



# STATE OF MINNESOTA

## Office of Governor Tim Pawlenty

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

May 4, 2009

Senator Thomas Bakke  
226 State Capital Building  
Saint Paul, Minnesota 55155

Representative Ann Lenczewski  
506 State Office Building  
Saint Paul, Minnesota 55155

Dear Senator Bakke and Representative Lenczewski:

As your conference committee deliberates the Omnibus Tax Bill, I would like to clearly reiterate my position on the House and Senate bills. It is exceedingly disappointing the House and Senate Democrats have chosen to dramatically increase tax burdens on Minnesota residents and employers at a time when the state economy is suffering from the deepest economic recession in more than 50 years.

Both bills scarcely passed the full body of both chambers, receiving bipartisan dissenting votes. This serves as a clear message the legislation needs considerable work.

Minnesotans are now tightening their belts and making hard sacrifices to manage their family budgets. State government needs to do the same. The Senate's nearly \$2.6 billion state tax increase and the House's \$1.5 billion state tax increase will impact nearly every Minnesota family. These onerous tax increases will exacerbate Minnesotans' economic hardship and undermine Minnesota's economic recovery.

The dramatic individual income tax increases included in both bills would also stifle job creation by escalating taxes on job creators. Approximately 90 percent of businesses pay their business income through the individual income tax system. These are the businesses that drive our economy. The Senate bill would give Minnesota the unenviable distinction of imposing two of the top ten income tax rates in the country. The House bill would impose the fourth-highest income tax rate in the country and eliminate a variety of highly valued tax deductions and credits including the home mortgage interest deduction, property tax deduction,

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charitable contribution deduction, organ donor subtraction, senior or disabled subtraction, and the child and dependent care credit to name a few.

The Senate bill would increase the state property tax levy on businesses by more than \$830 million over 4 years. This dramatic regressive tax increase would undoubtedly influence where businesses decide to locate and it will negatively impact an overwhelming majority of Minnesota businesses.

It is also troubling the Senate, in spite of months of hearings, allows for an undefined increase in the Health Care Provider tax. The legislative session is two weeks from concluding. This lack of transparency regarding your planned revenue increases is troubling.

Both the House and Senate bills jeopardize Minnesota's ability to compete globally. The House bill repeals the FOC and Foreign Royalty Subtraction. These two tax provisions are vital to many of Minnesota's most valued industries and enable these industries to compete in a hyper-competitive global economy. The Senate bill ceases the phase-in of single sales factor. The Senate's action would discourage employers from investing and creating jobs in Minnesota.

Both bills include an additional array of objectionable provisions that are too numerous to provide a comprehensive list. Some of the most troubling provisions include repeal of levy limits, authorization of a "street improvement fee", \$400 million increase in regressive alcohol and tobacco taxes, imposition of a 30 percent tax on interest income, taxation of digital products and taxation of heating fuel.

I appreciate that you included a few of my budget recommendations including the upfront capital equipment exemption, section 179 expensing and the Angel Investment and Small Business Tax credit. However, your bill ignores many of my tax recommendations including reducing the business tax rate, the reinvestment tax credit, capital gains exemption and Green JOBZ. This session needs to be more about just solving the budget deficit, we need to also focus on Minnesota's economic future.

Bakk/Lenczewski

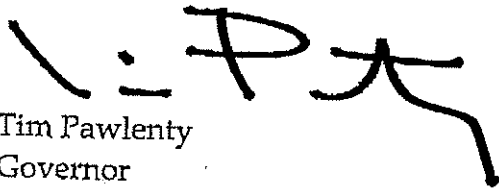
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Commissioner Einess has been directed to actively work with you in conference committee to provide more guidance regarding my suggestions and objections.

I urge you not to raise taxes on the citizens of Minnesota in these challenging economic times. I remain hopeful that we can resolve our differences and craft a compromise that will move Minnesota forward and ultimately lead to greater economic prosperity for all Minnesotans. I look forward to working with you and your leadership to bring this legislative session to a successful conclusion.

Sincerely,



Tim Pawlenty  
Governor

cc: Senator Larry Pogemiller, Senate Majority Leader  
Representative Margaret Kelliher, Speaker of the House  
Senator Dave Senjem, Minority Leader  
Representative Marty Seifert, Minority Leader  
Senator Rod Skoe  
Senator Scott Dibble  
Senator Mee Moua  
Senator Debbie Johnson  
Representative Paul Marquardt  
Representative Lyle Koenen  
Representative Diane Loeffler  
Commissioner Ward Einess, Department of Revenue  
Commissioner Tom Hanson, Minnesota Management and Budget Office