MINNESOTA CHAMBER OF COMMERCE

GROWING MINNESOTA

With a nearly $18 billion surplus, Walz proposes increasing income taxes on capital gains

Would be the highest in the nation at 13.85%

Increasing the capital gains tax to 11.35% and 13.85% will penalize hard working business owners, farmers and Minnesotans who have worked and sacrificed to build their businesses and save for retirement. As they sell their business, farm or other assets, they will be hit with the highest tax rate in the nation.

This 40% tax rate hike will undermine entrepreneurship and investment in the state, and provide another strong financial disincentive for high wealth individuals to remain in Minnesota.

Minnesota will be an extreme tax outlier

Unlike the federal government and many other states that provide a lower tax rate for capital gains, Minnesota treats capital gains the same as other income. Minnesota already has the 6th highest tax rate in the country at 9.85% and is one of 12 states that still have an estate tax (Minnesota's tax kicks in at a much lower threshold of $3 million).

This new tax rate of 13.85% would be highest in the nation:

- 9 states have a lower capital gains rate (AZ, AR, HI, MT, NM, ND, SC, VT, WI).
- 8 states do not have an income tax (AK, FL, NV, SD, TN, TX, WA, WY).
- 6 states provide tax breaks on capital gains for investments in in-state businesses (CO, ID, LA, OK) or farming (SD and WI).
- The federal tax rate is 20% for long-term capital gains.

Higher capital gains tax rates:

- Include inflationary gains, which do not represent a real increase in wealth. Taxes on inflationary gains are taxes on "fictitious" income.
- According to research, they negatively affect the decision to start a business, how and when entrepreneurs exit their business, and the ability to raise funds from outside investors.
- Are associated with less venture capital funding flowing into states.
- Are volatile and contribute to state budget instability.
- Result in double taxation as the business pays the corporate tax on profits and the shareholder pays taxes on dividends and capital gains distributed from after-tax profits.
- Create a bias against saving. When multiple layers of tax apply to the same dollar, it distorts the choice between immediate consumption and saving, skewing it towards immediate consumption because the multiple layers reduce after-tax return to saving.

Minnesota's general fund relies greatly on wealthier households to fund state services. 53.4% of general fund revenues come from individual income tax and the top 10% of households pay 58% of the individual income tax (and have 42% of income). Minnesota already has one of progressive tax systems in the nation, ranking 47th by liberal ITEP group. This tax would hit a very mobile and small segment of Minnesota's population providing even more of a disincentive to remain in Minnesota.

The Legislature must act

- Oppose the increase in capital gains tax rate.
- Support using the $17.6 billion surplus to lower income tax rates to make Minnesota more competitive and best position our state for economic success.

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2-13--23