Governor Mark Dayton
130 State Capitol
75 Rev Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

May 22, 2018

Governor Mark Dayton,

We are writing to urge you to **veto the Legislature's tax bill, House File 947.**

We outlined our concerns to you, first, on May 16th in a letter regarding HF 4385. Since then our concerns have only grown.

First, **the Legislature has fallen short of addressing the state's need for Emergency School Aid.** Your proposal would have helped delivered on one of the State of Minnesota's most basic responsibilities: educating our kids. The Legislature has failed to adequately respond to the crisis. Instead of sending a substantive and clean bill, they are relying on budget gimmicks tied to their still-problematic tax proposal.

Second, **the Legislature has still left nearly $200 million of multinational corporate profit tax revenue untouched.** House File 947 would allow many multinational corporations to double dip: first, getting their share of the estimated $1.5 billion in 2019 tax breaks that businesses are receiving from the federal Tax Cuts and Jobs Act (TCJA), and now, second, with an additional break from paying state taxes on their collected, foreign-sourced income from the last 34 years.

Finally, our seven principal concerns from the already vetoed HF 4385 remain:

1) Preemption Poison Pill: The Legislature has kept a deeply divisive policy provision in their bill: the preemption of local government's authority to create an excise tax on food or food packaging Article 4, Section 9, Lines 87.12 to 87.29. **We strenuously oppose preemption.**

2) Fiscal Irresponsibility: The Legislature's proposal needlessly risks Minnesota's fiscal future by failing to fully conform the TCJA's deemed repatriation provisions and not conforming at all to the TCJA's Global Intangible Low Taxed Income (GILTI).

Instead, the Legislature would permanently lower the corporate franchise rate in two-steps from 9.8% to 9.65% in 2019 and then to 9.1% in 2020 in Article 2, Section 39, Lines 25.7 to 25.14. **By backloading this cut they obscure its impact, namely, that it *quintuples in cost* in FY 20-21 ($122.7m) as compared to FY 18-19 ($22.9m).** They compound this massive expense, by altogether repealing the Corporate Alternative Minimum Tax at a cost of $23m in FY 18-19 and $29.6m in FY 20-21 in Article 2, Section 79, Lines 66.16 to 67.16 (and in related citations).

3) Economic Substance Test: The Legislature has not included your proposal for an Economic Substance Test. The Department of Revenue has long needed this tool to effectively administer our corporate franchise tax. With the federal change to a territorial system of corporate foreign income taxation, **our state will need the ability to evaluate complex business transactions now more than ever.**

4) Fixing Costly Provisions from 2017: The Legislature has not included your repeal of their costly tax breaks for the tobacco industry, large commercial real estate interests, and those who would pay the estate tax. As you well know, the removal of the inflators on these provisions is costly, narrowly targeted, and will grow over time. **These tax breaks are an increasing risk to Minnesota's fiscal future.**

5) Poorly targeted tax cuts: The legislature's proposed income tax rate cuts are poorly targeted. An estimated one in five Minnesota taxpayers would not see any benefit, and the tax cuts get larger at higher incomes. A family of four would need to earn about $180,000 to get the maximum income tax cut – an income level that puts in them in the top 10% of Minnesota taxpayers. A family of four making less $65,000 would save less than $100 annually under the Legislature's plan. **The Legislature should have focused the benefits on working families instead of wealthy families.**

Additionally, the Legislature's plan disproportionately targets tax cuts at corporations lowering the corporate franchise tax by at seven times the rate of their cuts for the first tier of individual income tax. **They are proposing a .7% cut for corporations and a .1% cut for Minnesotans making $0 to $37,000.** This is not an expense the Legislature can justify.

6) Working Family Credit: The Working Family Credit is a targeted, tested, and popular solution that improves the lives of families and makes the tax code more progressive for all of us. The Legislature's proposal actually makes it worse by tying this and other low-income tax credits to a new inflation measure: Chained CPI. **This change would steadily erode the value of this credit for families who need it most.**

7) Provider Tax: With a looming sunset date of the Provider Tax on January 1, 2020, **the health care of thousands of Minnesotans is at risk.** Those families deserve certainty. We all deserve a state that isn't governed from crisis to crisis. The Legislature has a responsibility to address this problem instead of using it score political points.

**We understand that the long-run fiscal health of the state is your top budget priority during the 2018 legislative session.** We share this goal, as does the clear majority of Minnesotans. While the Legislature has elected to jeopardize our future, we urge you to defend it. We stand ready to defend it with you, both this year and beyond.

**Please veto HF 947.**

Thank you for your leadership.

Signed,

CAIR – MN: Council on American Islamic Relations Minnesota
Children's Defense Fund – MN
CURE: Clean Up the River Environment
Communications Workers of America State Council
Education Minnesota
Eureka Recycling
ISAIAH
Jewish Community Action
Land Stewardship Project
Main Street Alliance
Minnesota AFL-CIO
Minnesota Association of Professional Employees
Minnesota Nurses Association
MN350
North Star Policy Institute
OutFront Minnesota
Saint Paul Federation of Teachers
SEIU Healthcare Minnesota
SEIU Local 26
SEIU Local 284
SEIU Minnesota State Council
TakeAction Minnesota

cc: Commissioner Cynthia Bauerly