

# MINNESOTA • REVENUE

## CORPORATE FRANCHISE TAX 100% Sales Weighting

March 3, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue

Analysis of H.F. 202 (Runbeck) / S.F. 117 (Chamberlain) *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>
General Fund	(\$4,700)	(\$13,500)	(\$5,700)	\$0

(000's)

Effective beginning with tax year 2012.

### EXPLANATION OF THE BILL

**Current Law:** In 2005 Minnesota law was changed to phase in an increase in the weighting of the sales factor of the apportionment formula to 100%, beginning in tax year 2007. Over a period of eight years, the weighting for the property and payroll factors decreases, and the weighting for the sales factor increases from the prior law base of 75% to 100%. When fully phased-in, the ratio of Minnesota sales to total sales will be the apportionment percentage. This 100% weighting is called single sales factor weighting, and it will be fully phased in by tax year 2014.

**Proposed Law:** Beginning with tax year 2012, the bill adopts 100% sales weighting. Full phase-in would occur two years earlier than under present law.

### Sales Weighting Under Current Law and Proposed 100% Weighting in Tax Year 2012 and Beyond

	<b>Current Law</b>	<b>Proposal</b>
Tax year 2012	93%	100%
Tax year 2013	96%	100%
Tax year 2014 and after	100%	100%

### REVENUE ANALYSIS DETAIL

- The revenue estimate is based on data from returns received by the Department of Revenue in calendar year 2007.
- A program was run against corporate data to calculate the revenue effect from changing the current law weighting to 100% sales weighting.
- No change in revenue is assumed for corporations that have 100% of their economic activity in Minnesota.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Growth in overall corporate tax collections as projected by Minnesota Management and Budget in the February 2011 forecast is used to project future revenue losses.
- This law change also affects the apportionment of income generated by entities other than C corporations, mainly S corporations. The estimate was adjusted to include these other businesses.
- Tax year impact was allocated 30/70 to fiscal years.

**Number of Taxpayers:** This bill has an overall effect of changing the tax liability, including both increases and decreases, on about 10,000 corporations.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)