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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-THIRD SESSION

H. F. No. 4535

03/04/2024 Authored by Howard, Gomez and Kotyza-Witthuhn The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; corporate franchise; requiring a report from the Department
1.3 of Revenue on corporate tax base erosion.

1.4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.5 Section 1. CORPORATE TAX BASE EROSION STUDY.

1.6 By January 1, 2025, the commissioner of revenue must provide a report to the chairs
1.7 and ranking minority members of the legislative committees with jurisdiction over taxes
1.8 on the extent of corporate tax base erosion in Minnesota; the legislative options for addressing
1.9 that erosion, including worldwide combined reporting; and the litigation risks that may arise
1.10 by adopting various approaches to address corporate tax base erosion. The report must
1.11 comply with Minnesota Statutes, sections 3.195 and 3.197, and specifically include a
1.12 discussion of:

1.13 (1) the types of international corporate structures and resulting transactions among
1.14 commonly controlled businesses that reduce the amount of income that would otherwise
1.15 be apportionable to Minnesota under the corporate franchise tax, the effect of which is
1.16 commonly referred to as "corporate tax base erosion";

1.17 (2) the most reliable published analyses of corporate tax base erosion that could be used
1.18 to estimate the revenue impact of that erosion on corporate franchise tax collections in
1.19 Minnesota, including how Minnesota's share of aggregate domestic shifted profits may be
1.20 calculated;

2.1 (3) the extent to which the state's current treatment of income under section 951A of the
2.2 Internal Revenue Code addresses corporate tax base erosion and the limitations of this
2.3 approach;

2.4 (4) other options that exist for modifying the state's corporate franchise tax to address
2.5 corporate tax base erosion, including the imposition of worldwide combined reporting;

2.6 (5) for worldwide combined reporting:

2.7 (i) how the increased amount of income estimated to be apportioned to Minnesota under
2.8 a combined reporting system would be equal to the amount of Minnesota's share of shifted
2.9 profits described in clause (2);

2.10 (ii) the administrative impact of worldwide combined reporting on taxpayers and the
2.11 Department of Revenue relative to current law; and

2.12 (iii) recommendations for administrative changes to the corporate franchise tax to address
2.13 the impacts described in item (ii);

2.14 (6) recommendations for any other modifications to current law needed to administer
2.15 the options described in clause (4);

2.16 (7) the risk of litigation, including federal constitutional claims, under the options
2.17 described in clause (4) and recommendations to mitigate those risks; and

2.18 (8) any other topic the commissioner deems necessary to properly inform legislators on
2.19 this subject.

2.20 **EFFECTIVE DATE.** This section is effective the day following final enactment.