

Minnesota governor's revised budget

March 22, 2013

In brief

On March 14, 2013, Minnesota governor Mark Dayton [released his revised budget](#). The governor recently announced he was abandoning his original January budget, elements of which were incorporated into S.F. 552 ([click here](#) for our summary of the original budget and [here](#) for our summary of S.F. 552). His revised budget does not include previous proposals for an expanded sales tax base, corporate tax rate reduction, property tax refunds, or the up-front capital equipment exemption.

The revised budget retains some of the provisions that were in his original budget, including: (1) creating a new 4th tier 9.85% personal income tax bracket; (2) collecting sales tax for online transactions; (3) reducing the unemployment insurance tax; (4) disallowing the tax effects of a transaction that does not have economic substance; and (5) presumably repealing the current subtraction for foreign royalties and provisions for foreign operating corporations (FOCs). [[A Fair Tax System for All Minnesotans](#), Governor Mark Dayton (March 2013), [Budget for a Better Minnesota: Jobs](#), Governor Mark Dayton (March 2013)].

In detail

January proposals abandoned

On January 22, 2013, the governor released his fiscal year 2014-15 budget, which contained several tax reform proposals, including:

- broadening the sales tax base to include most services, click-through nexus sales, digital goods, and remote access software
- converting the capital equipment sales tax refund with an up-front exemption from sales tax on the sale or lease of equipment used in manufacturing, fabrication, mining, or refining

- reducing the corporate franchise tax rate from 9.8% to 8.4% effective January 1, 2013
- suspending the inflation adjustment for commercial/industrial property tax for taxes payable in 2014 and 2015

The governor's March revised budget does not incorporate the above proposals.

March revised budget

Governor Dayton's revised budget retains the January tax reform proposals, including:

- creating a new fourth-tier income tax bracket at 9.85% that will apply to all taxable

income over \$250,000 for married joint filers and to taxable income over \$150,000 for single filers

- collecting sales tax for online transactions
- cutting unemployment insurance taxes by \$346.5 million
- repealing the current subtraction for foreign royalties and provisions for foreign operating corporations (FOCs) (while the governor did not specifically mention these two provisions in his revised budget, it is our understanding that these are

included in what the governor refers to 'business tax loopholes' that he intends to address)

The takeaway

Governor Dayton's budget revisions were the result of objections by the business community, including the belief that expansion of the sales tax base to include business-to-business services would hurt both businesses and consumers, which would make

Minnesota less competitive. The proposals are very general policy statements and the legislature can choose to use the governor's budget as a blueprint or create its own plan. We will continue to monitor legislative developments to see how these proposals are incorporated into the final budget bill.

Let's talk

If you have any questions on the governor's revised budget or on tax reform in Minnesota, please contact:

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