



March 19, 2025

Dear Members of the Senate Taxes Committee:

The Minnesota Chamber of Commerce represents over 6,300 businesses of all sizes and industries and over 500,000 employees in Minnesota. We advocate for public policies to strengthen Minnesota's business climate and to help grow Minnesota's economy.

We appreciate the opportunity to share our thoughts on Governor Walz's tax budget which is contained within Senate File 2374.

As you know, the Chamber has long shared concerns over Minnesota's tax climate. As of January 1st, Minnesota has the second highest corporate tax rate and the sixth highest individual income tax in the country. Meanwhile since 2021, over 25 other states have cut corporate or individual taxes. Minnesota is becoming less competitive by standing still on those rates. It is our goal to begin to make progress on those high rates with gradual reductions as revenues permit.

The Governor's proposal for 25% refundability on the R&D credit will be a meaningful step forward for attracting investment in innovation and fostering job growth and retention.

According to the latest data available through the National Science Foundation's Business Enterprise Research and Development report, in 2022, companies invested over \$8.1 billion on R&D activities in Minnesota corresponding to 43,000 R&D jobs. 75% of those expenses come from manufacturing industries led by medical equipment, electronic products, transportation equipment, machinery, and food.

Minnesota was a nation-leader in fostering these investments by being the first state to enact an R&D tax credit over 40 years ago. Since then, nearly 40 states have their own credit with over a dozen utilizing some fashion of refundability or transferability.

Recent economic data from the Bureau of Economic Analysis and the State Science and Technology Institute illustrates our competitiveness situation: Minnesota ranked 16th among the states in private R&D value but 45th in R&D growth over a five-year rolling period. We rank 12th in total patents but 46th in patent growth.

This proposal can help Minnesota accelerate its growth in those areas. A working paper published by the National Bureau of Economic Research in 2019 notes that “Over the long term, R&D tax credits empower regions to significantly increase both the quantity of entrepreneurship and number of expected growth outcomes. Counties with R&D tax credits experience a rise in the rate of new firm formation and the number of expected growth outcomes by 2% per year and 20% over a ten-year period.”

The 25% refundability proposal will help our state regain a competitive edge so that Minnesota employers can reinvest resources into furthering innovation, and hiring and retaining top talent. Thank you for your consideration of this item as part of the Governor’s proposed budget.

Sincerely,

Brian Cook
Director of Tax, Fiscal Policy, and Elections