DEPARTMENT OF REVENUE

CORPORATE FRANCHISE TAX
Worldwide Combined Reporting

April 10, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2883 (Hornstein)

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
General Fund	$104,000	$348,000	$353,800	$363,700

Effective beginning with tax year 2024.

EXPLANATION OF THE BILL

Current Law: Other than disqualified captive insurance companies, the net income and apportionment factors of foreign corporations and other foreign entities is not included in the net income or the apportionment factors of a unitary business. Each corporation or other entity, except a sole proprietorship, that is part of a unitary business must file combined reports. A foreign corporation or other foreign entity that is not included on a combined report and that is required to file a return must file on a separate basis.

Proposed Law: The bill requires net income and apportionment factors of foreign corporations and other foreign entities to be included in the net income and apportionment factors of a combined unitary group.

Profit and loss statements must be prepared in the currency in which the books of account of the foreign corporation or other foreign entity are regularly maintained. Any adjustments must conform to generally accepted accounting principles in the United States, except that adjustments must be made to conform to tax accounting standards as required by the Commissioner of Revenue.

Unless otherwise authorized by the Commissioner, the profit and loss statement of each member of the combined group and the apportionment factors related to the combined group must be converted into the currency in which the parent company maintains its books and records. Income apportioned to Minnesota must be expressed in U.S. dollars.

REVENUE ANALYSIS DETAIL

- The estimate is based on a 2019 report on tax havens published by The Institute on Taxation and Economic Policy.
- The report estimates that if adopted by all states, worldwide combined reporting would generate an additional $235 billion in taxable income nationally.
- It is assumed that Minnesota accounts for 1% of this income increase, or about $2.35 billion.
- Taxing this additional income at a rate of 9.8% would increase revenue by about $230 million in 2018, or about 17.5% of corporate franchise tax collections.

REVENUE ANALYSIS DETAIL (Cont.)

- This 17.5% percent increase is applied to corporate franchise tax collections as projected by Minnesota Management and Budget in the February 2023 forecast.
- Tax year impacts are allocated 30% / 70% to fiscal years.

Number of Taxpayers: Unknown

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses

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