Business bears the brunt of governor's budget

By Doug Loon

Gov. Tim Walz has unveiled his expansive and expensive budget proposal. The impact is crystal clear: Minnesota businesses are being asked to pay billions of dollars in additional taxes to support his budget that approaches $50 billion for the next two years, up more than 8 percent over the existing biennium.

We share his goal of investing in the state's future for workforce, infrastructure and quality of life for Minnesota families. But, simply put, the governor's budget is an overreach and unaffordable.

The governor says Minnesota businesses benefited from the 2017 federal tax reform, justifying his proposal to disproportionately raise business taxes to grow state government. We've heard this repeated from a number of sources, but the facts are that individual taxpayers received a majority of the federal tax relief, and Minnesota already imposes a high cost of doing business. The federal tax changes will make Minnesota's higher tax rates more pronounced due to the cap on the state and local tax deduction for individuals and businesses that report business income on their personal income-tax returns.

What the governor did not mention is that the increased costs on businesses, if enacted, will be felt in the pocketbooks of all Minnesotans. We will all be on the hook for more than $7 billion in tax increases for the four-year budget cycle beginning in July 2019.

The governor's gas tax proposal generated the most attention. We agree we need to invest more in the state's infrastructure, but a 20-cent, or 70-percent, increase would make Minnesota's gas tax the fourth highest in the nation. His proposal would automatically increase the gas tax each year, and would increase the motor vehicle sales tax, metro area sales tax and tab fees now. The cost will be felt especially by businesses that pay 50 percent of the gas and sales taxes. Rather than doubling down on the gas tax – an increasingly unreliable revenue source – we recommend diversifying our revenue sources through existing transportation-related sales taxes.

The governor recommends raising other costs of doing business in Minnesota. Over the next four years, these tax increases are part of his overall $3 billion tax increase proposal:

- A 23-percent increase in the corporate income tax, totaling nearly $1 billion.
- An increase in income taxes for businesses that report business income on their personal income-tax returns, totaling $763 million.
- Continuing the health care provider tax, totaling nearly $1.7 billion.
- Reinstating automatic increases in the state tax levy on business properties, totaling $218 million.
- A new state mandate for paid family leave with initial IT costs of $68 million. Total cwosts are unknown, but it's proposed to be financed by a new payroll tax paid by all employees and employers including independent contractors.

These bills may be considered individually in the legislative process, but their impact is cumulative. Policymakers must remember that business costs cannot be analyzed in a vacuum. Each new cost, each new regulation hinders their ability to grow their business and fuel the state's economy.

In the end, consumers and employees will pay the price. Don't just take my word for it. That's a recurring conclusion of the Minnesota Department of Revenue's biannual Tax Incidence Study. Businesses cannot simply absorb higher taxes and higher costs of regulations year after year. Costs are passed along to consumers in three ways: lower salary and benefit packages for employees; higher costs for products and services; lower returns to shareholders.

The Minnesota Chamber Federation is prepared to fight for the economic interests of all Minnesotans. The pathway toward economic prosperity isn't through increased spending and higher taxes. Instead of growing government, we should be handing private-sector innovators the tools to fuel growth and not make it more costly to do business in Minnesota.

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