CORPORATE FRANCHISE TAX
Exempt Insurance Companies

March 12, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 179 (Abrams)/ S.F. 1158 (Rest)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	($10,000)	($8,500)	($9,000)	($9,500)

Effective for tax years beginning after December 31, 2000.

EXPLANATION OF THE BILL

Current Law: Insurance companies are subject to one of two taxing regimes, retaliatory or retaliatory/ reciprocal. The most significant element of the two taxing regimes focuses on calculating the amount of gross premium tax that insurance companies pay.

In addition, the two taxing regimes also have a corporate franchise tax element. Only companies subject the retaliatory / reciprocal tax regime are subject to the corporate franchise tax, and companies subject the retaliatory tax regime are exempt from the corporate franchise tax.

Insurance companies domiciled in Minnesota, Hawaii, Massachusetts, New York, and Rhode Island are subject to the retaliatory/reciprocal regime and the corporate franchise tax. A credit against the tax is allowed for Minnesota premiums tax paid. Insurance companies domiciled in other states are exempt from the corporate franchise tax because they are subject to the retaliatory regime.

Proposed Law: All insurance companies would be exempt from the corporate franchise tax.
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REVENUE ANALYSIS DETAIL

- The revenue estimate is based on data from returns received in calendar year 1998.
- Growth in overall corporate tax collections as projected by the Department of Finance in the February 2001 forecast is used to project future revenue losses.
- The estimate assumes that filed 1998 data represents collections in fiscal year 1998.
- The FY 2002 estimate was increased by 30% to reflect the January 1, 2001, effective date.

Number of Taxpayer Affected: This bill exempts about 200 corporations from the corporate franchise tax.

ADMINISTRATIVE/OPERATIONAL IMPACT

There are no significant administrative costs or savings to the department in administering this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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