

January 25, 2021

Senator Carla Nelson
Chair, Senate Taxes Committee
95 University Avenue W.
Minnesota Senate Bldg., Room 3235
St. Paul, MN 55155

Dear Chairwoman Nelson:

The undersigned coalition of organizations strongly support the restoration of SALT Parity to Minnesota's Main Street business community included in S.F. 263, as introduced by Senator Tom Bakk.

Pass-through businesses are the backbone of Minnesota's economy – they represent the majority of Minnesota businesses, they employ the majority of the state's workers, and they have been particularly hard hit by the pandemic. The National Federation of Independent Businesses estimates one in five Main Street businesses are at risk of closing for good as a result of COVID-19.

SALT Parity can help these businesses at a difficult time. The 2017 Tax Cuts and Jobs Act cap on State and local tax (SALT) deduction applies to many of Minnesota's 179,000 resident owners of partnerships and S corporations. This loss results in tax rates 1.6 to 1.9 percentage points higher than if they were allowed to fully deduct those taxes, putting Minnesota businesses at a disadvantage compared to businesses operating in states with no income taxes or those, like Wisconsin, operating in states that have already adopted SALT Parity.

S.F. 263 would address this disparity and restore the full SALT deduction to Minnesota's pass-through businesses without reducing revenues collected by the state. The legislation:

- Provides an election for pass-through businesses to pay their SALT at the entity level;
- Includes an income exemption, so that owners of businesses making the election are not subject to double taxation; and
- Provides Minnesota business owners with a credit for taxes paid to other states that have adopted similar SALT Parity reforms.

This last provision is designed to ensure that businesses operating in multiple states are not disadvantaged by double taxation, and its increasingly important as the number of states adopting the SALT Parity reform grows. Connecticut, Louisiana, Maryland, New Jersey, Oklahoma, Rhode Island, and Wisconsin have all passed similar SALT Parity reforms, while more than a dozen other states are actively considering it. In November

2020, the Internal Revenue Service effectively blessed these efforts as “consistent with the longstanding position” of the agency.

SALT Parity will help these businesses better survive the pandemic by reducing their federal tax burden without reducing tax collections to the state. It is a win-win for Minnesota and its business owners.

We look forward to working with you to see this important reform adopted this year.

Signed,

Minnesota Realtors®
Minnesota Beer Wholesalers Association
Parity for Main Street Employers
S Corporation Association

cc. Senator Thomas Bakk