CORPORATE FRANCHISE TAX
100% Sales Weighting

March 19, 2001

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

Department of Revenue
Analysis of H.F. 318 (Abrams) / S.F. 547 (Rest)
Identical Bill H.F. 335 (Erhardt)/ S.F. 582 (Oliver) ***Analysis Revised for February 2001 Forecast***

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
General Fund	($72,700)	($61,800)	($65,400)	($69,400)

Effective for tax years beginning after December 31, 2000.

EXPLANATION OF THE BILL

Current Law: The total income of a corporation is apportioned to Minnesota based on the weighting of percentages from a three-factor formula. The three factors are based on the percentages of a corporation's total payroll, property, and sales that are attributable to Minnesota. The sales factor receives 75 percent weight versus a 12.5 percent weight each for the payroll and property factors. The result of summing the weighted percentages is the apportionment percentage. A corporation's apportioned income is the product of its total income multiplied by the apportionment percentage.

Mail order businesses with 99 percent of their property and payroll in Minnesota are allowed to apportion income based on a single factor of sales.

Proposed Law: The apportionment percentage would be based on one factor, the sales factor. The ratio of Minnesota sales to sales everywhere is the apportionment percentage. When a single factor is used to compute the apportionment percentage, the factor is said to be weighted at 100 percent. The special provision for mail order businesses would be repealed.
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REVENUE ANALYSIS DETAIL

- The revenue estimate is based on data from returns received in calendar year 1998.
- The program used to edit corporate data is also able to calculate the revenue change from changing the current law weighting to 100% sales weighting.
- No change in revenue is assumed from corporations that have 100% of their economic activity in Minnesota
- 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.

REVENUE ANALYSIS DETAIL (continued)

- The estimate assumes that filed 1998 data represents collections in fiscal year 1998.
- 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.
- The FY 2002 estimate was increased by 30% to reflect the January 1, 2001, effective date.

Number of Taxpayer Affected: This bill has an overall effect of changing the tax liability, including both increases and decreases, on about 12,000 corporations.

Approximately 400 corporations would have tax changes greater than $50,000, including both tax increases and decreases. These corporations account for over 75% of the revenue change associated with the bill, and the average revenue change is approximately $250,000.

Effect of proposal on
Minnesota and Non-Minnesota Corporations
$(000's)

Fiscal Year	Minnesota Corporations	Non-Minnesota Corporations	Net Effect
2002	$(106,000)	$33,300	$(72,700)
2003	(90,100)	28,300	(61,800)
2004	(95,300)	29,900	(65,400)
2005	(101,200)	31,800	(69,400)

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational 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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