MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
100% Sales Weighting Election

March 8, 2004

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

Department of Revenue
Analysis of H.F. 2588 (Lenczewski)

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
		(000's)		
General Fund	($22,500)	($85,800)	($92,100)	($84,400)

Effective for tax years beginning after December 31, 2003.

EXPLANATION OF THE PROPOSAL

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 a 75% weight versus a 12.5% 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% of their property and payroll in Minnesota are allowed to apportion income based on a single factor of sales.

Proposed Law: The bill allows two methods for a corporation to apportion its income to Minnesota. A corporation may choose the 12.5%/ 12.5% / 75% weighting of the property, payroll and sales factors allowed under present law, or it may choose weighting based on a single factor, the sales factor.

Under this new option, the apportionment percentage is based a corporation's Minnesota sales as a percentage of its total sales. When all of the weighting is placed on the sales factor, the weighting method is called 100% sales weighting. This new option can be used for tax years beginning December 31, 2003. In order to use this option the taxpayer must make an irrevocable election filed with its original tax return for that year.

REVENUE ANALYSIS DETAIL

- The revenue estimate is based on data from returns received by the Department of Revenue in calendar year 2001. The model was adjusted to reflect changes in tax law made since that time.
- A program was run against corporate data to calculate the revenue effect from changing the current law weighting to 100% sales weighting for those corporations that would have tax deceases.
- The bill allows corporations to choose a method of apportionment weighting that is the most advantageous.
- 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 2004 forecast is used to project future revenue losses.
- Tax year revenue estimates are allocated to fiscal years using a 30% / 70% ratio.
- 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, but the adjustment was smaller than the adjustment used in other proposals to change the weighting of apportionment formula factors.

Number of Taxpayer Affected: This proposal has an overall effect of decreasing the tax liability on about 4,500 corporations. Every year approximately 50,000 corporate tax returns are filed with the Department of Revenue.

Approximately 130 corporations will have tax decrease greater than $100,000. These corporations account for over 72% of the revenue change associated with the proposal. The average tax decrease in this group of taxpayers is $500,000.

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

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