

**This Revenue Notice was revoked on July 3, 2017 by publication of Revenue Notice # 17-01 (42 SR 5).**

**Department of Revenue**

**Revenue Notice # 08-04: Corporate Income Tax - Apportionment of Income; Two-Factor and One-Factor Weighted Formulas; Revocation of Revenue Notice # 02-06**

This revenue notice revokes and replaces Revenue Notice # 02-06, which was published on April 29, 2002. The percentages reflected in Revenue Notice # 02-06 are obsolete due to a 2005 law change which changed the apportionment percentages in *Minnesota Statutes*, section 290.191. This revenue notice uses the apportionment percentages that are effective for taxable years beginning during calendar year 2007 to explain the two-factor weighted formula and the apportionment of income when a taxpayer only has a single factor. Because the apportionment percentages will change pursuant to the schedule contained in *Minnesota Statutes*, section 290.191, the examples are for illustrative purposes only.

This revenue notice is issued pursuant to *Minnesota Statutes*, section 290.20; the allocation of income using the three-factor formula does not fairly reflect taxable net income allocable to this state when a taxpayer does not have three factors.

**Apportionment of Net Income**

Apportionment of net income from a trade or business carried on partly within and partly without this state is governed by *Minnesota Statutes*, section 290.191. When a taxpayer has only one of the three factors for apportionment they may elect to use single factor apportionment or if they have two factors they may elect to use the appropriate formula below and the department will accept the calculation without the taxpayer petitioning for its use under *Minnesota Statutes*, section 290.20. Under either method, the total weight of the apportionment factors is equal to 100%.

**Two-Factor Weighted Formula**

For those taxpayers that only have two of the three apportionment factors the taxpayer should divide the statutory weight of the factor by the percentage that is the total of the represented factors to arrive at a new weighting percentage. Examples 1 and 2 illustrate the use of that method applied to different weighted formulas.

Example 1 illustrates the application of the two-factor weighted formula, using as an example a taxpayer with no payroll and hence no payroll factor.

- Taxpayer has property and sales but no payroll. (The calculation would be the same if a taxpayer had payroll but no property to apportion to the State of Minnesota.)

|                 |            |
|-----------------|------------|
| Property Factor | 11%        |
| Sales Factor    | <u>78%</u> |
|                 | 89%        |

|                                  |                           |
|----------------------------------|---------------------------|
| Property Weight Divided by Total | $11\% \div 89\% = 12.4\%$ |
| Sales Weight Divided by Total    | $78\% \div 89\% = 87.6\%$ |

|                              |              |
|------------------------------|--------------|
| New Weighted Property Factor | 12.4%        |
| New Weighted Sales Factor    | <u>87.6%</u> |
| Total of Weights             | 100%         |

Example 2 illustrates the application of the two-factor weighted formula, using as an example a taxpayer with no sales and hence no sales factor.

- Taxpayer has property and payroll but no sales.

|                 |            |
|-----------------|------------|
| Property Factor | 11%        |
| Payroll Factor  | <u>11%</u> |
|                 | 22%        |

|                                  |                         |
|----------------------------------|-------------------------|
| Property Weight Divided by Total | $11\% \div 22\% = 50\%$ |
| Payroll Weight Divided by Total  | $11\% \div 22\% = 50\%$ |

|                              |            |
|------------------------------|------------|
| New Weighted Property Factor | 50%        |
| New Weighted Payroll Factor  | <u>50%</u> |
| Total of Weights             | 100%       |

### **One-Factor Weighted Formula**

When a taxpayer is missing two factors of any of the three apportionment factors, the department will accept 100% weighting of the single factor without the taxpayer petitioning for its use under *Minnesota Statutes*, section 290.20.

Revenue Notice # 02-06 is hereby revoked.

John H. Mansun, Assistant Commissioner  
for Tax Policy and External Relations

Publication Date: February 25, 2008