HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 2432 **DATE:** March 5, 2004

Version: As amended with author's amendment (H2432A1)

Authors: Lenczewski

Subject: Corporate Franchise Tax - Single Sales Apportionment

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Overview

This bill phases-in single sales apportionment under the corporate franchise tax over five years.

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1 **Phase-in of single sales apportionment.** Replaces the present weighted apportionment formula with single sales apportionment over a 5-year period. The table below shows the phase-in.

Tax year	Sales factor	Property factor	Payroll factor
Present law	75	12.5	12.5
2004	80	10	10
2005	85	7.5	7.5
2006	90	5	5
2007	95	2.5	2.5
2008 and later	100	0	0

2 **Apportionment financial institutions.** Adopts the same phase-in formula of single sales for financial institutions as is provided under section 0.

Background: Apportionment using more heavily weighted sales factor (or exclusively sales) will generally lower taxes for a corporation whose Minnesota sales factor is lower than the average of its property and payroll factor. Thus, corporations with proportionately larger operations (property and payroll) in Minnesota than their sales (i.e., they export or sell their products outside of Minnesota) will tend to benefit. Conversely, the bill will increase taxes

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on corporations with the reverse situation-i.e., proportionately more of their sales than of their property and payroll in Minnesota.