CORPORATE FRANCHISE TAX
100% Sales Weighting Phase-In

April 3, 2006

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3753 (Abrams) / S.F. 3407 (Rest)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
	(000's)			
General Fund	$0	($1,700)	($12,200)	($30,400)

Effective for tax years beginning after December 31, 2006.

EXPLANATION OF THE BILL

Current Law: The 2005 legislature enacted a phase-in to 100% sales weighting beginning in tax year 2007. Over a period of eight years, the weighting for the property and payroll factors decreases, and the weighting for the sales factor increases from the prior law base of 75% to 100%. When fully phased-in, the ratio of Minnesota sales to total sales will be the apportionment percentage. This 100% weighting is called single sales factor weighting, and it will be fully phased-in during fiscal year 2015.

Proposed Law: Beginning with tax year 2007, the bill accelerates the eight year phase-in period to a three year phase-in period. During the phase-in, the weight of the sales factor will increase from 75% to 100%. Full phase-in occurs during fiscal year 2010, five years earlier than under present law. (Analysis assumes the weights for tax year 2008 should be 90%, 5%, and 5%.)

Sales Weighting Under Present Law and Proposed Three Year Phase-In by Tax Year

	Current Law	Proposal
Tax year 2007	78%	80%
Tax year 2008	81%	90%
Tax year 2009	84%	100%
Tax year 2010	87%	100%
Tax year 2011	90%	100%
Tax year 2012	93%	100%
Tax year 2013	96%	100%
Tax year 2014 and after	100%	100%

REVENUE ANALYSIS DETAIL

- The revenue estimate is based on data from returns received by the Department of Revenue in calendar year 2003.
- A program was run against corporate data to calculate the revenue effect from changing the current law weighting to an accelerate phase-in 100% sales weighting.
- 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 2006 forecast is used to project future revenue losses.
- A change in corporate tax collections is assumed to start in fiscal year 2007.
- 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.
- Tax year impact was allocated 30/70 to fiscal years.

Number of Taxpayers: This bill has an overall effect of changing the tax liability, including both increases and decreases, on about 9,000 corporations. Every year approximately 50,000 corporate tax returns are filed with the Department of Revenue.

When fully phased-in, approximately 200 corporations will have tax changes greater than $100,000, including both increases and decreases. These corporations account for about 65% of the revenue change associated with the bill. Those with large tax decreases will have an average decrease of $500,000, and those with large tax increases will have an average tax increase of $300,000.

Effect of H.F. 3753 / S.F 3407 on Minnesota and Non-Minnesota Corporations

($000's)

Fiscal Year	Minnesota Corporations	Non-Minnesota Corporations	Net Effect
2006			
2007	(2,000)	300	(1,700)
2008	(14,800)	2,600	(12,200)
2009	(37,800)	7,400	(30,400)

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