



AMERICANS for TAX REFORM

May 1, 2009

Members of the Minnesota Tax Omnibus Bill Conference Committee

Dear Members of the Minnesota Legislature,

I write strongly urging you to oppose tax increases in the Omnibus Tax Bills and other attempts to raise taxes as the Conference Committee meets to solve Minnesota's budget crisis. Despite significant opposition to these bills when considered in the House and Senate, as well as Governor Pawlenty's clear intent to veto the bill, some lawmakers are continuing to push for tax increases that target small businesses, every Minnesota resident, homeowners, lower income individuals, and consumers. These proposals are simply bad public policy and the wrong answer to solving Minnesota's \$4.6 billion overspending problem.

Both the House bill (HF 2323) and Senate bill (SF 2074) as passed contain income tax increases that will hurt Minnesota residents and small businesses alike. Well over two-thirds of small businesses file personal income tax returns. Raising the income tax to as high as 9.25% – the 4th highest in the nation – will destroy small businesses that are the state's primary job creators.

The House version also contains over \$400 million in tax increases on tobacco and alcohol beverage consumers. A new 54-cent per pack tax on smokers is a tax on those least able to afford it. On average, smokers, whose median income is a little more than \$36,000, make about 30 percent less than non-smokers. Furthermore, the hike would follow a 156% cigarette tax increase at the federal level.

Tobacco and alcohol beverage taxes are volatile and declining sources of revenue. When New Jersey raised the cigarette tax just 17.5 cents, they collected \$52 million less than they had projected and \$22 million below what they collected before the tax hike. Arkansas passed a tax hike on cigarettes in February, expecting to bring in \$86 million, but just one month later the state said it would raise \$14 million less than projected. The last time the federal government raised the distilled spirits excise tax, it took 11 years to bring in more revenue. Furthermore, as revenue from these taxes inevitably declines, the legislature will look to tax other increases in the future to make up the difference.

Taxing digital goods will put the state at a competitive disadvantage and encourage illegal downloading. This tax adversely affects high tech industries and online retailers, as well as consumers. As such, some states including neighboring North Dakota have passed legislation specifically exempting digital products from taxation to drive businesses to their state. Additionally, while legitimate providers of these goods are working to establish an online market, taxing consumers will only incentivize illegal downloading.

Finally, the House version eliminates a number of deductions on home mortgages and property taxes, which will put a larger burden on those hit by the mortgage crisis and current recession.

Choosing between the House's \$1.5 billion tax hike and the Senate's \$2.2 billion tax hike is the choice between two fundamentally wrong answers to rectify the state's budget. Furthermore, likely forcing a special session by remaining adamant about passing tax increases on nearly every resident, even as the Governor promises a veto, is simply bad for Minnesota. As such, I urge you to oppose any tax increases in the budget agreement. If you have any questions, please contact Kelly Cobb, state affairs manager, at (202) 785-0266.

Onward,

Grover Norquist

CC: Members of the House of Representatives
Members of the State Senate
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