CORPORATION FRANCHSE TAX
SALES AND USE TAX
Airline Companies

April 30, 2003

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

Department of Revenue
Analysis of H.F. 1587 (Abrams), Analysis Revised for Amendment, April 29, 2003

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
	(000's)			
Corporation Franchise Tax	$0	$0	$0	$0
Sales and Use Tax	($900)	($1,000)	($1,030)	($1,070)
General Fund Total	($900)	($1,000)	($1,030)	($1,070)

Corporate tax change effective for taxable years beginning after December 31, 2003.
Sales tax changes effective for sales and purchases made after June 30, 2003.

EXPLANATION OF THE BILL

Current Law:
Corporation Franchise Tax: Under specified conditions, a corporation that operates a heavy aircraft maintenance base or an engine repair facility may take a credit against the corporate franchise tax of $5,000 for each full-time job at the facility. The credit can be claimed for the first five years of operation. If the credit exceeds a corporation's tax liability, the corporation may carry the credit forward for up to ten years. If the credits are not used after ten years, none of the dollar value of the balance of unused credits can be paid to the taxpayer.

Sales and Use Tax: Sales to airline companies of meals and beverages that are served to passengers on a complimentary basis are taxable if the items are prepared and taken on board in Minnesota. Complimentary meals and beverages flown into Minnesota from outside the state are not taxable. An air carrier may purchase beverages or food exempt as a sale for resale if they are sold to passengers on board. In those circumstances airlines remit Minnesota sales tax based on the ratio of miles flown over Minnesota to the company's total miles system wide.

Proposed Law:
Corporation Franchise Tax: The bill extends the carryover period from ten to twenty years. It also provides that any unused credits remaining after the carryover period be paid to the taxpayer.

EXPLANATION OF THE BILL (Cont.)

Sales and Use Tax: The bill exempts sales to and purchase, use or consumption by an airline company of prepared food and beverages that are prepared in Minnesota or shipped or brought into Minnesota by a for-hire carrier; kept, without use, for the purpose of being transported outside Minnesota; and used solely outside Minnesota except in the course of interstate commerce. **As amended,** the bill clarifies that the exemption applies only to food and beverages purchased by an air carrier for complimentary service to passengers. The exemption would not apply to food and beverages sold to passengers.

REVENUE ANALYSIS DETAIL

Corporation Franchise Tax:
- Any revenue impact from the extended carryover and refund provisions would be beyond fiscal year 2007.

Sales and Use Tax:
- The estimate was based on file data at the Tax Research Division and was adjusted to account for the April 29, 2003, amendment.
- The Department of Revenue interprets the bill as exempting prepared food and beverages on all flights except those which originate and terminate within Minnesota (e.g., Twin Cities to Duluth).
- It was assumed that the amount of Minnesota taxable prepared food and beverages is down by 35% compared with industry practices before September 11, 2001.
- The sales or purchase price of food and beverages served to passengers on intrastate flights was assumed to be negligible; thus, nearly all currently taxable airline food and beverages would become exempt under this bill.
- Growth was based on the projected annual gross domestic product price index as published by Global Insights, Inc., plus the projected annual growth in passenger volume at Minneapolis-St. Paul International Airport as provided by the Metropolitan Airports Commission.

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