THE CONSERVATION FUND

LAND SUSTAINS US

March 18, 2025

Senator Ann Rest, Chair
Minnesota Senate Tax Committee
328 Capitol
St. Paul, MN 55155-1606

Subject: The Conservation Fund Opposition to S.F. No. 2374 - Reducing Sustainable Forest Incentive Act (SFIA) Payments

Via email to *mitch.berggren@mnsenate.gov*.

Dear Minnesota Senate Tax Committee Chair Rest,

I am the Minnesota State Director for The Conservation Fund (TCF), a national non-profit conservation organization. TCF owns large tracts of forestlands throughout northern Minnesota totaling approximately 80,000 acres. We are a conservation organization that purchased these timberlands from the PotlatchDeltic timber company over the past 15 years with the goal of transferring these lands into public ownership for continued sustainable forest management and conservation. Much of the land TCF currently owns is enrolled in the SFIA program and serves as a financial incentive to some of our future landowners by allowing them to continue to receive SFIA payments on these lands when in their ownership. These SFIA payments are important for our sustained management of these forests and in our transactions.

I am writing to express our strong opposition to the portion of S.F. No. 2374 that proposes a 30% annual reduction in Sustainable Forest Incentive Act (SFIA) payments from Fiscal Year 2026 to 2029. This reduction would greatly impair our current management and future transactions with partners and landowners that have the goal of continuing to maintain sustainable forestry practices on these lands.

In summary, the Sustainable Forestry Incentives Act (SFIA) has been a valuable tool for maintaining sustainable forestry and land management on our forests here in Minnesota. It is critical for promoting responsible land stewardship and encouraging long-term forest management.

I urge the Senate Tax Committee to remove the SFIA Program payment reduction from S.F. No. 2374.

Kim Berns Melhus
State Director
The Conservation Fund, Minnesota

Cc: DNR Commissioner Sarah Strommen
Anna Johnson, Governor Walz Policy Advisor

THE CONSERVATION FUND

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1000 County Road E. West, #220
Shoreview, MN 55125
612.702.5277

conservationfund.org

Minnesota Chapter of the Financial Planning Association Statement on Proposed Sales Tax on Professional Services

Mr. Chair and Madam Co-Chair, and members of the committee,

My name is Kyle Playford and I am a Financial Planner for Freedom Financial Partners, a local independent Registered Investment Advisor in Oakdale. I have been in the financial services industry for over 10 years, and I am passionate about providing financial planning services to all Minnesotans. I have held the CERTIFIED FINANCIAL PLANNER® designation since 2020. CERTIFIED FINANCIAL PLANNER® professionals must meet rigorous requirements in ethics, continuing education, industry experience, and pass an exam to use the CFP® marks. The CERTIFIED FINANCIAL PLANNER® designation is the standard for competent, ethical financial planning. I am a Board member for the Financial Planning Association of Minnesota and am testifying to you on their behalf today. The **Financial Planning Association of Minnesota (FPA MN)** is the leading professional organization for financial planners in the state. Our mission is to advance the financial planning profession and support Minnesotans in achieving their financial goals through ethical and competent financial guidance.

The **Minnesota Chapter of the Financial Planning Association (FPA MN)** strongly opposes the proposed sales tax on professional services, including financial planning. This tax would create significant financial burdens for Minnesota families and businesses, making it more expensive for individuals to access the financial guidance they need to plan for their futures.

Financial planning is not a luxury—it is a critical service that helps Minnesotans navigate complex financial decisions, prepare for retirement, manage investments, and secure their financial well-being. Adding a sales tax to these essential services would increase costs for consumers, potentially pricing out those who need financial advice the most, including middle-class families, small business owners, and retirees.

Additionally, this taxation would place Minnesota firms at a competitive disadvantage. Many financial planning clients have the flexibility to seek services across state lines, which could lead to lost business for Minnesota-based firms and ultimately impact the state's economy. At a time when financial literacy and long-term financial security are more important than ever, policies should encourage access to financial planning services—not create barriers to obtaining them.

We urge state lawmakers to consider alternative revenue sources that do not jeopardize the financial stability of Minnesotans or place unnecessary strain on businesses that provide essential financial services. The Minnesota Chapter of the Financial Planning Association remains committed to advocating for policies that support financial wellness and economic growth in our state.

Thank you for your time and for the opportunity. If there are follow up questions, I am glad to answer those.

April 2, 2025

Dear members of the House 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 House File 2437, 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.

April 2, 2025

Dear Chair Davids, Chair Gomez, and Members of the House Committee on Taxes,

On behalf of the Association of Minnesota Counties (AMC), Minnesota Inter-County Association (MICA), and Minnesota Rural Counties (MRC), we write to submit comments regarding the Governor's proposed budget, specifically as it relates to tax policy and property tax outcomes.

Reduction of Aids

AMC, MICA, and MRC oppose proposals to reduce **Payment in Lieu of Taxation (PILT)** reductions to Aquatic Invasive Species Aid (AIS) and remove the State's commitment to providing local governments a share of the new cannabis revenue. PILT is intended to address the disproportionate impact that state land ownership can have on counties, including loss of tax base and the need to care for the land. All 87 counties receive some share of PILT, with its impact being especially high in the northeastern part of the state. In its over 40 year history this aid program has never been cut. To cut it now would go back on the commitment from the state to help local governments manage these lands.

As members are aware, counties are on the front lines of trying to prevent and contain the spread of aquatic invasive species. Between direct county efforts and strategic local partnerships, counties utilize **Aquatic Invasive Species** aid to target evidence-based practices that aim to stop the spread of invasive species that threaten one of Minnesota's most valuable resources: water. Counties join a litany of other groups including in asking to preserve these funds for their intended use.

Counties have significant concerns about the proposal to repeal **Cannabis Aid,** which provides local governments with resources related to cannabis legalization, business registration, age verification and compliance. A small, but meaningful, dedication of 20% of the new gross receipts sales tax on cannabis sales is an important recognition of the role counties and cities play in the legalized cannabis market.

Property Tax Concerns

The Governor's overall budget proposal includes several property-tax related concerns, specifically arising from four (4) health and human services-related cost shifts. While the policy language of these shifts is not included in the tax statutes, the outcomes of these proposed shifts would undoubtedly impact Minnesotan's property tax burdens and merit consideration by this committee.

- A new, 5% county cost share for Disability Service Waivers—this cost shift alone would consume some counties' entire 2023 CPA increase.

MINNESOTA INTER-COUNTY ASSOCIATION

Association of Minnesota Counties

- Expanding the current county "cost share" for MN Sex Offender Program participants from 10% or 25% depending on when the person was admitted to 40%—a program, similar to others, counties have not control over.
- Increased Behavioral Health Fund cost share from 22.95% to 50%
- New Competency Restoration Cost of Care cost shift

Combined these proposals represent over $200m/biennium in new cost shifts to counties when they are in full effect and would require the need for significant property tax increases. For reference, we have provide a handful of examples below.

We appreciate the Committee's consideration of our concerns and stand ready to work with committee members as the session progresses.

Sincerely,

Matt Hilgart, Association of Minnesota Counties

Nathan Jesson, Minnesota Inter-County Association

Britta Torkelson, Minnesota Rural Counties

April 2, 2025

Representative Greg Davids, Co-Chair
Representative Aaisha Gomez, Co-Chair
Minnesota House Tax Committee

Subject: Joint Opposition to HF2437 - Reducing Sustainable Forest Incentive Act (SFIA) Payments

Dear Minnesota House Tax Committee Co-Chairs Davids and Gomez,

We, the undersigned, representing a diverse group of forest landowners and organizations involved in sustainable forest management in Minnesota, are writing to express our strong opposition to the portion of HF2437 that proposes a 30% annual reduction in Sustainable Forest Incentive Act (SFIA) payments from Fiscal Year 2026 to 2029. The proposed change violates Minnesota Statutes 290C.07(b), contravenes the contracts that program enrollees signed with the State, runs counter to the Walz Administration's climate action agenda, and jeopardizes the purpose of the program.

<u>Background</u>

In 2001 the Legislature created the SFIA program (Minnesota Chapter 290C) to encourage sustainable forest management practices on private forest land, replacing the Tree Growth Tax Law of 1957. Over 40 percent of the 17 million forested acres in Minnesota are privately owned. The SFIA is administered primarily by the Department of Revenue with limited involvement from the Department of Natural Resources. The program pays private forest landowners to make long-term commitments to sustainable forest management. Enrollees must have a minimum of 20 contiguous acres of forest land. In addition, landowners must:

- have and follow a sustainable forest management plan prepared within the previous ten years by an approved plan writer;
- follow the state's timber harvesting and forest management guidelines when conducting forest management activities;
- record a covenant on the land, which restricts development and is binding for 8, 20, or 50 years; and
- allow public access if they have enrolled more than 1,920 acres.

The landowner must record a covenant on the land. The covenant, which can only be released by the Department of Revenue, prohibits the landowner, and all subsequent owners, from subdividing or developing the land. The landowner receives higher annual payments for longer covenants. Currently 706,080 acres are under the 8-year covenant, 118,015 acres are under the 20-year covenant, and 404,421 acres are under the 50-year covenant.

SFIA includes an open appropriation from the General Fund to make the incentive payments, which are taxable income for the enrollee. The total amount distributed in 2024 was $15,377,949.75, covering 1,132,071 acres.

Issues

- **Contract Compliance:** Landowners sign a contract with the State of Minnesota that is binding for up to 50 years. Violating the contract has very onerous penalties for the landowner, including paying back all payments plus interest, and potentially a penalty of 25% of the estimated market value added by any unallowed improvements made on the property.

  In return, landowners are promised an annual payment from the State of Minnesota. The formula for that payment includes land value, term of covenant, etc. It is NOT dependent upon the State's ability to pay. Minnesota Statutes 290C.07(b) states, "The calculated payment must not increase or decrease by more than ten percent relative to the payment received for the previous year. In no case may the payment be less than the amount paid to the claimant for the land enrolled in the program in 2017."

  We find it startling that HF2437 changes both of these elements, and then simultaneously reduces the payment by 30% and allows payments to go down to 70% of the 2017 level. That language was inserted in the original SFIA bill to give landowners assurances that the payment they receive for their long-term commitment will not radically change due to budget shortfalls.

  This proposed reduction is very detrimental to public perception of the state's long-term goals of conserving natural working lands in Minnesota. People voluntarily enjoin their lands in conservation easements or other long-term agreements like SFIA with the belief that the State or other easement holder will uphold their end of the bargain. But if the State gets a reputation of reneging on their commitments, far fewer people will consider these management options.

- **Climate implications:** The Walz Administration and state legislature have made many commitments to addressing climate change. They have explored decarbonizing the transportation sector, the energy sector, buildings, and agriculture. The forestry sector is the only area that is net carbon negative. Forests absorb and store more carbon than they emit including carbon stored in harvested wood products. In fact, forests annually absorb 15% of the carbon that is emitted by ALL sectors. The Minnesota Climate Action Framework recognizes forest benefits and has several Initiatives and Sub-initiatives that demonstrate the role forests play in carbon reduction. The Climate Action Framework, Minnesota DNR, and Minnesota Forest Resources Council all encourage maintaining and actively managing forests.

  Key provisions of a strategy to manage our forests so that they absorb and store even more atmospheric carbon include:

  - Keeping forestland forested
  - Planting trees
  - Managing forests
  - Supporting forest product markets
  - Using wood-based products instead of high carbon-emitting alternatives, and
  - Sustaining balanced forest values

  Many of these actions are part of a landowner's required sustainable forest management plan under SFIA. The program funding reduction proposed in HF2437 would have a significant potential negative impact on working towards climate and carbon emission reduction goals.

- **Loss of program benefits:** As designed, the SFIA program prevents land parcelization, limits development, encourages sustainable forest management, and provides for public recreation on hundreds of thousands of acres, primarily in northern Minnesota. In 2010 the state imposed a cap on payments due to budget concerns. As a result, the six landowners with over 542,000 acres enrolled in the program stood to lose millions of dollars. Three of them filed suit, and two of them unenrolled in the program. One had over 130,000 acres. This episode clearly showed the impact of funding reductions on public access. The 2013 Legislature removed the cap and allowed those landowners to re-enroll in SFIA.

  The 2013 Legislature also added a provision to SFIA allowing participants to request to leave the program immediately if changes to the payment formula result in a payment reduction (Laws of Minnesota 2013, chapter 143, art. 2, secs. 4 and 5). HF2437 would trigger this clause, potentially leading to thousands of landowners unenrolling in SFIA. Some may resort to selling or developing their land to generate income to offset the loss of SFIA funds.

  The forestlands of northern Minnesota are highly interspersed, with federal, state, county, tribal and private lands intermingled across the landscape. Together they provide many economic, ecological and societal benefits to the people of Minnesota. Unbroken forests have high value for wildlife habitat and biodiversity preservation. There are forest management efficiencies in having large blocks of contiguous forest. And the public has largely unfettered access for recreation. Many, many miles of recreational trails traverse the land, crossing ownerships with little indication of doing so.

  HF2437 puts all of the benefits that the State has purchased over the past 24 years in jeopardy. Mass unenrollment could lead to unsustainable forestry practices, land parcelization, and development (with increased demand for county services like police and fire protections, road improvements, etc.). It could also result in decreased agency access for forestry activities, and rerouting recreational trail systems as land is sold, leased, or simply closed to public access.

In summary, the Sustainable Forestry Incentives Act (SFIA) has been an excellent vehicle for good forestry and land management in Minnesota. It is critical for promoting responsible land stewardship and encouraging long-term forest management. It incentivizes landowners to encumber their landownership rights for 50 years or more.

We are unified in urging the Senate Tax Committee to remove the SFIA Program payment reduction from HF2437. We believe it is important to uphold the commitments made to landowners under the SFIA program.

Thank you for your consideration.

Audubon Upper Mississippi River

Rajala Mill Company

The Conservation Fund

The Nature Conservancy

Minnesota Association of Consulting Foresters

Minnesota Environmental Partnership

Minnesota Forest Industries

Minnesota Forestry Association

Minnesota Timber Producers Association

Minnesota Tree Farm Committee

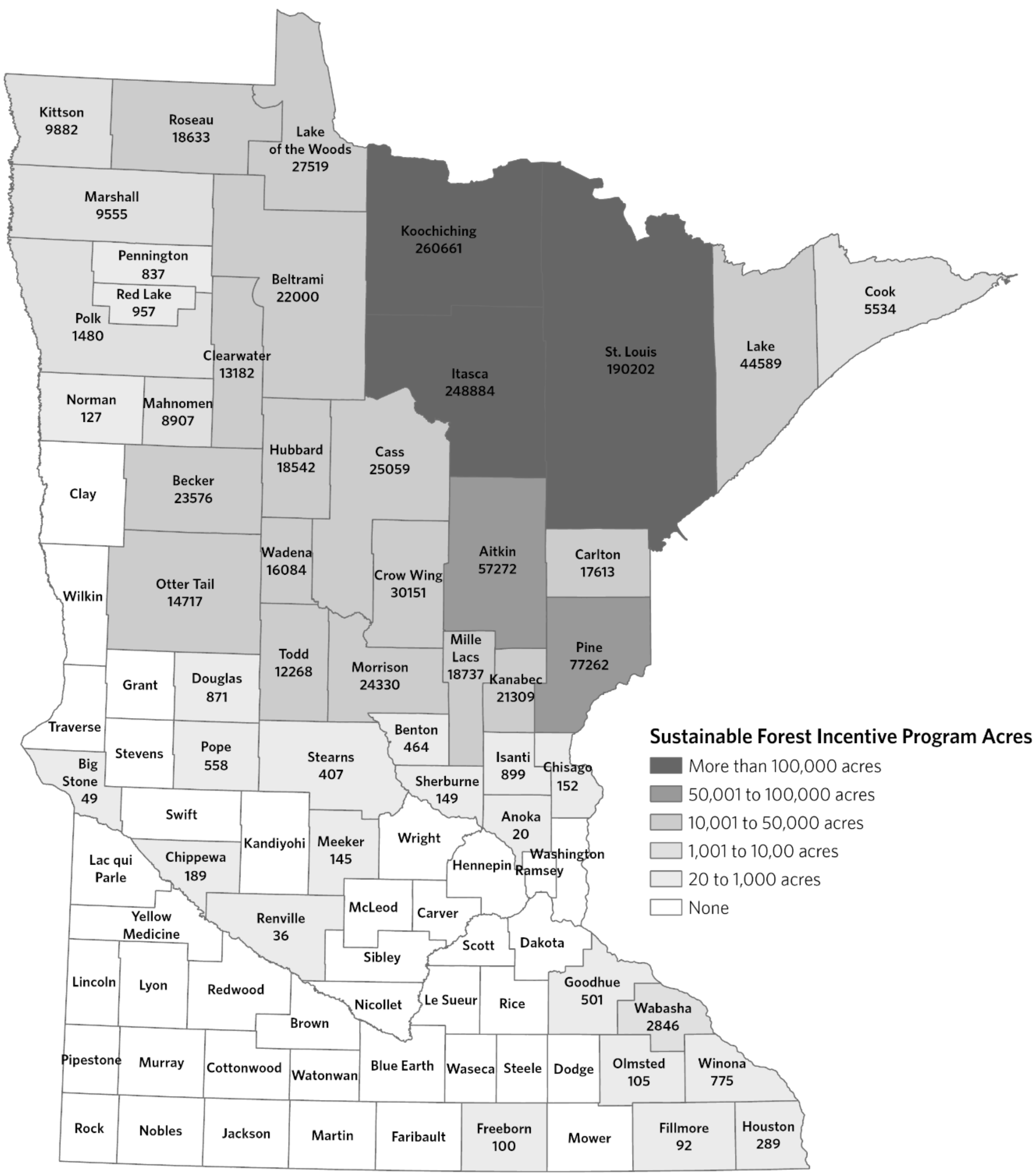
Molpus Woodlands Group

UPM Blandin

cc:

Committee Co-Vice Chair: Representative Jim Joy 04B
Committee Co-Vice Chair: Representative Matt Norris 32B
Representative Patti Anderson
Representative Steve Elkins
Representative Mike Freiberg
Representative Jessica Hanson
Representative Bobbie Harder
Representative Kaohly Vang Her
Representative John Huot
Representative Wayne Johnson
Representative Liish Kozlowski
Representative Liz Lee
Representative Drew Roach
Representative Kristin Robbins
Representative Erica Schwartz
Representative Andy Smith
Representative Zack Stephenson
Representative Chris Swedzinski
Representative Cal Warwas
Representative Mike Wiener
Representative Jeff Witte
Representative Cheryl Youakim
DNR Commissioner Sarah Strommen
Anna Johnson, Governor Walz Policy Advisor

Acres Enrolled in Sustainable Forestry Initiative Act (SFIA) by County, 2024



MINNESOTA FOREST INDUSTRIES
903 Medical Arts Building ● 324 West Superior Street ● Duluth, MN 55802 ● 218-722-5013 ● Fax 218-722-2065 ● www.minnesotaforests.com

April 2, 2025

Representative Greg Davids, Co-Chair
Representative Aaisha Gomez, Co-Chair
Minnesota House Tax Committee

Subject: Opposition to HF2437 - Reducing Sustainable Forest Incentive Act (SFIA) Payments

Dear Minnesota House Tax Committee Co-Chairs Davids and Gomez,

Minnesota Forest Industries strongly opposes those elements of House File 2437 that reduce annual Sustainable Forest Incentive Act (SFIA) payments to landowners by 30% from Fiscal Year 2026 to 2029. The proposed change violates Minnesota Statutes 290C.07(b), violates the contracts that program enrollees signed with the State, runs counter to the Walz Administration's climate action agenda, and jeopardizes the purpose of the program.

The State of Minnesota has gone to great expense over the years to ensure that forests remain forested and working for the benefit of the people. We have funded large and small conservation easements, purchased timber company lands, funded One Watershed One Plan projects, and enacted 2c Managed Forest Land Tax status, and SFIA as private landowner incentives. The people of Minnesota understand how important it is to maintain forested lands for their social, economic and ecological values and have always shown a willingness to provide funding for working forests.

The SFIA program succeeded the Tree Growth Tax Law in providing private landowners tax relief for managed forests. The landowners sign 8-, 20-, or 50-year covenants on their land that transfer to all subsequent landowners. Therein they pledge to not subdivide the land, not develop on the land, and to follow a Forest Stewardship Plan prepared by a forestry professional. For their part, the state pays them annually using a formula based on the average tax rate, estimated land value, and covenant length.

At the time of SFIA development people were concerned that the payment rates would be dramatically reduced when future legislators faced budget challenges. They knew that they couldn't enforce the landowners' long-term commitments without a similar commitment on the part of the State. That is why 290c includes language stating the payments will not fluctuate by more than 10% annually and cannot go below the 2017 level.

Changing those provisions in HF2437, and simultaneously reducing payments by 30%, completely erodes landowners' trust in State Government. This will do great harm to future forest conservation efforts. And the opt-out clause will certainly result in some landowners taking the opportunity to cancel their covenants, allowing them to keep the funds they received to date and now subdivide the land or develop it upon it. This jeopardizes the entire purpose of this highly successful program.

Minnesota's forests are one of the major solutions to climate change. Trees absorb atmospheric carbon and convert it into wood. They annually absorb 15% of all carbon emissions, making forestry the only carbon negative economic sector. Actively growing working forests absorb more carbon than old forests. The Governor's Climate Action Framework, the DNR's Forests and Carbon in Minnesota report to the Legislature, and the Minnesota Forest Resources Council's Climate Change and Minnesota's Forests reports ALL urge us to keep forests in place, increase the area of forests, and keep working forests working. SFIA is the tool to accomplish that on private lands. Therefore, HF2437 runs completely counter to the Administration's own efforts to address climate change.

Forest products is the 5th largest industry in Minnesota, employing 71,650 people, with $25.3 billion in gross sales and paying $282.7 million in state taxes. On behalf of the industry, I urge you to remove the SFIA payment reduction (Sections 4 and 7) from HF2437.

That said, we do support the SAF Tax Credit extension and related provisions in HF2437.

Rick Horton
Executive Vice President
Minnesota Forest Industries

NAIFA
MINNESOTA

4/1/2025

Dear Minnesota House Tax Committee members:

I represent the National Association of Insurance and Financial Advisors – Minnesota. We serve main street clients here in Minnesota. I write to express our opposition to House File 2437, and specifically the provisions to tax financial planning, investment management, and retirement management services that our clients receive.

Financial and retirement planning is an essential service that our clients rely upon - they will be harmed by this new tax. They are retirees managing on a fixed income, parents saving money for their children's college costs, and new entrants to the job force saving for their future. Many could lose these services with the added cost from taxes.

We work daily to help our clients succeed, provide for their families, and enjoy their retirement years here in Minnesota. Please remove the sales tax provisions on financial planning, investment services, and retirement planning from House File 2437 that would harm Minnesotans. We look forward to speaking with you on this issue.

Sincerely,

Brian Fleming

President, NAIFA Minnesota

National Association of Insurance and Financial Advsors – Minnesota

4707 Highway 61 N #181, White Bear Lake, MN 55110 | (651) 815-0668 | naifa-mn.org

Chair Davids, Chair Gomez, and Members of the House Tax Committee,

I write to you today to oppose the provision in HF 2437 that reduces payments for the Sustainable Forest Incentive Act (“SFIA”). The SFIA helps prevent development of the 40 percent of Minnesota's forestlands that are privately owned. I have a 50-year SFIA easement on my 44 acres in Carlton County. SFIA is basically a conservation easement that pays for development rights. This is a very inexpensive conservation easement for Minnesota taxpayers.

If you do cut the program by 30 percent, as proposed, or another significant amount, enrolled landowners should be given the option to cancel their SFIA contract and develop their land. Property taxes are going up all the time, the cost to maintain healthy wildlife habitat is increasing, access maintenance is increasing. Not all forest owners are rich. I worked for a non-profit and just bought this land cheap 13 years ago. I've been retired seven years and am on a fixed income.

Yours in conservation, Mark Herwig,

1958 Florence St., White Bear Lake, MN 55110

4910-8939-4224, v. 1

The Nature Conservancy Minnesota

The Nature Conservancy in Minnesota
1101 West River Parkway, Suite 200
Minneapolis, MN 55415-1291

Phone: 612-331-0700
Email: minnesota@tnc.org
nature.org/tristate

Representative Greg Davids
House Taxes Committee
Centennial Office Building, 2nd Floor
658 Cedar Street
Saint Paul, MN 55155

Representative Aisha Gomez
House Taxes Committee
Centennial Office Building, 5th Floor
658 Cedar Street
Saint Paul, MN 55155

Re: HF2437, Governor's Budget Recommendations for Department of Revenue, Tax Aids and Credits

March 31, 2025

Co-Chairs David and Gomez, and members of the Committee,

Thank you for the opportunity for The Nature Conservancy (TNC) to comment on the Governor Walz and Lt. Gov. Flanagan Administration's budget recommendations contained in HF2437. The Nature Conservancy is a nonprofit organization working to conserve the lands and water on which all life depends toward our vision where nature and people thrive.

As the committee considers these budget recommendations for the Department of Revenue and Tax Aids and Credits, we write to share considerations about how proposed changes will impact people and nature and the challenges facing Minnesota's climate, natural resources, and biodiversity.

1) **Sustainable Forest Incentive Act (SFIA) Payments Reduction and Statutory Changes:** We are concerned by the proposal in Sections 4 and 7 of HF2437, which will reduce the rate of inventive payments and allow enrollees to break their long-term covenants early as a condition of the rate change. Though TNC is a landowner enrolled in the program and our payments would be negatively impacted by the proposal, our primary concern is regarding the overall impact to forests in the state and tackling climate change.

   SFIA has been a critical tool to ensure forest cover is retained in large contiguous blocks. Science shows that the best nature-based carbon sequestration tool in Minnesota is maintaining and expanding tree cover, and that starts with protecting existing forests. The proposal to scale back SFIA payments will likely result in a loss of forest canopy.

   Based on past budget recommendations and the Climate Action Framework, we believe this Administration is committed to addressing climate change, but reducing these payments risks decreasing the participation of landowners who are dependent on them to partake in this program and ultimately risks losing a significant carbon sequestration tool.

   SFIA works to store carbon and provide multiple benefits for water quality, water quantity, habitat, outdoor recreation, and wood products which has resulted in large forest tracts remaining intact assets to the state. There is a significant risk for loss of forested lands should the current proposal of incentive reductions move forward.

2) **Sustainable Aviation Fuel (SAF) Tax Credit Expansion**: As the committee considers the important proposal for expanding the Sustainable Aviation Fuel tax credit, we urge members to include

The Nature Conservancy Minnesota

The Nature Conservancy in Minnesota
1101 West River Parkway, Suite 200
Minneapolis, MN 55415-1291

Phone: 612-331-0700
Email: minnesota@tnc.org
nature.org/tristate

approaches to make SAF truly sustainable, such as sourcing from lands with long term, significant documented cropping history, supporting diverse feedstocks, and excluding imported used cooking oil.

3) **Payment in Lieu of Taxes (PILT) Reduction**: While this proposal is not included in the underlying HF2437, it has been offered by the Administration in a budget proposal update as of March 21, 2025. We offer our concern about the proposed 34% reduction to PILT and any proposed amendments in this bill or others that would decrease current funding levels. PILT is an important tool that supports counties' property tax base in exchange for conservation of prairies, forests, grasslands and other natural lands that benefit all Minnesotans and provide clean air, water, carbon sequestration, habitat, outdoor recreation opportunities and more.

   A significant reduction to PILT is expected to have a chilling effect on the foundation of county-based conservation due to the financial challenges it would create, as it would undermine the ability to continue important conservation efforts in the face of climate challenges and water impairments, among other threats to nature. We hope the committee will identify alternative solutions that don't risk losing an important conservation tool in the face of climate, water, and biodiversity challenges.

Thank you for your consideration,

Stephanie Pinkalla

Stephanie Pinkalla
Government Relations Director
The Nature Conservancy in Minnesota

Angelica Day
Government Relations Specialist
The Nature Conservancy in Minnesota

MSBA

Minnesota
State Bar
Association

33 South Sixth St
Suite 4540
Minneapolis, MN
55402

www.mnbar.org

Telephone
612-333-1183
National
800-882-MSBA
Fax
612-333-4927

March 30, 2025

RE: HF2437

House Taxes Committee Members:

As the president of the Minnesota State Bar Association (MSBA), a voluntary professional association representing approximately 12,000 attorneys in Minnesota, I write to share the MSBA's concerns about the proposed sales tax on consumer legal services. The proposal would be extremely detrimental to the Minnesotans who can least afford it, especially during the most stressful, challenging, and often unexpected moments of their lives.

Fundamental unfairness: Frequently, the state tries to take an individual's liberty (criminal cases), property (eminent domain), money (income tax and property tax disputes), livelihood (occupational and professional licensure), or children (child protection). When Minnesotans hire attorneys to assert and protect their interests in these life-altering cases, it would be extraordinarily unfair—especially when they prevail—to force them to pay what could easily be thousands of dollars in taxes to the same government that initiated the action.

Resource imbalance: Litigation is often a resource battle, with under-resourced parties at a major disadvantage against well-resourced parties. The proposed tax will exacerbate this problem. We do not support expanding the sales tax to include business services, but the consumer-only nature of the proposal means that individuals will often have to pay taxes on legal services in disputes against better-resourced entities that will not. These matters include debt collection, eviction, foreclosure, work comp, non-compete agreements, intellectual property disputes, personal injury cases, and homeowners association litigation.

Unaffordability: The average Minnesotan does not have savings to pay for legal services. When they need to hire an attorney, it requires selling assets, relying on credit cards, or borrowing money from retirement funds or home equity (if either is available). So taxing legal services often means taxing funds that are *already* subject to significant interest or tax consequences.

Justice gap: HF2437 purports to exempt legal aid services from the expanded sales tax. This is a confusing and meaningless "exemption" because legal aid programs provide free services. But those services are only available for extremely underprivileged people — the maximum qualifying income for a family of four is just $40,187.50. Families making twice that amount still struggle mightily to afford legal services. More importantly, Minnesota's legal aid programs only have the resources to serve 45% of qualified applicants. The proposed sales tax will put critically needed legal services even more out of reach for low-income and average-income Minnesotans.

Court resources: When Minnesotans can't afford lawyers and don't receive free counsel (even if they are eligible) their only choice is to represent themselves and confront daunting legal and procedural complexities for which they have no training. Self-represented litigants significantly slow down court proceedings and delay the administration of justice for all users of the court system. Making legal services more unaffordable will only make this problem worse.

For those reasons we strongly urge you to reject the proposed sales tax on consumer legal services.

Sincerely,

Sam Edmunds

Samuel Edmunds
MSBA President, 2024-2025

Individual Testimony Opposing House File 2437 Regarding Sustainable Forest Incentive Act Payments

To Chair Davids, Chair Gomez and Members of the House Tax Committee:

My name is John Saxhaug. I own a registered Tree Farm in Kanabec County, am a member of the Minnesota Forestry Association, and have been involved in the management of Minnesota’s forests and natural resources for over 40 years. Although my tree farm does not qualify for participation under the Sustainable Forest Incentive Act, I have seen the very positive results of the program on my fellow forest managers who have enrolled in the program since 2001, and on the State’s forests and the environment in general. I am writing today to express my opposition to House File 2437 that would significantly reduce Sustainable Forest Incentive Act payments.

For a variety of reasons the proposed 30% reduction in SFIA payments under H.F. No. 2437 will have a negative effect on Minnesota Forests. First and foremost, it will discourage present and future landowners from participating in a program that is integral to the long-term sustainable management and proper stewardship of our forests. Lower participation will result in the loss of well managed woodlands that provide wood products to the forest industries that are a critical component of the State’s economy.

Equally important, as climate change continues to grow as a threat to our way of life, is the impact on the climate by discouraging landowners from participating in SFIA. The loss of incentives for forest management practices maximizing carbon reduction would be an opportunity that can’t be reclaimed. The carbon emissions absorbed by a healthy, well managed forest are well worth the cost of incentives provided by SFIA.

In addition to the benefit described above are an array of contributions provided to the public that include quality wildlife habitat, biodiverse ecosystems, and public access to large tracts of woodland.

I ask you to carefully consider the loss of environmental benefits that would result from such a significant reduction in funding a program that contributes so much value in maintaining Minnesota’s forests and our quality of life.

Sincerely,

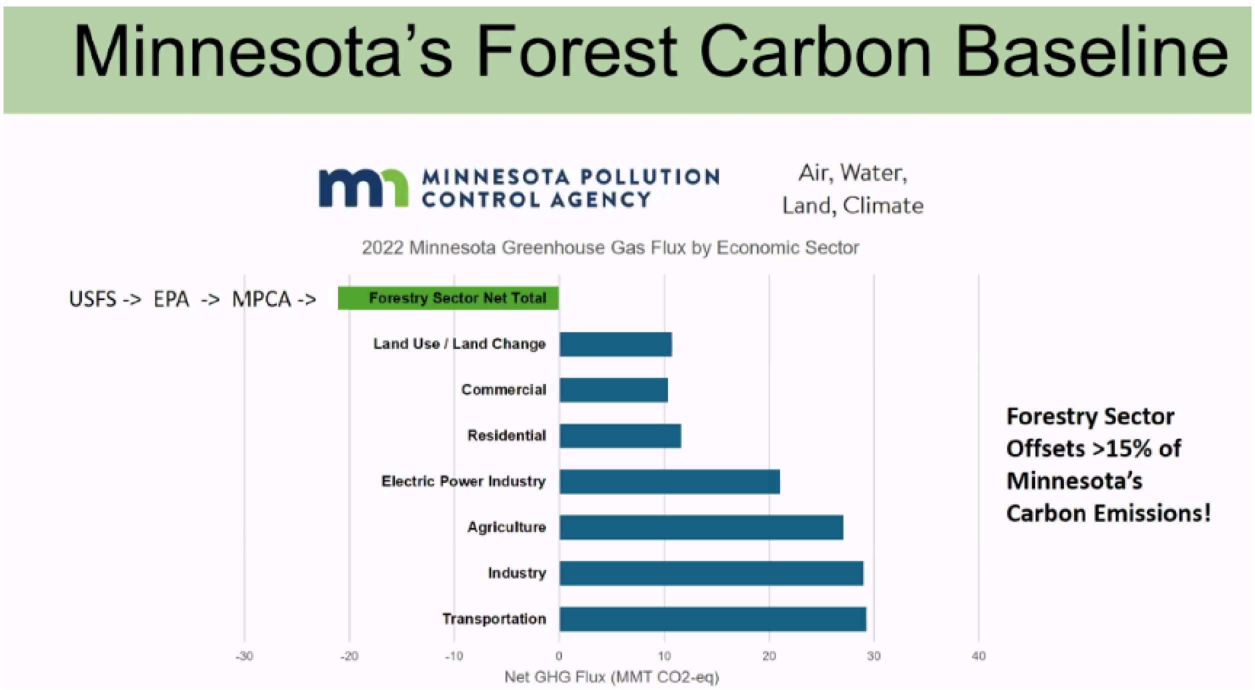
John W. Saxhaug
3940 Harriet Avenue
Minneapolis, MN 55409
john_saxhaug@yahoo.com

612-418-4328

Testimony Opposing House File 2437 Regarding Sustainable Forest Incentive Act Payments

Honorable Members of the Tax Committee:

My name is Brian Huberty, and I am the President of the Minnesota Forestry Association. We are writing today to express our strong opposition to House File No. 2437 and specifically the provisions within it that propose significant reductions to the Sustainable Forest Incentive Act (SFIA) payments. We know this portion of the bill is not in the best interests of Minnesota woodland owners and the long-term health and productivity of Minnesota's forests.



Both our natural and managed forests across the state offset more than 15% of Minnesota's carbon emissions. Forestry is our only sector which grows and stores carbon. This bill will not help reduce our carbon footprint.

The Minnesota Forestry Association represents a diverse group of individuals and organizations deeply committed to the sustainable management of our state's valuable forest resources. This includes over 200,000 woodland owners across the state. That is nearly three times the number of farmers in our state.

The SFIA program, established in 2001 under Minnesota Chapter 290C, has been a cornerstone in encouraging private forest landowners to make long-term commitments to responsible forest stewardship. These landowners, who collectively manage over ***40%*** of Minnesota's ***17*** million forested acres, play a vital role in our state's economy, environment, and recreational opportunities.

H.F. No. 2437 proposes a **30% annual reduction in SFIA payments from Fiscal Year 2026 to 2029**. We find this proposal deeply concerning for several critical reasons:

- **Breach of Contract and Violation of Statute:** Landowners enrolled in the SFIA program do so under legally binding contracts with the State of Minnesota, with covenant terms extending up to 50 years. These contracts outline specific responsibilities for landowners, including adhering to sustainable forest management plans, following harvesting guidelines, and often providing public access. In return, landowners are promised an annual payment based on an established formula. **Minnesota Statutes 290C.07(b) explicitly states that "The calculated payment must not increase or decrease by more than ten percent relative to the payment received for the previous year. In no case may the payment be less than the amount paid to the claimant for the land enrolled in the program in 2017"**. The proposed reduction in H.F. No. 2437 directly violates this statute and fundamentally alters the terms of the agreements made with participating landowners.

- **Negative Impact on Landowner Confidence and Program Integrity:** The State's commitment to upholding its agreements is paramount to maintaining the trust and participation of private landowners in conservation programs like SFIA. If the State demonstrates a willingness to renege on its commitments, it will severely damage public perception of long-term conservation agreements, discouraging future enrollment in SFIA and other vital programs. The onerous penalties for landowners who violate their covenants stand in stark contrast to the State seemingly altering its obligations on a whim to address budget shortfalls.

- **Undermining Climate Goals:** Minnesota has set ambitious goals for addressing climate change. Our forests play a crucial role in achieving these goals as the **forestry sector is net carbon negative, annually absorbing a significant portion of the state's carbon emissions**. The SFIA program directly supports forest management practices that enhance carbon sequestration by encouraging landowners to keep their land forested and sustainably managed. Reducing SFIA payments jeopardizes these efforts and runs counter to the Walz Administration's climate action agenda.

- **Potential Loss of Program Benefits:** The SFIA program delivers significant public benefits beyond carbon sequestration. It **prevents land parcelization, limits development, encourages sustainable forest management, and provides public recreation on hundreds of thousands of acres**. Past instances of payment caps led to landowners unenrolling from the program, resulting in loss of public access. H.F. No. 2437 could trigger a provision allowing immediate withdrawal from SFIA if the payment formula is altered to reduce payments. **Mass unenrollment could lead to unsustainable forestry practices, increased land development, and the loss of public access to these valuable forestlands**. This would also negatively impact wildlife habitat, biodiversity, and forest management efficiencies.

The Sustainable Forest Incentives Act has proven to be an effective tool in promoting responsible land stewardship and long-term forest management in Minnesota. It incentivizes landowners to make long-term commitments to our forests.

Therefore, the Minnesota Forestry Association strongly urges this committee to **remove the proposed reductions to the Sustainable Forest Incentive Act payments from House File No. 2437**. Upholding the State's commitments to woodland owners under the SFIA program is essential for maintaining the integrity of conservation programs, supporting our climate goals, and ensuring the continued health and productivity of Minnesota's forests for the benefit of all Minnesotans.

The Minnesota Forestry Association was established nearly 150 years ago in 1876 to promote healthy forests. This bill will not promote healthy forests for future generations. Thank you for your time and consideration of our concerns.

Sincerely,

Brian Huberty

Brian Huberty

President, Minnesota Forestry Association

PO Box 6060
Grand Rapids, MN 55744
president@minnesotaforestry.org

mnpca

Elevate your impact.

April 2, 2025

Representative Davids
2nd Floor Centennial Office Building
St. Paul, MN 55155

Representative Gomez
5th Floor Centennial Office Building
St. Paul, MN 55155

RE: Opposition to sales tax on accounting services

Dear Chairs Davids and Gomez and members of the House Tax Committee:

On behalf of the Minnesota Society of CPAs (MNCPA), we are writing to express our strong opposition to the proposed tax on professional accounting services included in HF 2437. The MNCPA is a professional association with more than 7,000 members who provide tax and accounting services to individuals, businesses, and governmental entities. This tax as proposed would impose significant burdens on individuals while negatively affecting the state's economy.

A tax on accounting services unfairly increases costs for individuals who need professional tax preparation and financial guidance. These individuals may need CPA services to comply with complex state and federal tax laws or to assist them after an unfortunate life event such as a divorce or a death in the family. Taxing these essential services effectively penalizes individuals for seeking compliance, leading to potential errors, increased enforcement costs, and reduced tax revenue due to unintentional noncompliance.

Additionally, this tax would disproportionately affect those with lower incomes. Sales taxes are inherently regressive. Individuals with fewer financial resources will feel the impact more acutely. Those who can least afford professional assistance may be forced into a "do-it-yourself" approach, risking costly mistakes that could result in audits, penalties, and financial hardship or forgo a benefit they are entitled to because they didn't have resources to file the necessary forms.

mncpa
Elevate your impact.

Rather than implementing a tax that discourages compliance, increases administrative burdens, and drives business out of state, we urge the legislature to consider policies that promote economic growth and fairness. We appreciate your time and consideration of this critical issue and encourage you to oppose the taxation of professional accounting services in HF 2437.

Sincerely,

Boz Bostrom, chair
Minnesota Society of CPAs

Linda Wedul, President & CEO
Minnesota Society of CPAs

Opposition to HF 2437

To: House Committee on Taxes

From: Stan Grossman, CEO Itasca Woodland Services, Inc.

Re: HF 2437 - Proposed bill to reduce payments of Sustainable Forest Incentives Act (SFIA)

Dear Esteemed Committee Members,

I am writing today to submit testimony *against* the proposals within HF 2437 that would significantly reduce the payments to landowners enrolled in the Sustainable Forest Incentive Act (SFIA). As the owner of a private forestry consulting firm in Grand Rapids, Minnesota, that has been serving hundreds of private woodland landowners in Minnesota since 1996, I am deeply concerned about the negative effects that this bill would have on the quality of forest management practices on private lands in our great State.

As you likely know, obtaining a personalized Woodland Stewardship Plan written by a qualified professional is a prerequisite for enrolling in the SFIA. Furthermore, a new Stewardship Plan is required every ten years to maintain eligibility for payments. This requirement incentivizes woodland owners to periodically interact with a forestry professional and obtain advice on managing their woods in a sustainable, responsible manner. In the reduction or absence of such an incentive, the transfer of such knowledge will be negatively impacted.

Our firm has written well over 1000 Stewardship Plans since 1996, the majority of which I have personally written myself. Our clientele represents a diverse spectrum of backgrounds, interests, and land management philosophies but they all have one thing in common; for a relatively short period of time they have an opportunity, a social responsibility, and an innate desire to thoughtfully steward the resources on their land.

As a landowner's primary and perhaps *only* source of forest management advice, I have witnessed firsthand on countless occasions how the interaction between a landowner and a forestry professional has positively influenced the management decisions a landowner makes. For instance, when a landowner learns for the first time that they have buckthorn on their land (a non-native highly invasive species) and how it can gradually and significantly degrade the quality and diversity of their forest, they often will take immediate action to control it. When they need timber to be harvested, we can assist them with this difficult and complex process so that the quality of the soil, water, wildlife habitat, regeneration, and aesthetic value of their woods is protected or even improved. The State's investment in SFIA vastly increases the likelihood that a wealth of knowledge and practical assistance will find its way to the individual private landowner.

In closing, the 43% of forests in Minnesota that are under private ownership provide a host of public benefits and are worth investing in! Furthermore, as currently written, HF 2437 brashly reneges on the Covena nt that the State of Minnesota has entered into with private landowners. It is a breach of trust that I believe will n ot soon be forgotten and will erode the likelihood of landowners trusting the State to keep their end of the bargai n of any long-term commitment of this type in the future. I urge you to preserve the SFIA as it currently is, in or der to uphold the State's commitments and safeguard the integrity of the legislative process.

Respectfully submitted,

Stan Grossman

March 31, 2025

Minnesota House Tax Committee

328 Capitol

St. Paul, MN 55155-1606

Subject: Opposition to HF 2437 - Reducing Sustainable Forest Incentive Act (SFIA) Payments

Dear Minnesota House Tax Committee,

I am writing to express my strong opposition to the portion of H.F. No. 2437 that proposes a

30% annual reduction in Sustainable Forest Incentive Act (SFIA) payments.

I am an individual that has recently entered a 20-year contract with the State of Minnesota SFIA program. To enter this program, I was required to make a significant investment in creating a Woodland Stewardship Plan with a licensed forester – a plan that is in conjunction with the State of MN best forestry practices. In concurrence with this plan, I am reforesting a significant amount of the property with nursery trees purchased from State of Minnesota Tree nurseries; al l at my expense. Along with a large capital outlay, I also had to make a commitment to not develop or commercially harvest this land.

All these financial decisions were made based on the income stream that was projected to be received by enrolling in this program. The revenue I have seen in this program has been consistent over the years and I based my enrollment on the fact that "The calculated payment must not increase or decrease by more than ten percent relative to the payment received for the previous year." Minnesota Statutes 290C.07(b).

Based on this statute, I entered this contract and since this contract is a legal, binding obligation, I do not believe this proposed bill is legal as written. A 30% reduction in payments is outside the 10% decrease that is in my contract with the State of Minnesota.

A payment decrease of 30% would undermine my decision to enter this contract. If I were to try to back out of the contract, I would face very stiff penalties including paying back all payments plus interest. My intention when entering this contact was to legally uphold my side of the agreement for the next 20 years. I expect that the State of Minnesota to uphold their obligation as well and I strongly oppose this bill as written.

Sincerely,

David Buxengard