



March 19, 2024

Dear members of the Senate Taxes Committee,

Our organizations represent hundreds of thousands of Minnesotans and their businesses that provide essential professional services on which communities across the state rely. We write to express our serious concerns regarding the sales tax provisions included in Senate File 2374, the Governor's proposed tax budget bill.

At a time when many Minnesotans are already concerned about the potential of rising costs on material goods due to tariffs, expanding the sales tax to these professional services would impose an additional \$466 million burden on consumers over the next four years. The services proposed to be included are not extravagances but instead help individuals and families seek legal advice, banking help, tax support, purchase homes, and other needed professional advice.

While the proposal would lower the state's general sales tax rate by 0.075% (a savings of \$7.50 on \$10,000 of taxable purchases), it also would simultaneously apply city, county, and metro area sales taxes to these professional services. This would raise costs for customers by up to 9.8% depending on their locality and hurt our competitiveness. Those increased costs will be significantly higher than any potential savings and incentivize Minnesotans to utilize out-of-state providers for these taxed services, to the detriment of local businesses.

Additionally, the proposal's language lacks clarity in its definitions. The use of "including but not limited to" language and the inclusion of specific fees creates uncertainty about which charges would be considered taxable, leading to confusion and potential compliance challenges.

Finally, the effective date of October 1, 2025, is impractical. Many affected industries have never been required to collect sales tax and would need significant time and resources to develop the necessary collection and remittance systems. Implementing such a complex change on such short notice would impose undue costs and administrative burdens.

We appreciate your attention to these concerns and welcome the opportunity to further discuss the industry-specific impacts listed in greater detail below:

Home Purchase Services

Minnesota should be focused on reducing the cost of homeownership. However, applying the sales tax to more services will do the opposite. The list of services in the Governor's proposal that would be newly subject to the sales tax includes "loan servicing" and "title search." Taxing those services will increase the cost of purchasing a home, adding to the affordability challenges Minnesotans, particularly first-time homebuyers and low-and moderate-income households, are already facing in the current market.

Legal Services

The proposed sales tax will burden low-income and average-income Minnesotans during some of the most stressful and vulnerable moments of their lives. It will also make Minnesota law firms less competitive and create jobs in the 46 other states that don't tax legal services. Many attorneys are licensed in multiple states, so Minnesotans will be incentivized to hire out-of-state attorneys who hold Minnesota licenses for legal matters here, and they will be discouraged from hiring Minnesota attorneys who are licensed in other jurisdictions to handle out-of-state matters. In addition, large firms with multi-state presences will have an incentive to relocate work—and workers—out of Minnesota.

Banking Services

Minnesota banks are dedicated to building strong relationships with our customers and helping them to achieve their financial goals. This sales tax expansion will negatively impact all Minnesotans, disproportionately harming Minnesota's seniors and low-income households. Also, the bill goes far beyond a tax on services and will tax bank fees. The bill's vague and all-encompassing "including but not limited to" language imposes a tax on all banking fees, except those expressly exempted. These taxes will be imposed on Minnesotans of all incomes, with greatest impact on our most vulnerable banking customers. Minnesota financial institutions currently do not collect sales tax and setting up a system would take a significant amount of time and resources that will get passed on to customers.

Financial Services

A sales tax on financial services would increase the costs of savings, retirement planning, and college education savings for Minnesota residents. It would also increase the cost of doing business in Minnesota – a cost which is not imposed on these services in any other state.

By taxing personal financial services, Minnesota would create a barrier for Minnesotans to save by increasing costs, as well as to seeking professional financial advice – a critical component of good savings practices. In fact, a 2022 survey found that 74% of those working with a financial advisor are on track or ahead in saving for retirement, compared to 45% of those not working with an advisor. Moreover, even a small additional cost to savings could have significant implications for investors. Because that money is no longer being invested, it can no

longer grow in the investment account. For example, assuming a conservative 6% rate of return, \$100 in sales tax paid in a single year could cost an individual over \$600 by the time they retire. Multiplied by a lifetime of savings and investing, the impact would be significant.

Finally, this tax could hurt middle class families the most, as most households first seek advice at below \$50k in assets which taxes those who can least afford it.

Accounting Services

Certified Public Accountants (CPAs) have the unique ability to service clients across all 50 states, regardless of their licensing location. This flexibility is a cornerstone of the profession. Unlike many other industries that rely on physical presence, the accounting profession is portable, allowing businesses and individuals to choose the best service providers regardless of location.

A sales tax on accounting services in Minnesota will immediately raise the cost of essential financial assistance and put the state's CPAs at a competitive disadvantage compared to their counterparts in other states. The added cost of sales tax will encourage Minnesota taxpayers to seek services from out-of-state CPAs who can offer the same services without the additional tax burden and increases cost which will result in a loss of business for Minnesota-based accounting firms.