CORPORATE FRANCHISE TAX
Phase In of 100% Sales Weighting
Beginning in Tax Year 2005

March 26, 2004

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

Department of Revenue
Analysis of S.F. 2603 (Ortman) H.F. 2828 (Ruth)

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**F.Y. 2006**	**F.Y. 2007**
	(000's)			
General Fund	$0	($1,900)	($7,300)	($23,700)

Effective for tax years beginning after December 31, 2004, and fully phased in for tax years beginning after December 31, 2007.

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 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 changes the apportionment weighting percentages in a four step process to 100% sales weighting. Effective for tax years beginning after December 31, 2004, the weighting for the property and payroll factors would decrease and the weight on the sales factor would increase in (see table 1). In tax years beginning after December 31, 2007, the ratio of Minnesota sales to total sales would be the apportionment percentage. This 100% weighting is referred to as single sales factor weighting.

In addition, the special provision for mail order businesses would be repealed for tax years beginning after December 31, 2007.

Table 1. Weights of Property, Payroll and Sales Factors under the S.F. 2603 / H.F 2828

Time Period	Property	Payroll	Sales
Tax year beginning after 12/31/2004	11.0%	11.0%	78%
Tax year beginning after 12/31/2005	10.0%	10.0%	80%
Tax year beginning after 12/31/2006	5.0%	5.0%	90%
Tax year beginning after 12/31/2007	0.0%	0.0%	100%

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.
- Runs of tax calculation programs against corporate data were used to calculate the revenue effect from changing the current law weighting to the series of weightings shown in table 1.
- 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.
- If the bill were fully phased in for tax years beginning after December 31, 2004, the net effect would be a $43.7 million revenue loss in fiscal year 2005.

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

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