

Department of Revenue

Revenue Notice # 11-02: Individual Income Tax and Corporate Franchise Tax – Job Opportunity Building Zone Exemptions – Patronage Dividends

This revenue notice addresses whether patronage dividends are exempt business income under *Minnesota Statutes*, section 469.316, subdivision 3, or exempt from the corporate franchise tax under *Minnesota Statutes*, section 469.317.

Introduction

Minnesota Statutes, section 469.316, subdivision 3, and *Minnesota Statutes*, section 469.317, exempt the net income from the operation of a qualified business from the individual income and corporate franchise taxes. A “qualified business” is a person that operates a trade or business in a job opportunity building zone and has executed a business subsidy agreement with the appropriate local unit of government. *Minnesota Statutes*, section 469.316, subdivision 3 applies to individuals, estates, and trusts: they may exempt the net income they receive from the operation of a qualified business. *Minnesota Statutes*, section 469.317 applies to corporations: corporations may exempt the net income from the operation of a qualified business if the corporation is the qualified business that earned the income.

Cooperatives are either C-corporations or pass-through entities. *Minnesota Statutes*, chapter 308A, supplies rules for cooperatives that are C-corporations (308A Cooperatives); *Minnesota Statutes*, chapter 308B, supplies rules for cooperatives that are pass-through entities (308B Cooperative Associations). Neither these chapters nor other chapters of *Minnesota Statutes* provide special rules for the characterization of patronage dividends.

Thus, the character of patronage dividends is determined under the general tax rules that dictate the character of a C-corporation’s distributions or a pass-through entity’s allocations of net income. Net income a C-corporation distributes does not retain its character after distribution; net income a pass-through entity allocates retains its character after allocation. Thus, the net income a 308A Cooperative distributes as a patronage dividend loses its character after distribution; while, the net income a 308B Cooperative Association allocates as a patronage dividend retains its character after allocation.


Department Position

The patrons of a 308A Cooperative that is a qualified business may not exempt patronage dividends from tax. The net income of a 308A Cooperative loses its character after distribution. Thus, for individuals, estates, and trusts, patronage dividends are not exempt business income under *Minnesota Statutes*, section 469.316, subdivision 3. And a corporation must itself be a qualified business before it can exempt income from the corporate franchise tax under *Minnesota Statutes*, section 469.317.

But patrons of a 308B Cooperative Association that is a qualified business may exempt patronage dividends from tax if the patron is (1) an individual, estate, or trust and (2) a member of the cooperative. Because the net income of a 308B Cooperative Association retains its character after allocation, patronage dividends are exempt business income under *Minnesota Statutes*, section

469.316, subdivision 3. Yet, corporations and non-member patrons are unable to exempt patronage dividends received from a 308B Cooperative Association. A corporation must itself be a qualified business before it can exempt income from the corporate franchise tax under *Minnesota Statutes*, section 469.317. And non-member patrons are like the cooperative's other trade creditors; thus, the cooperative's net income does not flow-through to them with its retained character.

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