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NEWS RELEASE

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GOVERNOR PAWLENTY UNVEILS PLAN TO BALANCE STATE BUDGET WITHOUT RAISING TAXES

~ Governor's plan solves \$1.2 billion deficit, includes tax cuts to spur job growth ~

Saint Paul – Governor Tim Pawlenty today released his supplemental budget recommendations, eliminating the state's projected \$1.2 billion deficit and providing tax cuts to spur job growth.

The Governor's budget maintains funding for priority areas including military and veterans, core public safety, and K-12 education classrooms. Many other programs would be reduced including Local Government Aid, welfare and social services, and state government agencies.

"The historic drop in the economy has caused an historic drop in state revenues. Government has to live within its means by setting priorities and tightening its belt just like everyone else," Governor Pawlenty said. "While this budget maintains funding for priority areas, it contains dramatic spending reductions in many programs."

Today's balanced budget proposal is in addition to Governor Pawlenty's executive actions to resolve the \$2.7 billion budget deficit projected in July 2009. The Governor also renewed the request he made in the State of the State address that the Legislature ratify those actions.

The Governor's budget plan includes:

- \$250 million in reductions to state government aids to local units of government
 - \$347 million in reductions to state health and human services programs
 - \$387 million extension of enhanced federal Medicaid funding for states
 - \$47 million in reductions to state higher education institutions
 - \$181 million in reductions to state agencies and other programs
- \$1.2 billion total

In addition to spending reductions, Governor Pawlenty outlined details of his Jobs Creation Bill. The six-part plan would improve Minnesota's business tax climate in order to spur job growth.

"There's bipartisan agreement that Minnesota's tax system is costing us jobs," Governor Pawlenty said. "In addition to balancing the budget without raising taxes, we need to improve our tax system if we are going to compete for jobs."

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Governor Pawlenty's Jobs Creation Bill has six parts:

20 percent reduction in corporate tax rate – FY 10-11: \$10 million / FY 12-13: \$150 million

The business income tax is an impediment to job growth. Reducing the corporate franchise rate from 9.8 percent to 7.8 percent will increase private sector investment and create jobs. Much of the benefit will ultimately be passed on to Minnesota consumers through lower prices.

20 percent tax reduction for small businesses - FY 10-11: \$0 million / FY 12-13 \$118.2 million

Small business creates 78 percent of the new jobs. To ignite job creation, Governor Pawlenty is proposing to reduce small business income tax by 20 percent. Minnesota businesses pay some of the highest taxes in the country. This proposal will reduce this burden and allow small businesses to invest in job creation.

Angel Investment Tax Credit – FY 10-11: \$10 million / FY 12-13: \$20 million

To stimulate formation of early-stage capital in new emerging businesses, the Governor is proposing an Angel Investment Tax Credit that will attract investment across Minnesota. The \$10 million in tax incentives for angel investment will infuse funding for regional investment statewide.

Research and development tax credit – FY 10-11: \$0 million / FY 12-13: \$34 million

Under current law, Minnesota corporations receive a 5 percent tax credit for research and development investment up to \$2.5 million. Governor Pawlenty is proposing to eliminate the cap for corporations and expand the credit to all businesses that invest in research and development.

Capital gains exclusion for qualified investments – FY 10-11: \$0 million / FY 12-13: \$0 million

To encourage long-term investments and stimulate job growth, Governor Pawlenty is proposing a capital gains exclusion. Capital gains from qualifying investments in Minnesota small businesses will be exempt from taxation. The exemption will be available for qualifying investments starting in 2010 and will require a five year holding period. The general fund impact of the proposal begins in 2015.

Incentives for companies to invest in Minnesota small business – FY 10-11: \$0 million / FY 12-13: \$0 million

The Governor's proposal would create a \$100 million capital pool for investing in small, emerging and green businesses. The program would provide an 80 percent tax credit for (insurance?) companies investing in small business. The program is modeled after certified capital company programs (CAPCO). The general fund impact of the proposal begins in 2014.