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January 28, 2025

Senator Ann H. Rest, Chair
Senator Bill Weber, Chair
Senator Steve Drazkowski, Vice Chair
Senator Matt D. Klein, Vice Chair
Minnesota State Senate, Taxes Committee

Re: In Support of S.F. 46 - 30-Day Safe-Harbor for Income Earned by Certain Non-Resident Employees

Dear Chair Rest, Chair Weber, Vice Chair Drazkowski, Vice Chair Klein, and Members of the Committee:

On behalf of the Council On State Taxation (COST), we are writing in support of S.F. 46 which addresses the issue of non-resident withholding and personal income tax liability on non-resident employees temporarily working in Minnesota for less than 30 days. S.F. 46 simplifies individual income tax filings and reduces employers' withholding and reporting burdens related to employees working less than 30 days in Minnesota and contains a reciprocity provision that would only apply to states offering similar withholding and personal income tax liability requirements, giving Minnesota residents the same benefits when they perform out-of-state work travel in a state with similar safe-harbor provisions.¹

About COST

COST is a non-profit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 500 major corporations engaged in interstate and international business, many of which directly conduct business in Minnesota. COST's objective is to preserve and promote the equitable and non-discriminatory state and local taxation of multijurisdictional business entities.

Non-Resident Taxation Becoming an Increasing Problem

Every day, hundreds of thousands of employees across the country are sent by their employers to work in states where they are not residents. Many of these trips are temporary in nature, with employees conducting limited business in the non-resident state for short periods of time and then returning to their resident state. Non-resident employees who travel to Minnesota for business purposes are subject to onerous administrative burdens because, in addition to filing a federal income tax return and a state income tax return in their home state, they are also legally required to file an income tax return in Minnesota, and their employers to withhold from their paychecks, if they earn in-state wages greater than or equal to the minimum income requirement for filing a state income tax return.

¹ See Illinois S.B. 1515 (2019); Indiana S.B. 419 (2023); Louisiana S.B. 157 (2021); Montana H.B. 447 (2023); and West Virginia H.B. 2026 (2021).

Such a wage-based threshold is especially burdensome for employees because they may not know the exact amount of income they will earn in a year. In addition to salary, many employees earn bonuses, commissions and other perquisites throughout the year. Many of these are based on a variety of unknown factors, such as the economy, business performance, and personal performance levels. Employees frequently receive stock commissions, relocation benefits and other benefits (*e.g.*, personal use of a company car) that generate income. These supplemental wage payments are based on factors not related to salary and cannot be estimated prior to the end of the year.

A wage-based threshold requires employers to coordinate their payroll systems with payments made to employees by third parties. Third party payments may include sick or disability payments, supplemental retirement pay, and various types of stock compensation and relocation benefits, all of which may be considered wages to the employee. It is extremely challenging for employers to track and incorporate these supplemental wages, which are generally paid outside an employer's payroll system, and add that information to the internal payroll information. When employees travel, they do not think in terms of the “dollars” earned while they are away from home but the “days” they are on business travel. A dollar threshold is not simple, and creates compliance issues for employees, employers, and even state auditors.

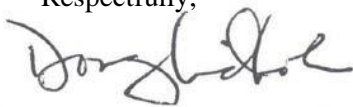
A Simple Solution: 30-Day Threshold

S.F. 46 provides for a fair and easily administered law in the form of a 30-day threshold which would help individuals and businesses comply with tax return and withholding laws, greatly reducing the undue burden the current system places on employees and employers. The 30-day threshold is a simple solution to protect non-resident employees traveling into Minnesota for a temporary period from incurring a personal income tax liability in Minnesota and employers (including businesses, associations, governments, and unions) from incurring withholding obligations for those employees. Of course, a non-resident employee's earnings would be subject to income tax in Minnesota if the employee is present and performing duties for more than 30 days during the calendar year, from day one. The legislation also includes a reciprocity provision that would extend Minnesota's 30-day safe-harbor to only those non-resident employees whose resident state provides the same protection to Minnesota employees—a provision designed to encourage other states with an income tax to adopt comparable legislation.

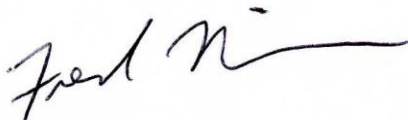
Conclusion

S.F. 46 is not just a business bill – it most importantly protects individuals such as emergency workers and first responders; trade union workers; non-profit staff; teachers; federal, state and local government employees; and many others. Any organization with employees who cross state lines for temporary periods will benefit from this law. Enactment of S.F. 46 will greatly improve Minnesota's national reputation for fair, efficient and customer-focused tax administration and we urge this Committee to pass S.F. 46. We stand ready to assist you in your efforts to enact this important measure.

Respectfully,



Douglas L. Lindholm



Fredrick J. Nicely

cc: COST Board of Directors
Patrick J. Reynolds, COST President & Executive Director