HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 613 DATE: April 6, 1999

Version: With Author's Amendment

Authors: Abrams

Subject: Corporate Franchise Tax Business Income Election

Analyst: Joel Michael, 651-296-5057

This publication can be made available in alternative formats upon request. Please call 651-296-6753 (voice); or the Minnesota State Relay Service at 1-800-627-3529 (TTY) for assistance. Summaries are also available on our website at: www.house.mn/hrd.

Overview

This bill allows corporations to elect to treat all of their income as business income. Business income is apportioned under the three factor formula, while nonbusiness income is assigned an fully taxed to the state of domicile. (This election would only be attractive to Minnesota domiciled corporations, since it allows full taxation in Minnesota of non-business income.) The bill also prohibits the commissioner of revenue from adjusting the tax of corporations who treated all of their income as business income for tax years before 1999.

- Election, business income. Authorizes corporations to elect to treat all income as business income. This election is an irrevocable election for a ten year period and applies to all members of the unitary group. Business income is apportioned using the three factor formula, while non-business income is apportioned to the state of commercial domicile. Thus, this will permit corporations domiciled in Minnesota to make an election that all of their income will be apportioned (i.e., partially taxed by Minnesota) and not assigned or allocated (i.e., taxed in full by Minnesota if the corporation has its domicile in Minnesota).
- **Pre-1999 return.** Prohibits the commissioner of revenue from treating business income on a return as non-business income, if the taxpayer reported all of its income as business income for a tax year before 1999. However, this requirement to report all income as business income does not apply to items which the constitution would not permit to be treated as business income (e.g., that the *Allied Signal* case would consider to be nonbusiness income).
- **Effective date.** Provides the election is effective for tax year 1999, while section 2 applies to tax years before 1999, except to the extent that items carryover to a later tax year.