CORPORATE FRANCHISE TAX
Restrictions on the Use of Deductions and Credits

March 29, 2004

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

Department of Revenue
Analysis of S.F. 2801 (Anderson) **Preliminary Analysis**

	Revenue Gain or (Loss)			
	F.Y. 2004	**F.Y. 2005**	**FY2006**	**FY2007**
	(000's)			
General Fund	$0	$29,100	$31,500	$34,600

Effective for tax years beginning on or after January 1, 2004.

EXPLANATION OF THE BILL

Current Law: There are no restrictions on the use of deductions and credits associated with the removal of jobs from a location in the United States to a location outside the United States or with the creation of jobs outside the United States for goods or services that are to be consumed in the United States.

Proposed Law: The bill would restrict the deduction of expenses, disallow the research and development credit, alter the calculation of the NOL (net operating loss), and reduce the dividend received deduction if they are associated with the removal of jobs from a location in the United States to location outside the United States or they are associated with the creation of jobs outside the United States used in the production goods or services that are to be consumed in the United States.

REVENUE ANALYSIS DETAIL

- The bill would have a wide-ranging impact. The impacts of most measures in the bill are difficult to measure because they depend on estimating the number of jobs that have been relocated outside the United States.
- Large multinational corporations are the main users of the R & D credit. The restriction on the use of the R & D credit is based on a determination of whether a large multinational corporation has moved jobs to outside the United States or whether the multinational has created jobs outside the United States used for the production of goods or services that are to be consumed in the United States. By their very nature it is assumed all multinationals would meet the restrictions in the bill. If a corporation meets the restrictions, it can not claim an R & D credit.

REVENUE ANALYSIS DETAIL (cont.)

- The impact on the R & D credit is based on estimates published in the 2004 Minnesota Tax Expenditure Budget. It is assumed that 85% of the dollar value of the R & D credit would be disallowed by the bill.
- If one examines programming jobs – a small part of the jobs that have the potential to be located outside the United States – the denial of wage expense paid to programmers located outside the United is substantial. A February 2004 Forester study said 88,000 programming jobs have moved offshore. If one assumes the Minnesota portion of the total is 2% and the average wage is 30% less than a $60,000 salary paid to a United States based programmer, the wage expense is $73 million. The addition tax from the denied deduction is $7.2 million.
- Various sources estimate a 30% growth rate of jobs outsourced to locations outside the United States
- A preliminary estimate was made because further research needs to be done to determine the full impact of the bill

Number of Taxpayers Affected: Unknown

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

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