

MINNESOTA • REVENUE

CORPORATE FRANCHISE TAX Phased Elimination of Corporate Tax

March 3, 2011

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | | X |

(for fiscal years 2012 to 2015)

Department of Revenue

Analysis of H.F. 42 (Davids) / S.F. 27 (Ortman) *Estimates Revised for February 2011 Forecast*

| | <u>Fund Impact</u> | | | |
|--------------|--------------------|------------------|------------------|------------------|
| | <u>F.Y. 2012</u> | <u>F.Y. 2013</u> | <u>F.Y. 2014</u> | <u>F.Y. 2015</u> |
| | (000's) | | | |
| General Fund | (\$135,700) | (\$178,600) | (\$276,100) | (\$369,400) |

Effective beginning tax year 2011.

EXPLANATION OF THE BILL

Current Law: Under current law the corporate franchise tax rate is 9.8%.

Proposed Law: The bill reduces the corporate franchise tax rate to zero over a period of ten years. The corporate tax rate is first reduced to 8.8% in tax year 2011, and it is reduced one percentage point per each year until tax year 2019. In tax year 2020 the rate is reduced to zero. The rate of the alternative minimum tax (AMT) is reduced from 5.8% to zero over ten years. The minimum fee would not be changed.

Table1. Ten-Year Phase-In Schedule

| Tax Year | Proposed Regular Tax Rate | Proposed AMT Tax Rate |
|-----------------|--|--------------------------------------|
| 2011 | 8.8% | 5.2% |
| 2012 | 7.8% | 4.6% |
| 2013 | 6.8% | 4.0% |
| 2014 | 5.8% | 3.4% |
| 2015 | 4.8% | 2.8% |
| 2016 | 3.8% | 2.2% |
| 2017 | 2.8% | 1.7% |
| 2018 | 1.8% | 1.1% |
| 2019 | 0.8% | 0.5% |
| 2020 and after | 0.0% | 0.0% |

REVENUE ANALYSIS DETAIL

- Estimates are based on the February 2011 forecast.
- Under present law the ratio between the AMT rate of 5.8% and the regular tax rate of 9.8% is about 59%. During the phase out the corporate tax, the AMT tax rate would be reduced proportionately. Therefore no adjustment is necessary to reflect increased AMT tax collections.
- The estimates assume no interaction with the individual income tax. Income would become subject to a lower rate under the corporate income tax than under the individual income tax. This could provide an incentive for some taxpayers to run the activities of a non-incorporated business through a C corporation. This incentive could increase if federal changes affected the level of tax on corporations compared to individuals. A reduction in individual income tax collections could be possible due to its interaction with this proposal.
- All of tax year 2011 was allocated to fiscal year 2012. Other tax year impacts were allocated 30/70 to fiscal years.
- The 0% tax rate fully affects collections beginning in fiscal year 2021.

Number of Taxpayers: About 50,000 corporations are subject to the corporate franchise tax.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy