CORPORATE FRANCHISE TAX
FOC and Foreign Royalty Provisions

March 16, 2012

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2886 (Marquart) / S.F. 2479 (Marty)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
		(000's)		
Reduction of Foreign Royalty Subtraction	$0	$30,100	$39,800	$41,100
Reduction of FOC Provisions	$0	$10,300	$14,000	$14,600
General Fund Total	$0	$40,400	$53,800	$55,700

Effective beginning with tax year 2012.

EXPLANATION OF THE BILL

Reduction of the Foreign Royalty Subtraction
Under current law, a subtraction allows 80% of foreign royalties to be exempt from taxation. Under the bill, the subtraction is reduced so that 62% of foreign royalties is exempt from taxation in tax year 2012 and 39% is exempt in 2013 and later years.

Reduction of the FOC Provisions
The bill would reduce the foreign operating corporation (FOC) provisions in current law. Under current law, 80% of FOC income is eligible to be claimed as a dividend received deduction. Under the bill, 62% of FOC income would be eligible to be claimed as a dividend received deduction in tax year 2012 and 39% would be eligible in 2013 and later years.

REVENUE ANALYSIS DETAIL

- The estimates are based on model runs on the latest available corporate franchise tax data from returns received in calendar year 2010.
- The revenue estimates are adjusted downward to reflect the effect of the phase-in to 100% sales weighting in tax year 2014.
- The revenue gain is assumed to match the growth of corporate franchise tax collections in the February 2012 revenue forecast.
- All of tax year 2012 was allocated to fiscal year 2013. Other tax years were allocated 30/70 to fiscal years.

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

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