

GOP eyes phase-out of business property tax

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Republican majorities face pressure to deliver on business tax cuts in 2012

It has long been the bane of Minnesota's business community, and this legislative session, both Republican majorities at the Capitol are looking to do away with it once and for all.

The statewide business property tax, an 11-year-old levy projected to bring in \$1.5 billion this biennium, has been derided in recent years as regressive and anti-competitive. Opponents say it stifles economic growth and skims revenue from the local governments charged with collecting it. In 2011, Senate leaders — notably Sens. Julianne Ortman and Geoff Michel — backed a phase-out in their respective Taxes and Jobs committees. In the House, though, Taxes Chairman Greg Davids opted for income tax relief with some business property tax relief thrown in for good measure.

Ultimately the budget deficit and subsequent government shutdown ended all hope of tax relief last year. But having Senate and House Republicans on different sides of such a substantial issue did little for its prospects, either.

Now, though, Ortman and Davids are united behind a push for the phase-out in 2012, and it's expected to be a top priority for both Taxes committees and both GOP caucuses in a session likely to be focused on job creation and economic development.

"There isn't much I'm going to agree on with the governor if [his approach] doesn't include the phase-out," Ortman has said, calling the policy "a highest priority" and saying it would be tackled "first thing out of the chute this session."

Horse trading with the governor

But if having Davids and Ortman on the same page simplifies part of the calculus in 2012, it does little to bridge the gap with legislative Democrats or with the Dayton administration, which has already pitched a jobs plan that features a \$775 million bonding bill, tax credits and the elimination of certain business tax loopholes.

That gulf in objectives could lead to some earnest horse trading, observers say, as both sides look to position themselves on the side of jobs and economic growth heading into an election. Still, with Gov. Mark Dayton not facing election until 2014 — and a 2013-14 budget that's projected to include another deficit — many say it's unlikely he would agree to a policy that would leave a gaping revenue hole for years.

"He's probably thinking: Why would I reduce revenue without getting something in return?" said lobbyist and former Pawlenty-era Minnesota Management & Budget Commissioner Tom Hanson. "He'd be just making his life difficult."

For now, there's little talk from Republicans about what they may offer in return for the phase-out. Ortman, for her part, simply says she is intent on pushing for the policy through every possible avenue.

"We will have a plan; it will come back," she said, speaking about what might happen if Dayton vetoes the measure. "We are not giving up on this."

That Republicans are intent on an all-out push for tax cuts is unsurprising, particularly with the state facing a surplus rather than a deficit for the remainder of this biennium. As Davids likes to say, he's for



In the 2011 session, House Taxes Chairman Greg Davids chose to push income tax relief with some business property tax relief thrown in for good measure, but this year he is united with his Senate counterparts in supporting an end to the business property tax. (Staff photos: Peter Bartz-Gallagher)

most any and all tax relief. And as Ortman has said: "Tax relief is always on the agenda in the Taxes Committee."

But this particular push, one longtime GOP lobbyist says, can find its roots as much in politics as policy. Specifically, he said, Republicans are feeling heat from the business community after a less-than-satisfying 2011. Delivering on business property taxes would go a long way toward quieting discontent.

"The business community has been pretty happy, with not much bad happening," the lobbyist said. But, he added, "The Republican majority needs to go further than saying, 'There's a line in the sand, and no new taxes.' I think there's an expectation that they would do something that would be proactive."

Differing phase-out options

A business property tax phase-out could be exactly that proactive step. For example, Davids' plan would call for a longer-term phase-out but includes a deduction starting next year. Ortman expects to call for a quicker, four- to six-year phase-out.

The proposal has also elicited charges that it represents little more than an effort to cater to the business community in an election year. The phase-out would do little to spur job growth or economic development in the state, others say, but would just add to businesses' bottom lines.

"I suppose it's a play to their base," House DFL Taxes lead Ann Lenczewski said. "If you ask the average Minnesotan on the street which tax needs to be cut, I think last place would be this."

She added: "Their priorities are clearly not Minnesotans — not homeowners."

That's a refrain likely to be heard early and often this session. Lenczewski, a moderate DFLer who doesn't share her party's general hesitancy on business tax cuts, opposes the phase-out. But she did express more openness to a reduction in the corporate income tax, which she called unfair, unstable and more of a hindrance to economic growth.

"I really cannot honestly figure out why they think this would be the solution to helping businesses," Lenczewski said. "Of all the possible tax cuts you give — it really doesn't do anything."

If widespread DFL opposition to the tax cut proposal is all but assured, though, there are at least two wild cards that could help pave its way or block the path altogether.

The first is February's economic forecast. If the projected surplus grows, many have said, it could help secure some tax cuts. "If you're looking at funding this," the lobbyist noted, "you would really hope the surplus gets bigger."

The other is a bonding bill. Dayton's pitch for a \$775 million plan was quick to draw fire from Republicans, but some say Dayton's wish for a fairly expansive bonding measure could lead to a quid pro quo in which the GOP majorities get a business property tax reduction. They point out that a similar kind of deal on bonding was a key part of the deal that ended the 2011 government shutdown.

"The question is, what does the governor get for agreeing to this?" Hanson said. "Why would he? There's got to be something to entice him."

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