

March 5, 2024

**To** Tax committee members  
**From** Chris Kleman, Legislative Analyst  
Sean Williams, Legislative Analyst  
**Subject** State corporate franchise tax information

## Executive summary

This memo contains supplemental information about Minnesota’s corporate franchise tax and taxable dividend income, as requested by Chair Gomez. The memo covers the following information:

- recent significant changes to Minnesota’s corporate franchise tax;
- data on the distribution of corporate franchise tax paid;
- the income distribution of taxable dividend income among Minnesota resident returns; and
- data on the effective tax rates paid by corporations paying Minnesota’s corporate franchise tax.

## Recent significant changes to Minnesota’s corporate franchise tax

Below are the more significant changes to Minnesota’s corporate franchise tax going back to 2014.<sup>1</sup>

- The 2005 legislature enacted a governor’s recommendation to adopt an eight-year phase-in of 100% sales apportionment. By tax year 2014, 100% sales apportionment had been fully phased in by the legislature.
- In 2019, the legislature partially conformed to the federal Tax Cuts and Jobs Act (TCJA) and adopted a number of base-broadening provisions relating to the business interest deduction, net operating loss limits, and employer deduction limits, but did not adopt the base-broadener provisions relating to foreign income.
- In 2023, the legislature adopted part of the TCJA’s approach to taxing global intangible low-taxed income (GILTI), by requiring a portion of that income to be included in a corporation’s taxable income.

In addition, the 2023 legislature lowered the corporate dividend received deduction

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<sup>1</sup> For a more complete list of the history of changes to this tax, see the “Historical Highlights” section of the House Research Tax overview handout on pages 47 – 48, available at:  
<https://www.house.mn.gov/hrd/issinfo/2023TaxesHandout.pdf>.

(DRD) from 80%/70% to 50%/40%, and lowered the taxable income threshold for net operating losses (NOLs) from 80% to 70%.

### Distribution of the corporate franchise tax paid

For returns filed in 2014 to 2022, the number of corporate franchise tax returns filed in Minnesota ranged from 31,133 to 36,897 (representing 53,099 to 62,377 legal entities). However, a significant share of the total corporate franchise tax is paid by the largest corporations paying the tax. The table below shows the percentage of the total corporate franchise tax paid by the top 10, 50, and 100 corporations in terms of state franchise tax paid.

### Share of corporate franchise tax paid by the 10, 50, and 100 corporations paying the most tax

Returns filed 2014-2022

Return filed year	Total returns filed	Total corporate franchise tax liability	% of tax paid by the 10 corporations paying the most tax	% of tax paid by the 50 corporations paying the most tax	% of tax paid by the 100 corporations paying the most tax
2014	34,654	\$1,204,114,621	22.6%	41.8%	52.5%
2015	34,497	\$1,172,075,763	17.1%	37.4%	49.3%
2016	34,580	\$1,177,220,217	17.0%	38.3%	49.6%
2017	33,133	\$1,029,959,496	15.8%	35.1%	47.1%
2018	34,455	\$1,016,449,688	17.8%	37.4%	48.7%
2019	34,600	\$1,515,039,967	20.7%	42.7%	53.5%
2020	34,736	\$1,527,123,610	21.0%	41.6%	52.2%
2021	35,531	\$1,623,980,510	19.0%	38.0%	48.6%
2022	36,897	\$2,182,462,895	17.4%	37.1%	48.2%

Source: Estimates from Department of Revenue Research Department.

### Estimates of taxable dividends

Corporations make distributions of profits to their shareholders in the form of dividends. Dividend income is generally taxable to the individual receiving the dividend—a taxpayer may qualify for a reduced federal rate depending on how long the taxpayer held the stock generating the dividend. All dividends are taxed as ordinary income for state income tax purposes.

The only data on dividends available to House Research is from the 2021 sample of income tax returns. The sample only includes data on *taxable dividends paid to individuals*. As a result, the data below does not include:

- Nontaxable dividends paid to individuals in tax-preferenced accounts, such as retirement accounts or college savings plans.
- Dividends paid from one corporation to another corporation.

### Income distribution of Minnesota resident returns reporting taxable dividends

Tax year 2021, resident returns only

Income (FAGI)	Dividends (\$1,000)	% of Total dividends	% of Returns reporting dividend income
Below \$0	32,342	0.6%	15.4%
\$0 to \$50,000	260,999	4.6%	12.0%
\$50,000 to \$75,000	272,962	4.8%	20.9%
\$75,000 to \$100,000	280,962	4.9%	29.2%
\$100,000 to \$150,000	538,171	9.5%	36.7%
\$150,000 to \$200,000	493,021	8.7%	48.5%
\$200,000 to \$250,000	415,910	7.3%	60.0%
\$250,000 to \$300,000	273,813	4.8%	65.7%
\$300,000 and greater	3,110,449	54.8%	76.8%
<b>Total</b>	<b>5,678,628</b>	<b>100.0%</b>	<b>24.8%</b>

Source: House Research analysis of 2021 income tax sample.

### Estimates of the effective corporate franchise tax rate

An ideal measure of effective tax rate could compare the tax paid by C corporations relative to their income. This presents several challenges when calculating the effective tax rate of the state corporate franchise tax.

- To calculate a state effective tax rate, you would need to compare state tax paid relative to income attributable to Minnesota. For the purposes of this analysis, income is apportioned to Minnesota based on the corporation's sales ratio.
- Second, the Department of Revenue Research Department's ability to easily pull data on corporate franchise tax returns is limited by the information reported on state tax forms. This means that the measure of "income" used for an effective tax rate calculation will be the income after certain federal deductions (e.g. depreciation) that will artificially reduce the income total and inflate the effective tax rate.
- Third, for returns due in 2014 to 2021, only 41-46% of C corporations reported positive net income. Including corporations with negative incomes will artificially reduce the income total and inflate the estimate of tax paid as a percentage of income.

Revenue research was able to provide the following estimates of the effective corporate franchise tax rates from 2014 to 2021. The data presented in the table below uses taxable net income (after apportionment) as the measure of income, and is limited to returns with positive net tax liability.

### Corporate franchise tax, estimated effective tax rate

Returns due 2014-2021

Year return was due	Returns with positive liability <sup>2</sup>	Total net corporate franchise tax liability <sup>3</sup>	Total net taxable income <sup>4</sup>	Estimated effective tax rate
2014	27,141	\$1,196,679,549	\$15,293,290,310	7.82%
2015	26,416	\$1,192,949,691	\$15,379,083,851	7.76%
2016	26,212	\$1,161,529,009	\$14,727,562,483	7.89%
2017	25,590	\$1,149,483,081	\$14,491,018,612	7.93%
2018	24,707	\$1,008,688,202	\$12,766,891,499	7.90%
2019	26,272	\$1,500,369,038	\$20,816,926,583	7.21%
2020	26,590	\$1,652,817,808	\$19,911,425,374	8.30%
2021	25,938	\$1,727,248,656	\$20,489,700,609	8.43%

Source: Estimates from Department of Revenue Research Department.

The difference between the effective tax rate and the statutory rate of 9.80% is the result of state subtractions and credits, including deductions for net operating losses and dividends received, the AMT credit, research credit, credit for employer transit passes, and other state corporate tax expenditures.

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<sup>2</sup> Return counts reflect the number of legal entities—for unitary returns each corporation in a unitary group is counted separately.

<sup>3</sup> Amounts reported on line 22 of the 2020 M4T.

<sup>4</sup> Amounts reported on line 5 of the 2020 M4T.