



Tax burden talking points

March 30, 2023

Minnesota is already a high-cost state, and we have a record \$17.5 billion budget surplus. We should not impose additional cost burdens that will undermine our competitiveness and add to the already high cost of doing business.

\$7.3 billion in tax increases over the next four years are currently being advanced in just three bills raising taxes by \$1.8 billion in FY 24/25 and \$5.5 billion in FY 26/27. These tax increases are carried in housing, transportation and paid leave mandate bills and are as follows:

- **\$2.9 billion FY 26/27 payroll tax of 0.7%** on FICA wages for paid leave mandate. Payroll tax starts on July 1, 2025. The bill is HF 2/SF 2, Senate language, 7th Engrossment. The bill is currently awaiting action in Senate Finance and House Commerce committee.
- **\$1.47 billion FY 24/25 in new taxes** in both House and Senate transportation bills and \$2.2 billion in FY 26/27. This includes:
 - A 0.75% increase in sales tax in the seven metro counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington totals \$917 million FY 24/25 and \$1.166 billion FY 26/27.
 - A new delivery fee of 75 cents per delivery of taxable goods in the seven county metro area, raising \$192 million in FY 24/25 and \$424 million in FY 26/27.
 - A motor vehicle tab fee increase in the Senate amounts to \$242 million in FY 24/25 and \$546 million in FY 26/27.
 - A motor vehicle sales tax increase of .375% raises \$105 million FY 24/25 and \$122 FY 26/27.

A sales tax increase in the seven-county area is 1% as the House omnibus is also raising the sales tax by 0.25% even though it has a \$1 billion budget target for housing needs – the largest in history. The Housing sales tax is another **\$338 million FY 24/25 and \$391 million FY 26/27.**

The sales tax is a regressive tax – as the impact is greater on lower-income households, according to Minnesota Department of Revenue tax incidence study. About 49% of sales tax is paid by businesses. Minnesota is already seen as a high-tax state, ranking as the 45th-worst in the business tax climate index from the Tax Foundation. Minnesota's overall tax burden for both state burden per capita already ranks fifth highest in the nation at \$5,612, more than \$2,000 above the national median, and state and local tax burden per capita ranks tenth highest, over \$1,400 more than the national median.

Minnesota used to outperform on key economic indicators – GDP growth, job growth and state-to-state migration. That is no longer the case, and we have been lagging more than leading in the last decade.

- For example, Minnesota ranked 42nd in the nation for domestic migration with over 19,000 Minnesotans on net moving from the state. The year prior showed over 15,000 moving away.
- One-year growth in employment ranked 36th in the nation. The forecast now shows job growth expected to be essentially flat.
- GDP growth ranked 26th last year, which is below the national average.

Minnesota has the largest budget surplus in the state's history at \$17.5 plus billion! Plus a large budget surplus in the budget tails of \$5 billion.

- The surplus is on top of the 7.4% spending growth that is assumed in the budget forecast of \$3.84 billion for FY 24/25 and the 7% spending growth for FY 26/27 of \$3.87 billion.
- An argument we keep hearing is that there is not enough money in budget tails and its mostly one time surplus. This is not true! The **budget forecast has a structural surplus of over \$5 billion that would allow for a 16.6% general fund spending growth in the next biennium of FY 2026/27 – without raising any taxes if you use the joint budget targets of tax relief of \$1.3 billion that allows for a 13.6% in budget tails.** The FY 26/27 surplus is \$5.366 billion plus \$3.87 billion spending growth of 7% already assumed in forecast = \$9.237 billion, 16.6% growth over current law.
- Over half of states have enacted permanent tax relief in last three years – Minnesota is going in the opposite direction becoming more of a tax outlier.