



November 3, 2023

Commissioner Paul Marquart
Department of Revenue
Minnesota Revenue
600 N. Robert St.
St. Paul MN 55146
paul.marquart@state.mn.us

Commissioner Marquardt,

On behalf of the membership of the Minnesota Association of Convention and Visitor Bureaus (MACVB), we appreciate the opportunity to provide comments to the Local Taxes Advisory Task Force on local option sales taxes. Specifically, our interest is in protecting local lodging taxes for the use in which they were intended.

In Minnesota, we enjoy a unique partnership between our local convention and visitor bureaus and our local lodging facilities. The Minnesota Legislature recognized this partnership when it granted local communities the opportunity to adopt a local lodging tax of 3%, without the need to first seek approval from the Legislature. The Legislature and our tourism industry know that money spent on marketing and promotion helps attract visitors to our communities and those investments have a positive return to the local economy in nearly every community in Minnesota.

It is disheartening to our partners, and our efforts to promote Minnesota tourism, when local governments attempt to divert lodging tax dollars away from promotion to support local infrastructure projects. Efforts to divert the tax from promoting local tourism efforts threaten the delicate balance we have in Minnesota's existing law between lodging providers and the promotion and marketing of our communities. If the Legislature continues to allow these efforts to advance, we will lose this unique funding source. In fact the statutory purpose of the Minnesota law authorizing local lodging tax specifically indicates that 95% of funds generated by such a tax must be used for marketing and promotion purposes:

“Ninety-five percent of the gross proceeds from any tax imposed under subdivision 1 shall be used by the statutory or home rule charter city or town to fund a local convention or tourism bureau for the purpose of marketing and promoting the city or town as a tourist or convention center.” (Minn. Stat. §469.190)

Lodging taxes help drive the local economy in each city and region in the state of Minnesota. In fact, many communities across the state of Minnesota depend on tourism to sustain the vitality of the community and help support local businesses.



Tourism has an average daily sales impact of \$43 million which is calculated by sales at Minnesota hospitality and tourism businesses. According to a 2017 study, tourism spending saves each Minnesota household \$625 per year in taxes. Finally, tourism accounted for 9.5% of private-sector employment and \$5.9 billion in wages in 2022.

We urge you to protect the use of local lodging taxes for the purpose in which they were intended—to drive visitors to the community to support and enhance the local economy.

Sincerely,

A handwritten signature in black ink, appearing to read 'TZ', is written over a light blue horizontal line.

Tim Zunker
2023 MACVB Chair of the Board
President, Shakopee Chamber and Visitors Bureau



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November 6, 2023

Via Email to audel.shokohzadeh@state.mn.us

Commissioner Paul Marquart, Chair
Local Taxes Advisory Task Force

Re: Improving the Overall Administration of Minnesota's Local Taxes

Dear Commissioner Marquart and Members of the Local Taxes Advisory Task Force:

The Council On State Taxation (COST) appreciates the ability to file comments to the Local Taxes Advisory Task Force that outline our positions on local taxes. COST understands that local governments need revenue to fund operations, thus our focus is not on opposing local taxes, but on improving the overall administration of Minnesota's local taxes. This comports with the Task Force's charge of "Improving the legislative approval process for creating and revising local taxes."

About COST

COST is a nonprofit trade association consisting of over 500 multistate corporations engaged in interstate and international business. COST's objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. COST has a significant number of members that own property, have employees, and make substantial sales in Minnesota.

Improving Local Tax Administration

Below is a list of features critical to the efficient and fair administration of local taxes.

Central Administration – Central administration is essential for the efficient imposition and collection of local taxes, which includes registration, tax filings, tax payments, refunds, auditing, and the initial review of tax appeals. All taxpayers should have an option to elect central administration of local taxes that are currently decentralized. Importantly, that option should not allow local taxing authorities to opt out of centralized administration, since that defeats the purpose of simplifying compliance through a single centralized agency.¹ This issue is growing in importance with the expansion of some localized taxes, such as accommodation/lodging taxes, that are increasingly levied against

¹ It appears local jurisdictions in Minnesota can opt into central administration for some of their taxes, but that procedure is the reversal of the ideal situation where taxpayers, and not the local taxing jurisdictions, can choose tax administration through a centralized location.

third parties and complying with multiple local taxing authorities' requirements is problematic. Any new local taxes should from the start utilize centralized administration.

Centralized Posting of Local Taxes/Fees on State Tax Administration Website – If a state allows the imposition of local taxes and fees (whether central or decentralized administration), the local ordinances imposing such taxes/fees should be posted on a centralized website, preferably of the state agency responsible for administering the State's taxes. Importantly, any changes to local ordinances imposing a tax/fee change or rate change should require posting on such a website within an adequate period; *e.g.*, at least 60 days before the first day of a calendar quarter of the proposed change.

Uniform Tax Base – All local taxes should derive their authority from the state through a single state statute that imposes such taxes on a uniform base across the state. To enhance this uniformity, any interpretations (advice and/or litigation) should come from one centralized location (see above). The failure to impose a uniform tax base increases compliance costs and adds unnecessary complexity, which often results in undue burdens on taxpayers and hinders accurate compliance with differing local tax bases. A good example of a Minnesota local tax with a uniform base is the State's local sales tax option, which is uniform with the State's sales tax base, and also a compliance requirement for the State's membership in the Streamlined Sales and Use Tax Agreement (SSUTA).

Reasonable Tax Reporting Requirements – Taxpayer recordkeeping and reporting should not be unduly burdensome. Extraneous information that is not entirely ancillary to tax return and payment processing, such as detailed customer location information, should not be part of local tax return filing requirements. Of course, if relevant to confirm compliance with a local tax, that information can be requested for audit purposes.

Fair Administration – Similar to state taxes,² local taxes should be fairly administered and apply an equivalent statute of limitations and interest rates for both tax due (assessments) and over payments (refunds). Additionally, at least 60 days should be provided after the filing of a refund request or tax assessment for a taxpayer to appeal a local tax to an independent tax appeal agency (tribunal or tax board). The due dates for local taxes should also be reasonable and – particularly for local income taxes – should have due dates at least one month after federal and state income tax return due dates. Additionally, payments/filings for *de minimis* amounts should allow quarterly or yearly remittances, instead of monthly, to reduce burdens on both the administrators of a tax/fee and taxpayers. Such payment/filing deadlines should be consistent across the state (*i.e.*, if the state does not mandate central administration).

Jurisdictional Boundaries – Local tax ordinances should specify both reasonably identifiable boundaries and those local taxing jurisdictions need to represent a significant population base in a state. It is much easier to comply with local taxes if the jurisdictional boundaries are readily identifiable by the general population, such as the use of a five-digit zip code. It is also

² See COST "Best and Worst of State Tax Administration" Scorecard, available at: <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/admin-scorecard-final-may-2020.pdf>; and COST policy statement on "Fair, Efficient, and Customer-Focused Tax Administration," available at: <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/fair-efficient-and-customer-focused-tax-administration---revised-april-2023---final.pdf>.

inefficient to collect and remit local taxes in areas with a limited tax base due to a small population.³

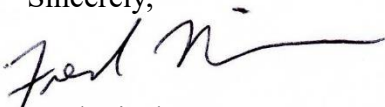
Administrable Taxes and Fees – Taxes and fees imposed by a state or locality, especially a new tax or fee, should include reasonable collection and remittance requirements and should minimize expenditures of resources for computer system changes or other administrative changes required to comply with the tax or fee. Adequate time should be provided to allow taxpayers to modify systems to comply with a new tax, fee, or other statutory change, and the government should compensate taxpayers for significant compliance costs associated with a new tax or fee (or for changes to an existing tax or fee).

Modernized Filing and Payment System – Tax filing and payment systems should accommodate all aspects of tax compliance, including addressing any tax credits. Electronic payment methods must allow taxpayers to use either ACH debit or credit. Additionally, the distribution system for centralized taxes should timely and efficiently disperse the local taxes paid to the correct localities.

Conclusion

Unlike states in our federalist system of government, local governments within states do not derive their taxing authority independently but are entirely subordinate to state government authority. As such, it is incumbent on states who grant taxing authority to their subordinate local governments to do so in a manner that doesn't damage the state's competitiveness or negatively impacts the state's business tax climate. Accordingly, we strongly urge the Task Force to recommend that any taxing authority granted by the state to local governments should include requirements using all the above features. We would be happy, of course, to answer any questions regarding best practices surrounding these fundamental requirements. We also appreciate the opportunity to present these issues at your hearing on December 20, 2023.

Sincerely,



Fred Nicely

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director

³ An excessive number of jurisdictions relative to a state's population creates more chances for errors with diminishing benefits for a state's local governments. COST's recent "Best and Worst State Sales Tax Systems Scorecard" places a limit on local sales/use tax jurisdictions in a state with over 50 local jurisdictions and a population ratio of less than 20,000 people per jurisdiction (on average) to determine where the any benefit of local tax jurisdictions is outweighed by the overall cost imposed on taxpayers. That Scorecard is available at: https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/270677_cost_salestaxbk_2022_final.pdf (see pp. 16-18).