Good morning, Chairman Chamberlain and members of the committee. For the record, my name is Jon Pratt, and I serve as the Executive Director of the Minnesota Council of Nonprofits, an association of 2200 charities in the state.

I appreciate the opportunity to testify in support of Senate File 1529, a bill that would ensure Minnesota does not conform to the federal Unrelated Business Income Tax changes impacting nonprofits, churches, and foundations.

The two federal changes in UBIT laws from the 2017 federal tax bill do not ensure that money and resources are used for the right purposes. Instead, they divert money and resources away from each nonprofit’s mission. If Minnesota wants to maintain its strong and thriving charitable sector, the state should not conform to these two provisions.

The first provision 512a7 deals with transportation expenses--

If Minnesota would conform to this change, nonprofits and churches would be charged for the cost of parking and transit benefits they provide to employees.

Parking spots and transit passes are necessary expenses that nonprofits and churches provide to their employees and should not be taxed.

Importantly, applying UBIT to these expenses is a gross misapplication of the law’s purpose, which is to tax unrelated business income – not expenses.

- For more than 60 years, any charitable organization that has engaged in business activity outside of their exempt purpose has paid UBIT on their profit. That is appropriate. For example, an animal shelter would be subject to UBIT if they established a pet boarding business.
- Requiring these organizations to pay a state tax on these employee benefits is something that has never been required to do before. Besides the increased operating costs, many nonprofits – especially small ones and churches – will have an administrative and financial burden of filing additional tax forms.
The second provision 512a6 requires creating separate silos for each activity

- Under prior law, a nonprofit all unrelated business expenses were reported alongside all unrelated business income – and organizations would not owe UBIT if total expenses were greater than income across business activities.
- Requiring the creation a separate income and expense line for each different activity instead of the whole is unprecedented and adds complexity and diverts resources from the public benefit activities of Minnesota’s charitable organizations.

- I also would like to share part of a letter from Rev. Dr. Curtiss DeYoung, Chief Executive Officer of the Minnesota Council of Churches, also asking for support of SF 1529.
  - In his letter Rev. DeYoung states that
    - If Minnesota conforms, it would create additional burdens for churches, as churches do not have systems set up to pay state taxes. It is likely that the burdensome accounting and regulatory compliance costs will exceed the tax actually collected.

As you are putting together your tax bill, I urge you to not conform to these federal changes impacting nonprofits, churches, and foundations. This will add to the momentum to remove them at the federal level as well, supported by the National Council of Nonprofits and the members of its network throughout the U.S.

Thank you for giving me the opportunity to testify.