CORPORATE FRANCHISE TAX
Foreign Operating Corporations
Foreign Royalty Subtraction
Tax Havens

March 31, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 665 (Hornstein) / S.F. 597 (Dibble)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
		(000's)		
Foreign Source Royalty Repeal	$91,700	$65,700	$67,100	$69,900
FOC Repeal	$43,800	$31,700	$32,600	$33,600
Interaction	$2,000	$2,000	$2,000	$2,000
Total Royalty/ FOC Repeal	$137,500	$99,400	$101,700	$105,500
Tax Havens	$16,300	$11,500	$12,400	$12,700
General Fund Total	$153,800	$110,900	$114,100	$118,200

Effective beginning with tax year 2011.

EXPLANATION OF THE BILL

Foreign Source Royalty/ FOC Repeal
The bill would repeal the subtraction for foreign royalty income and the foreign operating corporation (FOC) provisions.

Tax Havens
Under current law, only corporations chartered in the United States are included in the unitary group. Corporations chartered in foreign countries are excluded from the unitary group.

The bill would require foreign corporations chartered in any one of thirty-four specified countries to be included in the unitary group. Corporations charted in the list of thirty-four countries are classified as tax haven countries.

The tax haven country provisions would also affect the use of disregarded entities. The use of disregarded entities is an alternative to the use of FOC/ foreign royalty tax strategy. Under the bill, disregarded entities organized under the laws of countries on the tax haven list could no longer be used to reduce the corporate franchise tax.

REVENUE ANALYSIS DETAIL

Foreign Source Royalty/ FOC Repeal

- The estimates are based on corporate income tax data received in calendar year 2010. This is the latest available data.
- The revenue estimate is adjusted downward to reflect the effect of the phase-in to 100% sales weighting in tax year 2014.
- The growth in revenue gain is assumed to match the growth of corporate franchise tax collections in the February 2011 revenue forecast.
- All of tax year 2011 was allocated to fiscal year 2012. Other tax years were allocated 30/70 to fiscal years.

Tax Havens

- The estimate for tax havens is based on the experience of Montana with a similar law.

Number of Taxpayers: About 200 unitary groups use the FOC provisions under current law and about 500 unitary groups use the foreign royalty subtraction. The tax haven provision would affect an unknown number of taxpayers.

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

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