MINNESOTA · REVENUE

CORPORATE FRANCHASE TAX
INDIVDUAL INCOME TAX
Nexus Exception for Qualified High Technology Business

March 31, 2008

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3101 (Moua), 1st Engrossment

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
	(000's)			
General Fund	$0	($200)	($300)	($400)

Effective beginning with tax year 2008.

EXPLANATION OF THE BILL

In order to be subject to taxation, a non-resident individual or a corporation must have a minimum amount of economic connections to Minnesota or nexus. Under the bill if the taxpayer's only connection to Minnesota is an interest in qualified high technology business, no nexus would be created. Since no nexus is created, the taxpayer would not be subject to tax.

A qualified high technology business must conduct business in a qualifying high technology field, including but no limited to: aerospace, agricultural processing, alternative energy, biotechnology, defense, drug delivery, environmental engineering, food technology, cellulosic ethanol, information technology, green manufacturing, materials science technology, medical devices, nanotechnology, pharmaceutical technology, and telecommunications**.** The bill also includes a list of activities such as real estate where the business must not be engaged. A qualified business must have its headquarters in Minnesota, and it must have no more than 25 Minnesota full-time employees and less than $1 million in net income in the preceding tax year.

REVENUE ANALYSIS DETAIL

- The nexus exception would cover taxpayers whose only connection to Minnesota is an investment in a qualified high technology business. Other taxpayers who have other investments in Minnesota that give them nexus in Minnesota and an investment in a qualified high technology business would be unaffected. They already have nexus in Minnesota.
- Investments in a qualified high technology business are assumed to come from three sources: friends and family of the owners of the business, the so-called angel investment groups, and venture capital groups.
- Estimates are based on the published industry reports on the amount of venture capital invested in Minnesota. A fraction of the venture capital invested is assumed to qualify for the nexus exception. The initial rate of return on the qualifying investments is assumed to be only five percent. In future years the rate of return is assumed to grow.
- The exemption from the nexus rules is permanent. Because the exception would be based on the business qualifying when the person acquired the interest, the potential amount of revenue loss could be very large in the future if capital is invested in a very successful business.

REVENUE ANALYSIS DETAIL (Cont.)

Number of Taxpayers: Unknown

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

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