MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
Leases with Tax-Exempt Entities

March 24, 2004

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

Department of Revenue
Analysis of H.F. 2263 (Abrams) Analysis Revised for Joint Committee on Taxation Estimates

	Revenue Gain or (Loss)			
	F.Y. 2004	F.Y. 2005	F.Y. 2006	F.Y. 2007
	(000's)			
General Fund	$0	$1,100	$1,800	$2,600

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

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 March 3, 2004, by the Joint Committee on Taxation for a proposal contained in the President's FY 2005 Budget Proposal which is similar to this bill.
- Minnesota's portion of federal estimates is assumed to be 0.75% which is lower than the 1.15% normally used. For a representative list of companies involved in lease transactions with transit systems, Department of Revenue records indicate that the average apportionment factor for the companies is less than 0.5%. This indicates a low participation by corporations that have nexus to Minnesota.
- 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. 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

hf2263-2/dkd