DEPARTMENT OF REVENUE

CORPORATE FRANCHISE TAX
Dividend Received Deduction

March 27, 2019

Revised to Correct General Fund Impacts

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2706 (Loeffler)

	Fund Impact			
	F.Y. 2020	**F.Y. 2021**	**F.Y. 2022**	**F.Y. 2023**
	(000's)			
General Fund	$3,300	$2,500	$2,500	$2,500

Effective beginning with tax year 2019.

EXPLANATION OF THE BILL

Current Law: Corporate franchise taxpayers may claim a deduction for dividends received from another corporation. The amount of the dividend received deduction (DRD) depends on the ownership stake of the recipient. If the recipient owns 20% or more of the stock of the paying corporation, then the DRD is 80% of the dividends received. If the recipient owns less than 20% of the stock of the paying corporation, then the DRD is 70% of the dividends received. Dividends are deductible only to the extent they are included in income apportioned to Minnesota.

Proposed Law: The proposal reduces the DRD rate for 20% or more owners from 80% to 78%. The rate for other owners is reduced from 70% to 68%.

REVENUE ANALYSIS DETAIL

- The estimate is based on information from corporate franchise tax returns.
- Current DRDs are estimated at about $85.0 million per year.
- The average DRD rate is estimated to be 75%.
- The proposal would reduce DRDs by about 2.7%.
- All of the tax year 2019 revenue gain is allocated to fiscal year 2020. Other tax years were allocated 30% / 70% to fiscal years.
- Growth is based on the February 2019 corporate franchise tax forecast.

Number of Taxpayers: About 6,700 taxpayers.

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

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