MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
Leases with Tax-Exempt Entities

March 10, 2004

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

Department of Revenue
Analysis of H.F. 2263 (Abrams) Preliminary Analysis

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
	(000's)			
General Fund	$0	$3,200	$5,100	$6,600

Effective for leases and service contracts entered into after February 5, 2004, and for taxable years beginning after December 31, 2003.

EXPLANATION OF THE BILL

Proposed Law: Corporate taxpayers that have income and deductions from leases with tax-exempt entities (such as foreign and domestic municipalities and non-profit organizations) are restricted from reporting losses associated with these leases. Under the bill, corporate taxpayers can report deductions (mainly depreciation and interest) only if the income from such leases exceeds the deductions.

If the deductions exceed the income, the difference is taken as an addition to federal taxable income. The addition can be carried forward to a later taxable year and used as a subtraction to the extent that the income from the lease exceeds the deductions for that year.

REVENUE ANALYSIS DETAIL

- Estimates are based on revenue estimates published in February of 2004 by the U.S. Department of Treasury on a proposal similar to this bill.
- Minnesota's portion of federal estimates is assumed to be 0.75%.
- Federal revenue gains were converted to Minnesota revenue gains by using the ratio of the Minnesota corporate franchise tax rate to the federal corporate tax rate.
- The estimates were converted from federal to state fiscal years. Because the state adoption of this provision could not occur until the 2004 legislative session, it was further assumed that none of the impact for tax year 2004 would occur before FY 2005.

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

hf2263-1/dkd