

MINNESOTA • REVENUE

CORPORATE FRANCHISE TAX Reduction of Corporate Tax to 4.9%

January 18, 2011

State Taxes Only – See Separate Analysis for Property Tax Provisions

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 1 (Michel) Article I, Sections 3 and 4

	<u>Fund Impact</u>			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
		(000's)		
General Fund	(\$24,500)	(\$104,300)	(\$181,800)	(\$230,100)

Effective beginning with tax year 2012.

EXPLANATION OF THE BILL

Current Law: Under current law the corporate franchise tax rate is 9.8%.

Proposed Law: The bill reduces the corporate franchise tax rate to 4.9% over a period of six years. The corporate tax rate is first reduced to 8.8% in tax year 2012, and it is reduced between 0.5% - 1.0% per each year until tax year 2017. In tax year 2017 the rate is reduced to 4.9%. The rate of the alternative minimum tax (AMT) is reduced from 5.8% to 2.9% over six years. The minimum fee would not be changed.

Table1. Six-Year Phase-In Schedule

Tax Year	Proposed Regular Tax Rate	Proposed AMT Tax Rate
2012	8.8%	5.2%
2013	7.8%	4.6%
2014	7.3%	4.3%
2015	6.8%	4.0%
2016	5.8%	3.4%
2017 and after	4.9%	2.9%

REVENUE ANALYSIS DETAIL

- Estimates are based on the November 2010 forecast.
- Under present law the ratio between the AMT rate of 5.8% and the regular tax rate of 9.8% is about 59%. During the phase in to a 4.9% tax rate, the AMT tax rate would be reduced proportionately. Therefore no adjustment is necessary to reflect increased AMT tax collections.

REVENUE ANALYSIS DETAIL (Continued)

- The estimates assume no interaction with the individual income tax. Income would be subject to a lower rate under the corporate franchise tax than under the individual income tax. This could provide an incentive for some taxpayers to run the activities of a non-incorporated business through a C corporation. This incentive could increase if federal changes affected the level of tax on corporations compared to individuals. A reduction in individual income tax collections could be possible due to its interaction with this proposal.
- Tax year impacts were allocated 30/70 to fiscal years.
- The 4.9% tax rate fully affects collections beginning in fiscal year 2018.

Number of Taxpayers: About 50,000 corporations are subject to the corporate franchise tax.

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