HOUSE RESEARCH
Bill Summary

FILE NUMBER: H.F. 202 **DATE:** February 8, 2011
Version: As introduced

Authors: Runbeck and others

Subject: Corporate franchise tax - single sales apportionment

Analyst: Joel Michael, joel.michael@house.mn

Overview

This bill accelerates Minnesota's adoption of single sales apportionment of the corporate franchise tax from tax year 2014 to tax year 2012.

Section

1 **Single sales apportionment.** Provides that the Minnesota share of corporate franchise tax for a multistate corporation will be determined solely based on percentage of the corporation's Minnesota sales to its total sales, effective for tax year 2012. Under present law, single sales apportionment is being phased in, effective for tax year 2014. The phase-in schedule under present law is shown in the table below:

Tax Year	Sales Factor	Property Factor	Payroll Factor
2010	87%	6.5%	6.5%
2011	90%	5%	5%
2012	93%	3.5%	3.5%
2013	96%	2%	2%
2014 and later	100%	0%	0%

Background information. States have been increasingly shifting their apportionment formulas to more heavily weighted sales. Effective for tax year 2010, 14 states used or allowed single sales as their apportionment formula for manufacturers. This is up from seven states for tax year 2005. Several of Minnesota's neighboring states use single sales apportionment: Illinois, Iowa, Michigan, Missouri, Nebraska, and Wisconsin. California and Indiana are scheduled to use single sales in 2011, South Carolina in 2013, and Virginia (in addition to Minnesota) in 2014. The map below shows the apportionment formulas for manufacturers as of tax year 2010. Some states allow elections between two formulas. The map shows these with the highest permitted sales weighting. Most of these states, however, have throwback sales rules (e.g., Illinois, Michigan, Nebraska, and Wisconsin), which reduce somewhat the effects of single sales by treating some sales to purchasers in other states and the federal government as in-state sales.