

March 6, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1829 (Schultz)

	Fund Impact			
	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
			(000's)	
General Fund	\$6,300	\$9,000	\$12,500	\$12,500

Effective beginning with tax year 2019.

EXPLANATION OF THE BILL

Current Law: The mutual fund industry is organized so that there is separation between the capital that a mutual fund holds and the services needed to operate the fund. Mutual fund service providers (MFSPs) are hired by a mutual fund. A mutual fund pays a MFSP to provide a wide range of services, including distribution, administration, and fund management.

If the MFSP is a corporation, current law sources the receipt of MFSP services to the location of the owners of the fund. The income of an MFSP is apportioned to Minnesota based on the portion of the mutual fund's assets owned by Minnesota residents.

However, under current law, if the MFSP is an entity other than a corporation, the income of an MFSP is apportioned to Minnesota based on the location of the fund. If the mutual fund is located in Minnesota, 100% of its income is apportioned to Minnesota. If the mutual fund is located outside Minnesota, none of its income is apportioned to Minnesota.

Proposed Law: Under the bill, the income of an MFSP, regardless of the type of entity, would be apportioned to Minnesota based the portion of the mutual fund's assets owned by Minnesota residents.

REVENUE ANALYSIS DETAIL

- From an analysis of data prepared by the corporate division, MFSPs who operate as a partnership control an estimated 20% of all assets under management by mutual funds.
- The bill affects both out-of-state and mutual funds with a large Minnesota presence. The full impact of the proposal would take place over a period of three years. The revenue impact would be delayed due to MFSPs that are currently not filing tax returns because their associated mutual fund is located outside Minnesota.

Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research/stats/Pages/Revenue-Analyses.aspx