



STATE OF MINNESOTA

Office of Governor Mark Dayton

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Blvd ♦ Saint Paul, MN 55155-1611

May 17, 2018

The Honorable Kurt Daudt
Speaker of the House
State Office Building, Room 463
100 Rev. Dr. Martin Luther King, Jr. Blvd.
Saint Paul, Minnesota 55155

RE: The Omnibus Tax Bill, Chapter 172, House File 4385

Dear Mr. Speaker:

I have vetoed and am returning Chapter 172, House File 4385, a bill related to taxation.

Last Monday, I said that I would not begin negotiating or sign a tax bill until there is an agreement to fund Emergency School Aid. Instead of working to find common ground, Legislative Leaders have come up with excuse after excuse to ignore this emergency facing Minnesota schools.

Late last year, President Trump and Republicans in Congress enacted a federal tax law that overwhelmingly favored large corporations and the richest Americans. The federal tax law cut taxes by 40 percent for corporations, totaling 92 percent of the net total, or \$1.35 trillion. Because of these federal tax changes, 300,000 Minnesotans will see a \$59 million tax increase next year, if the Minnesota Legislature does nothing to respond.

In response to the federal tax changes, I proposed a near revenue-neutral tax bill on March 16th that would separate state income taxes from the federal tax code to protect individual Minnesotans from state tax increases, while also targeting additional tax cuts to Minnesotan families. Under my tax bill, over 2 million Minnesota families would get a state income tax cut. 1.9 million families would receive an average tax cut of \$117 through a new Personal and Dependent Credit, and 329,000 families would get an average tax cut of \$160 through the expansion of the Working Family Credit.

Under this tax bill, a family of four earning the state median income of \$65,000 would receive a \$92 tax cut from the rate cuts. Under my tax bill, that same family of four would receive a \$240 tax cut from the new credit.

Furthermore, this bill prioritizes wealthy individual filers with twice the rate cut as low- and middle-income families. For example, when comparing the tax impact of the rate cut for Married Joint Filers:

- Earning \$20k would receive a \$20 tax reduction
- Earning \$65k would receive a \$92 tax reduction
- Earning \$150k would receive a \$262 tax reduction
- Earning \$250k would receive a \$263 tax reduction

Unfortunately, this tax bill, like the Federal Tax Law passed last year, prioritizes tax cuts for corporations over real people. Rather than investing in our children's educations, the GOP has decided that the foreign profits of large, multi-national corporations are more important. This tax bill would shield those companies from \$200 million in state taxes on the profits they have sheltered overseas, cut the corporate tax rate at the cost of \$60 million a year, and eliminate the corporate Alternative Minimum Tax, which would cost \$15 million a year. These tax benefits and protections for corporations grow in the next biennium (FY 20-21) to \$482 million. All of these tax reductions are in addition to the 40 percent rate cut that corporations received on their federal taxes and last year's permanent freeze on the state's business property taxes.

This tax bill also seriously jeopardizes Minnesota's future fiscal stability. The rate cuts in the bill are phased-in to hide their full costs. The personal income rate cuts cost \$136 million in FY 18-19, but the full cost will be \$395 million a biennium. The corporate rate cut costs \$23 million in FY 18-19, but the full cost will be \$170 million. These future revenue losses are in addition to the average \$200 million per biennium that will be lost from freezing business property taxes last year. I will not sacrifice our state's hard-earned fiscal stability, as this bill does.

Finally, there are a number of additional provisions contained in the bill and provisions that are missing from it, which are of great concern to me. For example, this tax bill moves the indexing of brackets to chained CPI, which will result in tax increases on individuals. The tax bill does not include the riparian buffer credit paid for from the general fund or the timber harvest credit.

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In conclusion, I am vetoing this bill because of its misguided priorities for corporations and the wealthy over the education of our children. Yet, I remain hopeful that we can come to an agreement in the final days of the Session to fund Emergency School Aid and provide tax cuts that better serve our Minnesota families.

Sincerely,

A handwritten signature in black ink that reads "Mark Dayton". The signature is written in a cursive, flowing style.

Mark Dayton
Governor

cc: Senator Michelle L. Fischbach, President of the Senate
Senator Paul E. Gazelka, Senate Majority Leader
Senator Thomas M. Bakk, Senate Minority Leader
Senator Roger Chamberlain, Minnesota Senate
Representative Melissa Hortman, House Minority Leader
Representative Greg Davids, House of Representatives
The Honorable Steve Simon, Secretary of State
Mr. Cal R. Ludeman, Secretary of the Senate
Mr. Patrick Murphy, Chief Clerk of the House of Representatives
Mr. Paul Marinac, Revisor of Statutes