's taxes on private sector job creators and higher income taxpayers are higher than most other states. The gap between Minnesota and peer and neighboring states is wide, and getting wider. Since 2021, 22 states have cut income tax rates; 12 have cut corporate rates and 2 have cut sales tax rates to make their states more attractive for investment and talent.

Minnesota's corporate rate is second highest in the nation. The state's individual income tax top rate is 6th highest - 4th highest at 10.85% for some types of income - making Minnesota a high tax outlier. It is also one of only 12 states imposing an estate tax. These tax burdens plus many new employer mandates and regulations create a barrier to economic growth as high tax rates undermine investment, entrepreneurship and attraction and retention of talent - all items needed for strong private sector growth.

Second highest corporate rate in the nation

Minnesota has the second highest corporate income tax in the nation at 9.8%. New Jersey's recently enacted Corporate Transit Fee only applies to corporations with \$10 million or more in taxable revenue- meaning that Minnesota has the highest corporate tax rate in the nation for all businesses under the \$10 million threshold. Single sales factor helps, but 32 other states also use single sales factor apportionment. The corporate rate is detrimental as it:



- Harms economic growth: According to many economists, the corporate income tax is one of the most economically harmful taxes states levy and high tax rates create a “sticker shock” which can deter economic growth, investment and entrepreneurship.
- Harms consumers, employees and shareholders. According to MN Department of Revenue tax incidence study the corporate tax is a regressive tax that is ultimately paid by employees in lower benefits and wages, consumers with higher prices and shareholders with lower returns.
- Adds instability to the state's budget. The corporate tax is the most volatile tax of the major taxes according to former State Economist Laura Kalambokidis' Minnesota's Revenue Volatility report
- Negatively impacts businesses of all sizes including over 35,000 corporate tax filers

Minnesota's recent tax changes for international earnings with taxation of GILTI without factor representation, the reduction in the dividends received deduction from 80% to 50% and our top corporate rate makes Minnesota an outlier. This taxation of foreign income is unfair to U.S. multinationals, is uncompetitive and likely violates the commerce clause of U.S. constitution.

States with individual income tax rates higher than Minnesota

Minnesota's top rate is the sixth-highest in the nation at 9.85%. Minnesota now has the 4th highest rate at 10.85%. With the enactment of the 2023 tax on net investment income for certain dividend and capital gains for households above \$1 million, Minnesota has the 4th highest rate at 10.85%. Minnesota's top rate kicks in at a lower threshold than other states' top rate. Minnesota's next rate of 7.85% ranks in the top 10 highest in the nation. Economic research has found that high-income taxes negatively impact talent recruitment, investment and entrepreneurship.



Minnesota is also only one of 12 states that still has an estate tax. The high income tax combined with estate tax creates a large financial disincentive for wealthier taxpayers to remain in Minnesota and hinders transfers of family businesses and farms.

Challenges

As is highlighted in the Minnesota Chamber Foundation's Minnesota: 2030 report, the state's overall economic performance is no longer nation-leading.

- Minnesota grew faster than the U.S. for decades, with job growth exceeding national job growth for 27 of 35 years from 1970-2004.
- Minnesota slipped from 17th biggest state economy in 2015 to 20th in 2023 as other states economies are outperforming Minnesota.
- Over the past decade, Minnesota's economy expanded at a slower rate than the U.S. economy. GDP growth averaged 2.4% annually in the U.S., compared to just 1.7% in Minnesota.
- Minnesota is losing investment to other states with a net investment deficit of \$4.8 billion in capital expenditures

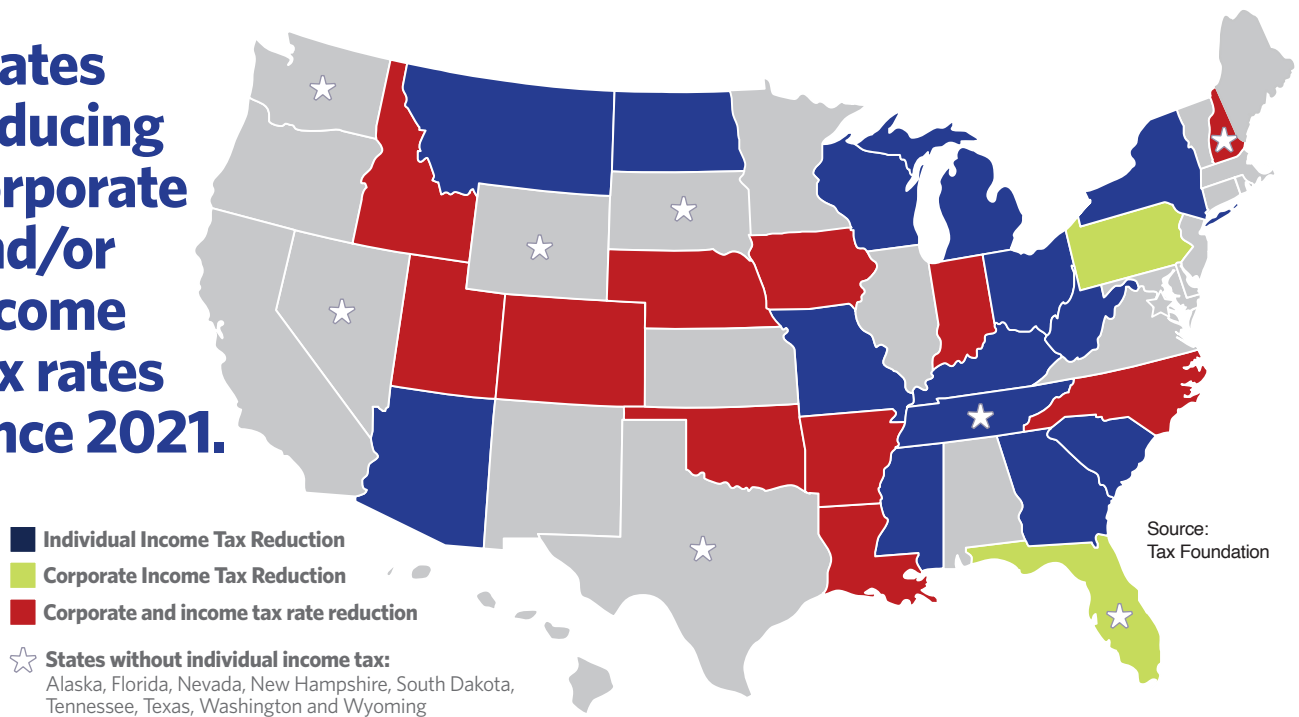
ranking 8th out of 12th for Midwestern states for expansion projects from 2018 to 2023 according to 2024 State of Business Retention and expansion report by Minnesota.

- Minnesota is losing population to other states. Domestic net migration ranks 35th worst in 2023, and workforce growth has stagnated.

Choose to grow Minnesota

Many factors impact the decision for businesses and individuals on where to invest or locate, including family, weather, cost of living and natural amenities. Not all of these factors are within policymakers' control. However, tax policies that hinder growth opportunities are within policymakers' control, and tax policy changes can yield economic results much more quickly.

States reducing corporate and/or income tax rates since 2021.



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