CORPORATE FRANCHISE TAX
100% Sales Weighting

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

March 30, 2005

Department of Revenue
Analysis of S.F. 61 (Cohen)
Analysis Revised for February 2005 Forecast and Correction of Fiscal Year Allocation

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
	(000's)			
General Fund	($74,900)	($55,900)	($56,100)	($57,300)

Effective for tax years beginning after December 31, 2004.

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 weights on the property and payroll factors would decrease to 0% and the weight on the sales factor would increase from 75% to 100%. 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In addition, the special provision for mail order businesses would be repealed.

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 100% sales weighting.

REVENUE ANALYSIS DETAIL (Continued)

- No change in revenue is assumed from corporations that have 100% of their economic activity in Minnesota.
- **For the revised estimates**, growth in overall corporate tax collections as projected by the Department of Finance in the February 2005 forecast is used to project future revenue losses.
- A change in corporate tax collections is assumed to start in fiscal year 2006.
- **For the revised estimates**, due to the tax year 2005 effective date, the tax year 2005 impact that would normally occur in fiscal year 2005 was shifted to fiscal year 2006. Generally, tax year impact is allocated 30%/ 70% to fiscal years.
- 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.

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.

Approximately 200 corporations will have tax changes greater than $100,000 (this includes both tax increases and decreases.) These corporations account for about 65% of the revenue change associated with the bill. The average tax decrease in this group of taxpayers is $500,000 and the average tax increase is $300,000.

Effect of S.F. 645 / H.F 760 on Minnesota and Non-Minnesota Corporations

($000’s)

Fiscal Year	Minnesota Corporations	Non-Minnesota Corporations	Net Effect
2006	(93,100)	18,200	(74,900)
2007	(69,500)	13,600	(55,900)
2008	(69,700)	13,600	(56,100)
2009	(71,200)	13,900	(57,300)

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

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