GROSS PREMIUM TAX
MN Business Investment Co. Credit

April 1, 2011

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 288 (Downey) 1st Engrossment

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
General Fund	$0	$0	$0	($20,000)

Credit is effective beginning with tax year 2015.
Provisions relating to investments are effective the day following final enactment.

EXPLANATION OF THE BILL

A nonrefundable credit against the gross premium tax would be allowed for investments made in a Minnesota business investment company. The primary purpose of a Minnesota business investment company is to invest its capital in qualified businesses. A qualified business must be headquartered in Minnesota and have its principal operations in Minnesota, be independently owned, and have no more than 100 employees. The bill contains a list of primary business activities prohibited from being a qualified business.

The bill has a $160 million limitation on the total amount of tax credits. The investors in a single Minnesota business investment company may claim all of the $160 million in tax credits. Also, the bill allows the transfer of the tax credits to other insurance companies that are subject to the gross premium tax.

Provided that Minnesota business investment companies are set up soon after enactment, an insurance company could make investments as soon as tax year 2011 and claim a tax credit allocation. However, no tax credits can be claimed until tax year 2015. The credit is equal to 80% of insurance company investments in a Minnesota business investment company. The credit is taken in equal parts over a period of four years. When the credit exceeds tax, the credit is carried over, with no limitation on the number of years to which it may be carried.

If an insurance company is domiciled in a state that imposes retaliatory taxation and claims the tax credit, no retaliatory taxation can be imposed by Minnesota on the insurance company as a result of claiming the credit. Insurance companies domiciled in states other than Hawaii, Massachusetts, New York, and Rhode Island are subject to retaliatory taxation. Under retaliatory taxation, an insurance company pays a gross premium tax equal to the greater of the tax computed under Minnesota law or the tax computed under laws where the company is domiciled.

REVENUE ANALYSIS DETAIL

- It was assumed that the maximum credit of $40 million per tax year would be claimed beginning in tax year 2015 and that one-half of the revenue loss from tax year 2015 would be reflected in the collections in fiscal year 2015.
- During fiscal years 2015-2019 the total revenue loss will be $160 million.

Number of Taxpayers: The number of taxpayers is unknown.

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

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