MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
Various Provisions

February 13, 2012

	Yes	No
DOR Administrative Costs/Savings	X	

State Taxes Only – See Separate Analysis for Property Tax and Local Aid Provisions

Department of Revenue
Analysis of H.F. 1914 (Davids) As Amended by H1914A14

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
		(000's)		
FOC Repeal	$0	$36,500	$29,100	$30,700
Tax Havens	$0	$17,600	$13,300	$14,200
Definition of Minnesota Sales for Unitary Groups	$0	$26,000	$20,000	$20,000
Increased Standard Deduction for Married Filers	$0	($62,400)	($63,300)	($65,900)
General Fund Net Impact	$0	$17,700	($900)	($1,000)

Effective beginning with tax year 2012.

EXPLANATION OF THE BILL

FOC Repeal
The bill would repeal the foreign operating corporation (FOC) provisions. Under current law, 80% of FOC income is eligible to be claimed as a dividend received deduction. Under the bill, FOC income would be ineligible to be claimed as a dividend received deduction.

Tax Havens
Under current law, only corporations chartered in the United States are included in the unitary group. Corporations chartered in foreign countries are excluded from the unitary group. The bill would require foreign corporations chartered in any one of thirty-four specified countries to be included in the unitary group. Corporations charted in the list of thirty-four countries are classified as tax haven countries.

Definition of Minnesota Sales for Unitary Groups
The bill would change the measurement of Minnesota sales made by a unitary group. Multiple related corporations that operate as a single economic unit are called a unitary group.

The measurement of Minnesota sales is an important part of the process of computing the apportionment percentage. The ratio of Minnesota sales to total sales is the sales ratio. Along with the property and payroll ratios, the sales ratio is one of the three ratios used to compute the apportionment percentage. The contribution of the property and payroll ratios is decreasing due to the phase-in to 100% sales weighting in tax year 2014.

EXPLANATION OF THE BILL (Cont.)

For the purposes of computing the apportionment percentage, current law measures Minnesota sales as from all corporations in the unitary group that have nexus with Minnesota. Nexus is generally created by the presence of Minnesota property and payroll.

Unitary groups can be structured so that one corporation in the unitary group has only Minnesota property and payroll and no Minnesota sales and a second corporation only has Minnesota sales. Under current law because the second corporation in a unitary group has no nexus to Minnesota, its Minnesota sales are excluded from the apportionment percentage calculation.

Under the bill, if any corporation in the unitary group has nexus with Minnesota, all Minnesota sales would be included in the apportionment percentage calculation. Minnesota sales could not be excluded from the apportionment percentage calculation because the sales are isolated in one corporation with only Minnesota sales and no nexus with Minnesota.

Increased Standard Deduction for Married Filers
Minnesota has not adopted the federal law change which increased the standard deduction for married filers for tax years 2011 and 2012. Because the federal standard deduction was not adopted, an addition is required on the state return equal to the difference between the two amounts for 2012, as occurred on the tax year 2011 return. The difference between the state and federal standard deduction also affects the computation of the marriage credit and the calculation of the addition for itemized state income taxes. After 2012, federal law reverts to pre-2011 provisions and addbacks are not necessary.

Under the bill, for tax year 2012, Minnesota would conform to federal law, so no addback would be necessary for married filers who used the standard deduction. The higher federal standard deduction would also be reflected in the calculation of the marriage credit and the addition for itemized state income taxes.

For tax year 2013 and after, Minnesota would set the standard deduction for married filers by reference to the federal standard deduction for single filers. Married taxpayers filing separately would have a standard deduction equal to that of single filers, while married couples filing jointly would have a standard deduction equal to twice that allowed to single filers. In each of these cases the standard deduction would be larger than current federal law allows, so married filers who used the standard deduction would have a subtraction from federal taxable income. The higher standard deduction would also be reflected in the calculation of the marriage credit and the addition for itemized state income taxes.

REVENUE ANALYSIS DETAIL

FOC Repeal

- The estimates are based on corporate income tax data received in calendar year 2010. This is the latest available data.
- The revenue estimate is adjusted downward to reflect the effect of the phase-in to 100% sales weighting in tax year 2014.
- The growth in revenue gain is assumed to match the growth of corporate franchise tax collections in the November 2011 revenue forecast.
- All of tax year 2012 is allocated to fiscal year 2013. Other tax years are allocated 30/70 to fiscal years.
- About 200 unitary groups use the FOC provisions under current law.

Tax Havens

- The estimate for tax havens is based on the experience of Montana with a similar law.

Definition of Minnesota Sales for Unitary Groups

- Estimates are based on analysis of filed 2007 data. The tax was recomputed on unitary groups likely to be affected by the proposal.
- All of tax year 2012 is allocated to fiscal year 2013. Other tax years are allocated 30/70 to fiscal years.

Increased Standard Deduction for Married Filers

- The House Income Tax Simulation Model (HITS 6.0) was used to estimate the revenue impact. These simulations assume the same economic conditions used by Minnesota Management and Budget for the forecast published in November 2011. The model uses a stratified random sample of tax year 2009 individual income tax returns compiled by the Minnesota Department of Revenue.
- Tax year impacts were allocated to the following fiscal year.
- For tax year 2012, an estimated 563,000 would have a decrease in tax at an average of $112.50 per return. An estimated 76,000 returns would have an increase in tax at average of $12 per return. The increase in tax for some returns is due to the impact of the increased married-joint standard deduction on the calculation of the marriage credit.

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

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