MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
100% Sales Weighting Phase-In

April 5, 2007

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1883 (Bunn)/ S.F. 2072 (Bonoff)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
General Fund	($4,300)	($16,000)	($21,300)	($25,700)

Effective for tax years beginning after December 31, 2007.

EXPLANATION OF THE BILL

Current Law: In 2005 Minnesota law was changed to phase in an increase in the weighting of the sales factor of the apportionment formula to 100%, 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 by tax year 2014.

Proposed Law: Beginning with tax year 2008, the bill accelerates the eight year phase-in period to a five year phase-in period. During the phase-in, the weight of the sales factor will increase from 75% to 100%. Full phase-in occurs by tax year 2011, three years earlier than under present law.

Sales Weighting Under Current Law and Proposal by Tax Year

	Current Law	**Proposal**
Tax year 2007	78%	78%
Tax year 2008	81%	85%
Tax year 2009	84%	90%
Tax year 2010	87%	95%
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 2005.
- A program was run against corporate data to calculate the revenue effect from changing the current law weighting to an accelerated phase-in to 100% sales weighting.
- No change in revenue is assumed for 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 2007 forecast is used to project future revenue losses.
- 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 years were 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 10,000 corporations.

When fully phased-in, approximately 200 corporations will have tax decreases greater than $100,000, and approximately 100 corporations will have tax increases greater than $100,000. Those with tax decreases greater than $100,000 account for 80% of the tax decrease associated with the bill. Whereas those with tax increases greater than $100,000 account for 50% of the tax increase associated with the bill. Corporations with tax decreases greater than $100,000 will have an average decrease of $500,000, and corporations with tax increases greater than $100,000 will have an average tax increase of $300,000.

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

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