

HOUSE RESEARCH

Bill Summary

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Overview

This bill allows S corporation banks to qualify for pass through taxation, conforming to the treatment under the federal income tax.

Section

- 1 **S corporation banks, franchise tax.** Repeals the corporate franchise tax that applies to financial institutions that have elected S corporation status for federal income tax purposes.
- 2 **Repealer.** Repeals the credit for corporate taxes paid by S corporation financial institutions and the reporting requirement for the corporate tax on S corporations. Section 1 repeals the corporate tax that applies to S corporation banks. After repeal of the corporate level tax, the credit and reporting requirements would be obsolete.
Background. Before 1997, federal law did not permit financial institutions to elect S corporation status. The Small Business Job Protection Act of 1996 permitted financial institutions to elect S corporation status. Minnesota did not conform to this federal law and continued to impose both entity level taxes (i.e., the corporate franchise tax) and shareholder taxes on dividends distributed. In 1999, Minnesota moved to partial conformity by allowing the shareholder a credit for 80 percent of the entity level taxes paid.
Under this tax regime, Minnesota law imposes an entity level (i.e., corporate franchise) tax on S corporation financial institutions. The corporation reports this amount to its shareholders. The shareholders claims a credit for 80 percent of this tax as a credit against their individual income tax liability.
- 3 **Effective date.** Effective for tax year 2000.