



Testimony
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Senate Tax Committee
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The Minnesota Budget Project is an initiative of the Minnesota Council of Nonprofits. We provide analysis, outreach, and advocacy on budget and tax issues, emphasizing their impact on low- and moderate-income Minnesotans.

I would like to testify today in opposition to two provisions that are currently part of the draft omnibus tax bill: the proposal to cut the Renter's Credit, and Single Sales Factor.

The bill you have before you would dramatically cut the Renter's Credit. The Renter's Credit provides property tax relief to low- and moderate-income Minnesotans whose property taxes are high in relation to their income. Currently, in determining the amount of Renter's Credit, 19% of rent paid is considered to be the renter's share of property taxes. The draft omnibus tax bill would reduce this percentage to 13%, resulting in a tax increase on most households who receive the credit.

This proposal would raise taxes on those Minnesotans who are least able to shoulder the increased burden. A past study by the Department of Revenue found that 29% of persons receiving the Renter's Credit were seniors or persons with disabilities.

This tax increase would add additional hardship on persons who are likely to have been harmed by service cuts made in the 2003 legislative session such as those to senior services, child care assistance, and state health care programs.

While owners of market rate rental properties have received property tax relief, that tax savings has not been passed on to renters in the form of lower rents. In fact, the average rent in the metro area is slightly higher than in 2001, before the tax reductions for apartments went into effect.

Now is not the time to raise taxes on low- and moderate-income renters. We ask that this provision be removed from the omnibus tax bill.

The second item I would like to address is the Single Sales Factor, which would provide a tax cut for a relatively small percentage of corporate taxpayers. Single Sales Factor is wrong for Minnesota for several reasons:

- We can't afford it,
- More businesses would be hurt than would be helped, and
- Single sales factor is not an effective job creation tool.

The state cannot afford a corporate tax cut that would widen existing budget deficits. We appreciate that the Senate's Single Sales Factor provision demonstrates the true cost of

this proposal — \$47 million in FY 2005 — by implementing it all at once, rather than using a slow phase-in that masks the full impact.

However, we do not believe that during tight budget conditions that Minnesota can afford to provide a tax cut to a small number of taxpayers while making service cuts that harm many others.

Secondly, More Businesses Would Be Hurt Than Would Be Helped by Single Sales Factor. Only 9% of businesses that file corporate tax returns in Minnesota — about 4,500 companies — would receive a tax cut from Single Sales Factor. If Single Sales Factor were in effect in 2004, an estimated 130 companies would receive tax cuts averaging \$500,000.

But 13%, or 6,500 corporations, would pay higher taxes under Single Sales Factor. An estimated 80 corporations would receive tax increases averaging \$200,000 if Single Sales Factor were in effect in 2004.

The majority of corporations (78%) would see no change in their corporate taxes — these are primarily businesses that have all of their business activity in Minnesota, as well as those with no taxable income.

While proponents of Single Sales Factor argue that it will eliminate an “anti-jobs tax,” Single Sales Factor is not directly tied to job creation. There is no requirement that the corporations receiving the tax cut create jobs — or even maintain existing jobs — in Minnesota.

Single Sales Factor has a poor track record in this regard. Massachusetts enacted Single Sales Factor in 1995 largely in response to a threat by Raytheon that they would otherwise close plants in the state. Single Sales Factor was passed, and Raytheon still laid off 3,000 people in Massachusetts. Black and Decker was the leading proponent of Single Sales Factor in Maryland; within two years of Maryland’s adoption of the formula, Black and Decker had closed its last manufacturing plant in the state.

When Illinois was considering Single Sales Factor, a University of Chicago economist predicted that Illinois would gain 155,000 manufacturing jobs if it adopted Single Sales Factor. In fact, Illinois lost 66,000 manufacturing jobs between the time it adopted Single Sales Factor (July 1998) and the end of the most recent economic boom (March 2001). It has lost an additional 133,000 manufacturing jobs since then, despite cutting corporate taxes by \$100 million annually due to Single Sales Factor.

No one can deny that Minnesota needs economic development strategies that will create good jobs. But Single Sales Factor does not make the grade. Minnesota cannot afford an expensive corporate tax cut that is not tied to job creation. We urge you to remove this provision from the omnibus tax bill.

Thank you for your time.