DEPARTMENT OF REVENUE

CORPORATE FRANCHISE TAX
Dividend Received Deduction

March 19, 2019

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2530 (Schultz)

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
	(000's)			
General Fund	$30	$100	$100	$100

Effective beginning tax year 2020.

EXPLANATION OF THE BILL

Current Law: In general, the dividend received deduction allows either 70% or 80% of taxable dividends to be exempt from taxation. The percentage of income excluded from taxation depends on how much of the total stock is owned by the corporation that receives the dividend. In addition, with debt-financed stock the purchaser is allowed to deduct interest on the debt used to purchase the stock.

The resulting combination of the interest deduction and the dividend received deduction can provide an unintended further lowering of the tax on dividend income and, in some cases, can be used to reduce or eliminate other unrelated income from taxation.

Proposed Law: The bill would put into Minnesota law a federal tax law provision that reduces the dividend received deduction if the purchase of the stock is debt financed. The debt-financed provision applies to stock defined as portfolio stock.

Under the bill, the dividend received deduction percentage is reduced by the average indebtedness percentage. If 100% of the stock is debt financed (i.e., the average indebtedness percentage is 100%), the dividend received deduction percentage is reduced to 0%. If the dividend received deduction percentage is 80% and 50% of the stock is debt-financed, the dividend received deduction percentage is reduced to 40%.

There is also a dollar limitation on the reduction of the dividend received deduction. The dividend received deduction cannot be reduced by more than the dollar value of the interest deduction associated with the purchase of the stock.

REVENUE ANALYSIS DETAIL

- The reduction of the dividend received deduction affects only domestic dividends.
- Data published by the federal government shows less than 2% of domestic dividends are from debt-financed stock. The estimate apportions these dividends to Minnesota. The estimate assumes a 50% reduction in the dividend received deduction.
- Thirty percent of tax year 2019 revenue gain is allocated to fiscal year 2020. Other tax years were allocated 30/70 to fiscal years.

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

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