

# MINNESOTA • REVENUE

## GROSS PREMIUM TAX Small Business Investment Credit

March 25, 2008

Department of Revenue  
Analysis of S.F. 3271 (Bakk) 1<sup>st</sup> Engrossment

|                                  | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | X   |    |

|              | <u>Fund Impact</u> |                  |                  |                  |
|--------------|--------------------|------------------|------------------|------------------|
|              | <u>F.Y. 2008</u>   | <u>F.Y. 2009</u> | <u>F.Y. 2010</u> | <u>F.Y. 2011</u> |
| General Fund | \$0                | \$0              | \$0              | \$0              |

Credit is effective beginning with tax year 2013.  
Provisions relating to investments effective the day following final enactment.

### EXPLANATION OF THE BILL

A nonrefundable credit against the gross premium tax would be allowed for investments made to a Minnesota small business investment company. The primary purpose of a Minnesota small business investment company is to invest its capital in a qualified business. A qualified business must be independently owned and have no more than 100 employees. Also the bill restricts the primary activity of businesses that may be classified as a qualified business.

Provided that Minnesota small business investment companies are set up soon after enactment, an insurance company could make investments as soon as tax year 2009. Regardless of when the investments are made, no tax credits can be claimed until tax year 2013. The credit is equal to 80% of insurance company investments in a Minnesota small business investment company. The credit is taken in equal parts over a period of four years. When the credit exceeds tax, the credit is carried over to the next tax year. There is no limit on the number of years that the credit may be carried forward.

If an insurance company is domiciled in a state that imposes retaliatory taxation and claims the tax credit, no retaliatory taxation can be imposed on the insurance company. Insurance companies domiciled in states other than Hawaii, Massachusetts, New York, New Mexico, and Rhode Island are subject to retaliatory taxation. Under retaliatory taxation an insurance company pays a gross premium tax equal to the greater of the tax computed under Minnesota law or the tax computed under laws where the company is domiciled.

Under current law, income earned by insurance companies is exempt from the corporate income tax. If the corporate income tax were reinstated with a premium tax credit, the premium tax credit would be based on the premium tax before the small business investment credit.

The bill has a limitation on the total amount of tax credit of \$80 million.

**REVENUE ANALYSIS DETAIL**

- No revenue impact is shown for fiscal years 2008-2011. Any revenue loss associated with this credit would begin in fiscal year 2013. The maximum amount of revenue loss in fiscal year 2014 could be as high as \$20 million.

**Number of Taxpayers:** Unknown

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

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