

The challenge of tax changes for businesses

By Charley Shaw, Staff Writer

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The anticipated billion-dollar-plus budget deficit facing Minnesota legislators in 2009 could spell trouble for Minnesota businesses.

Already, during the 2008 legislative session, state lawmakers limited the number of corporations that can qualify for a tax break as a foreign operating corporation, thereby raising \$109 million to help plug a \$935 million state deficit.

With an eye on the state's precarious economic situation, a commission appointed by Gov. Tim Pawlenty is designing a tax system aimed at keeping state coffers full while deterring lawmakers from constantly reaching their hands into the cookie jar of business taxes.

"Trying to get in front of these sorts of decisions by putting a thoughtful and credible business tax system on the table is the right thing to do," said Mark Haveman, executive director of the Minnesota Taxpayers Association.

Haveman is one of 15 members of the Governor's 21st Century Tax Reform Commission. Pawlenty first announced the commission during his 2008 State of the State address in St. Cloud in February. He officially created the commission in a Feb. 29 executive order.

The tax commission is charged with presenting its recommendations to Pawlenty on Dec. 1, in time to be the subject of legislation during the 2009 session, which begins in January.

At Friday's meeting, Haveman discussed tax principles that will guide the commission as it meets this summer and fall. One that Haveman mentioned is a structure that "should discourage legislative tinkering and improve the predictability of tax burdens for business planning purposes and revenues for state budgeting purposes."

Former state Sen. Bill Belanger said that's a difficult goal to achieve. Tax proposals, such as eliminating sales tax exemptions or changing Pawlenty's Job Opportunity Building Zones (JOBZ) program, are difficult to carry through at the Capitol.

"Every one of them [exemptions] has a constituency," said Belanger, a Republican from Bloomington who served on the Senate Taxes Committee until 2006.

The commission's chairman, Michael Vekich, a St. Louis Park accountant, said he's determined the commission's final recommendations won't gather dust like previous tax studies.

"I want us to be open, very innovative and practical so that when we deliver this report to the governor it's not one of those reports ... that just sits in a library," Vekich said in an interview after Friday's meeting.

The commission will first consider which reform proposals are best, and will then look at the cost of the various proposals. Pawlenty's executive order stated that the combined impact of the commission's recommendations should be revenue neutral. For now, Vekich said, the commission is developing principles that should redefine Minnesota's tax system.

But some of the commission's recommendations might not be revenue neutral when implemented, Vekich said. What the commission hopes to propose is a system of business taxation that spurs economic development.

For example, so-called angel tax credits for start-up businesses would cost money. But the credits could lead to new economic development and tax revenue.

"This is a long-term approach where we're going to have to make potentially some tough decisions for some huge long-term gains," Vekich said.

At Friday's meeting, Haveman outlined four other tax principles in addition to the one about a tax structure that's resistant to politics. Other "outcome-based" principles include a tax system that eliminates the need for corporate subsidies.

Regardless of a person's view of JOBZ, Haveman said, the program that provides tax breaks to businesses that locate or expand in greater Minnesota exposes flaws in the state's tax system.

"Really, it's kind of an implicit condemnation of Minnesota tax policy that we would have to resort to something like [JOBZ]," Haveman said.

Wendell Maddox, the CEO of Minnetonka-based ION aerospace and technology company and a member of the commission, said the state's tax policy can affect business's decision to locate or stay in Minnesota.

"We should not tax our businesses out of business," Maddox said.

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