



Legislative Position - 2009

CORPORATE INCOME TAX POLICY

ISSUE

How Should Minnesota's corporate income tax be structured to make Minnesota a more attractive place to own and operate a business?

POLICY

The corporate income tax is a competitive problem for Minnesota businesses. In 2006 the latest data available, Minnesota had the tenth highest corporate income tax collections per capita and the thirteenth highest per \$1,000 of personal income. Minnesota's corporate income tax rate is one of the highest in the nation, and the state apportions income to the full extent of the Constitution. The Printing Industry of Minnesota supports the following to minimize the competitive impact of the corporate income tax.

- **Corporate income tax structure.** The Legislature should maintain the dividends received deduction, the foreign royalty deduction, and not make any more changes hindering the viability of foreign operating corporations. The Legislature should not enact a throwback rule. The deductions, lack of a throwback rule and foreign operating corporation structure were, originally, tax policy decisions made by the Legislature to encourage exports, avoid taxing foreign and domestic income without sufficient nexus to Minnesota, avoid multiple taxation of income, and encourage corporations to locate and retain corporate headquarters and major facilities in the state.
- **Sales-only apportionment.** The Legislature should accelerate the phase-in of a sales-only apportionment formula. In 2005, such a formula was phased in over eight years beginning with tax year 2007. Doing so will improve the competitive position of businesses with significant investments in property and payroll in Minnesota.
- **Corporate income tax rate.** The Legislature should establish a goal of reducing the corporate income tax rate to the highest marginal tax rate for the personal income tax. Having equivalent tax rates will eliminate the one state incentive for companies to change their legal structure from a C-corporation to a S-corporation. Another way to provide corporate tax relief would be to establish a lower rate for a first tier of income. These changes will provide tax relief to businesses that are organized as C-corporations and bring their effective tax rate close to that paid by S-corporations. (Unlike C-corporations, S-corporations flow their business income through personal, rather than corporate, returns.)
- **Capital gains exclusion.** The Legislature should exclude from Minnesota taxation a percentage of a corporation's capital gain income. This will make Minnesota more attractive to locate a business because the tax consequences of selling property at a gain will be less than in most other states.
- **Corporate alternative minimum tax.** The Legislature should eliminate the corporate alternative minimum tax (AMT). Doing so would greatly simplify Minnesota's corporate tax system. Few corporations currently pay the AMT each year. It is needlessly complicated and does not result in any long-term revenue gain to the state. It only changes the timing of corporate tax payments by a few firms.

BUSINESS IMPACT

Speeding up the phase-in of a sales-only apportionment formula, reducing the corporate income tax rate, enacting a capital gains exclusion and eliminating the corporate alternative minimum tax will improve the competitiveness of Minnesota's corporate income tax, improve the tax equity between C-corporation and businesses that flow business income through a personal tax return, and ease the administrative burden of the tax. In order to make sure that all corporations benefit from changes to the corporate income tax, all four changes must be enacted over time. Eliminating – or reducing – the dividends received deduction, repealing the foreign royalty deduction, enacting a throwback rule or making the use of foreign operating corporations an ineffective corporate structure would increase the corporate tax liability of employers that have significant operations in the state and sell nationally or worldwide. As a result, this would discourage these businesses from having major facilities (i.e. corporate headquarters) in Minnesota.