



Mark Haveman, Executive Director, Minnesota Taxpayers Association

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

January 29, 2010

Present: Verne Johnson (Chair); David Broden (phone), Janice Clay (phone), Marianne Curry, Paul Gilje (phone), Jim Hetland (phone), Jan Hively (phone), Dan Loritz, Tim McDonald, Jim Olson (phone)

A. Context of the meeting - Last year the Governor convened the 21st Century Tax Reform Commission, and tasked it with seeking ideas for intergovernmental tax reform. It was chaired by Michael M. Vekich. Their report, *Minnesota's Millenium*, was released last February and may be found online at: <http://tinyurl.com/c6at35>.

Haveman served on the commission, and will discuss his views of the group's conclusions, where the report is one year later, and what has come of its recommendations.

B. Welcome and introductions - Mark Haveman joined Minnesota Taxpayers Association in 2002 as part of an effort to revitalize the research and education arm of MTA, the Minnesota Center for Public Finance Research-now called the Minnesota Center for Public Finance Research. Previously, Haveman was Vice President of a policy and technology consulting firm specializing in environmental protection and resource conservation issues.

Haveman has served on policy and project advisory boards for the U.S. Environmental Protection Agency, the National Institute for Standards and Technology, as well as for several state agencies, academic institutions and private foundations. He received his B.A. from Calvin College and an MBA from the University of Michigan.

C. Comments and discussion -During Haveman's visit with the Civic Caucus, the following points were raised:

1. The 2009 Governor's 21st Century Tax Reform Commission— Last year the Governor brought together a commission of business people-"Practitioners, in the trenches," Haveman said. They deliberated for 8 months, running subcommittees and bringing in guest speakers. "The recommendations are rooted in thoughtful analysis, research, and interviews," he said.

The question they pursued: What challenges is the state facing in coming years? How should the state align its taxes to meet them?

The scope of the commission did not include finding a fix to the budget, though they did operate under a charge to keep their recommendations revenue neutral. "We put the issue of how much to/not to tax aside, looking instead at how tax revenues are spent." Their's was a "strategic goal, instead of tactical."

The Department of Revenue runs annual Tax Incidence Studies, where it tries to determine the last resting place of taxation-where the final weight of taxes lies. "What this report has shown is that Minnesota is pretty progressive in how it taxes, but the line does bend down among higher incomes."

The commission treated business taxation as economists do, seeing higher levies as passing down to individual consumers. By the work they reviewed, Minnesota comes out toward the bottom of the national rankings in its tax climate for business

2. Commission recommendations— Recommendations of the commission may be found at <http://tinyurl.com/ydquqmj>, and fall into four main categories:

Reduce business tax burdens

Improve transparency of business taxation

Promote investments in innovation, entrepreneurship and emerging/high-tech companies

Pay for reform while aligning the tax system with consumption

A member wondered if there was any talk of a Value-Added Tax (VAT). "Yes," Haveman replied, "and there are many ways to do this. The benefit is exceptionally large base and low rates. But there is a challenge with implementation of a VAT at the state level. Washington and Ohio did it. Their business burdens were reduced by a billion-plus. But they are having trouble with it." He said that MTA's problem with it-which is separate from the view of the commission-is that that the state already has something similar in the form of a business property tax."

3. The response— A member asked for the Governor's response to the commission's recommendations. "The Governor met with the chair, and was supportive of its work." But he did not pick up the commission's conclusions. "The Governor was dealing with practical issues as the time," Haveman conceded, around the conclusion of the 2009 session and an unresolved budget.

What was his position? "The Governor neither endorsed or rejected them." Art Rolnick approved the goals and approach. "The question is how to juxtapose practical and political realities" involving the commission's recommendations for ideal tax policy, and a deep, structural budget imbalance. "The question is how to juxtapose practical and political realities."

Nobody is talking about the labor-side of things, a member complained: "About people working longer. Boomers are the healthiest elderly we've ever had."

4. We cannot afford to play follow the leader-Erase the state's corporate income tax— One of the principal recommendations of the commission is its proposal to do away with the state's corporate income tax.

"We searched for where Minnesota could get the biggest bang," Haveman said. "The state corporate income tax is among the highest in the nation. It's broken, leaking, and we can't fix the leaks." On top of it all, "it is an extraordinarily expensive tax to administer."

Haveman quoted an economist that visited with members of the commission. "The state should move it to the department of economic development," he had said, "because its integrity as an income tax is gone. Presently it is used as a goody bag."

Why eliminate it, versus cut it, a member asked? Haveman replied that the tax is unnecessary and a hindrance, whether large or small-and if it is going to be cut, it should be brought to zero.

"If we eliminated the corporate income tax we would distinguish ourselves among the states," Haveman said. "We cannot afford to be in a follow-the-leader game, chasing the latest industry-de-jure." He cited green energy. "Once we would decide to get into something, five or six states will already be out there."

"There is common preference for tax breaks tied to activity," Haveman commented. "People think of the elimination of an entire tax a leap of faith."

But the corporate income tax is comparatively small, in terms of the revenue it brings in. "The tax is expected to raise about \$400 million this year," he figured, and "if you went in on widening the sales tax, we're talking \$2+ billion."

A professor present at the discussion agreed with the sentiment against the tax. He commented that, "When I tell my students corporations don't pay taxes, customers pay taxes, they get it-and ask, *why do we do that?*"

5. Message to the legislature: How a state structures tax rates is more important than issuing tax credits— "If we don't do anything," a member asked, "what will happen to business in the state?"

"We had all sorts of different people on the commission," Haveman began, "and to a person, they do not believe that legislators appreciate the importance of the tax context. There is almost a smugness (on the part of legislators) that we used to tax high and still grew. But as mobile as capital is today, profits are even more mobile. You can funnel profits anywhere. That's why rates matter more than credits."

How will you get legislators to listen, a member asked? "Members of the commission are literally walking them (legislators) through the play-out of taxation," Haveman said. "But it may take more hemorrhaging of companies; more headquarters moving out of state" before the message strikes home.

"It seems that you are over people's heads with technical stuff," the chair observed. "It seems you could get the message out if you put it in terms of jobs, and how you expand the tax base."

"You're absolutely right," Haveman replied. "People understand tax rates and jobs. We need to get beyond the idea that you should give tax credits for investment. Everyone is doing that," he said, referring to other states. "Get beyond that. It's a national game of poker-I'll see your credit, and raise you a credit."

6. Withdrawing Local Government Aid for an expansion of the individual circuit breaker— A member asked whether LGA can be withdrawn through expanded use of the circuit breaker—an idea proposed by John James on January 15th. Local Government Aid allows cities, regardless of their tax base, to afford basic services.

"We would give that a standing ovation," Haveman replied, with a smile. Speaking strictly for MTA, he said that, "We have come to conclude that it is time to put it out. We have had seven eras of LGA according to House Research. Every time we change it, new problems come up."

You can design these circuit breakers to do anything, a member observed. It is a simple, progressive way to target tax benefits at the individual.

What do you think of its prognosis? "Zero." At least now. But it is an idea that deserves to be heard.

D. Closing

In closing Haveman praised the Civic Caucus, saying that, "I read every one of your emails." The MTA will continue to work on finding ways to best structure Minnesota's tax system for the individuals, employers, and public services.

Thanks all around.