

Table 3 - SFY 2005 Allocations and Maintenance of Effort

	Total	Administrative	Funds for	Maintenance	MOE in	Old	Old	Alloc.	MOE	MOE %
	Allocation	Allowance	Treatment	of Effort	excess	Alloc	MOE	% Chg	% Chg.	of Alloc
					of match					
Washington	\$948,668.85	\$28,960.95	\$919,707.89	\$655,733.01	493,432	944,326	\$641,585.84	0.5%	2.2%	69%
Mahnomen	\$56,441.56	\$2,839.99	\$53,601.57	\$37,590.08	28,131	61,340	\$40,852.27	-8.0%	-8.0%	67%
Hennepin	\$9,996,740.97	\$271,689.71	\$9,725,051.26	\$6,454,579.82	4,738,394	9,278,013	\$6,315,324.92	7.7%	2.2%	65%
Carver	\$349,487.21	\$11,206.02	\$338,281.20	\$207,944.89	148,248	334,740	\$199,170.22	4.4%	4.4%	60%
Cook	\$61,963.20	\$2,906.21	\$59,056.99	\$35,181.26	24,759	63,061	\$34,422.24	-1.7%	2.2%	57%
Clay	\$523,161.25	\$17,516.37	\$505,644.88	\$296,632.43	207,401	551,395	\$312,641.09	-5.1%	-5.1%	57%
Cass	\$252,352.44	\$9,544.26	\$242,808.18	\$129,227.51	86,379	277,686	\$142,200.77	-9.1%	-9.1%	51%
Dakota	\$1,743,094.62	\$52,989.53	\$1,690,105.09	\$845,400.89	547,147	1,769,307	\$858,113.95	-1.5%	-1.5%	49%
Red Lake	\$74,246.67	\$3,073.51	\$71,173.16	\$35,913.36	23,353	67,411	\$32,607.11	10.1%	10.1%	48%
Mower	\$631,396.38	\$19,206.74	\$612,189.64	\$304,474.91	196,441	609,431	\$297,905.99	3.6%	2.2%	48%
Redwood	\$172,681.43	\$7,216.70	\$165,464.74	\$81,514.95	52,315	197,773	\$93,359.65	-12.7%	-12.7%	47%
Polk	\$557,078.56	\$17,971.38	\$539,107.18	\$259,733.11	164,597	567,017	\$254,129.47	-1.8%	2.2%	47%
Pope	\$180,211.39	\$6,534.62	\$173,676.78	\$82,572.44	51,924	174,355	\$80,790.98	3.4%	2.2%	46%
Carlton	\$316,173.49	\$11,625.82	\$304,547.67	\$143,426.24	89,683	349,153	\$146,518.88	-9.4%	-2.1%	45%
Pennington	\$187,243.54	\$5,959.92	\$181,283.61	\$81,464.35	49,473	154,624	\$67,272.54	21.1%	21.1%	44%
St. Louis	\$2,365,953.88	\$71,257.07	\$2,294,696.81	\$1,005,500.57	600,554	2,396,493	\$998,825.07	-1.3%	0.7%	42%
Freeborn	\$366,272.91	\$11,369.42	\$354,903.49	\$148,602.35	85,972	340,350	\$138,085.07	7.6%	7.6%	41%
Jackson	\$117,738.67	\$4,755.12	\$112,983.55	\$47,686.87	27,749	113,259	\$45,872.53	4.0%	4.0%	41%
Ramsey	\$4,573,392.49	\$136,381.96	\$4,437,010.53	\$1,811,063.42	1,028,062	4,632,447	\$1,834,449.12	-1.3%	-1.3%	40%
Fillmore	\$236,978.57	\$8,629.17	\$228,349.40	\$82,097.78	41,801	246,268	\$85,316.01	-3.8%	-3.8%	35%
Rice	\$418,697.36	\$13,565.59	\$405,131.77	\$144,468.31	72,974	415,752	\$143,452.06	0.7%	0.7%	35%
Becker	\$337,580.31	\$11,063.42	\$326,516.89	\$115,114.88	57,494	329,844	\$112,476.81	2.3%	2.3%	34%
Benton	\$340,109.49	\$10,581.60	\$329,527.89	\$110,721.64	52,570	313,302	\$102,041.48	8.6%	8.5%	33%
Marshall	\$148,804.22	\$5,113.53	\$143,690.70	\$45,893.22	20,536	125,564	\$38,725.77	18.5%	18.5%	31%
Watonwan	\$120,041.96	\$5,182.65	\$114,859.31	\$36,012.59	15,743	127,938	\$38,381.28	-6.2%	-6.2%	30%
Stearns	\$1,140,944.22	\$34,084.46	\$1,106,859.76	\$341,483.65	146,155	1,120,233	\$334,116.28	1.8%	2.2%	30%
Beltrami	\$536,112.34	\$17,101.58	\$519,010.76	\$159,792.66	68,203	537,154	\$156,345.20	-0.2%	2.2%	30%
Kittson	\$80,578.76	\$3,492.50	\$77,086.26	\$23,736.91	10,133	78,305	\$23,067.13	2.9%	2.9%	29%
Otter Tail	\$571,525.77	\$18,953.73	\$552,572.04	\$167,824.95	70,312	600,745	\$176,404.91	-4.9%	-4.9%	29%
Yellow Medici	\$135,599.60	\$5,703.08	\$129,896.53	\$39,695.34	16,772	145,806	\$42,683.03	-7.0%	-7.0%	29%
Goodhue	\$340,689.20	\$11,090.16	\$329,599.05	\$95,348.64	37,184	330,762	\$92,570.33	3.0%	3.0%	28%
Koochiching	\$197,307.48	\$7,483.89	\$189,823.59	\$52,678.31	19,180	206,947	\$51,541.80	-4.7%	2.2%	27%

Dept of Human Services

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	Allocation	Allowance	Treatment	of Effort	excess	Alloc	MOE	% Chg	% Chg.	of Alloc
Wilkin	\$93,146.50	\$4,512.66	\$88,633.84	\$24,816.11	9,175	104,935	\$26,037.06	-11.2%	-4.7%	27%
Scott	\$408,616.69	\$13,195.33	\$395,421.36	\$107,264.31	37,484	403,040	\$104,950.13	1.4%	2.2%	26%
Nobles	\$227,728.36	\$8,683.23	\$219,045.13	\$59,389.93	20,735	248,124	\$64,709.02	-8.2%	-8.2%	26%
Blue Earth	\$738,306.71	\$22,584.54	\$715,722.16	\$191,074.62	64,771	725,403	\$187,735.03	1.8%	1.8%	26%
Douglas	\$444,506.05	\$14,134.64	\$430,371.41	\$111,162.23	35,214	435,289	\$108,763.95	2.1%	2.2%	25%
Aitkin	\$207,056.62	\$8,683.18	\$198,373.44	\$48,536.17	13,529	248,122	\$58,162.41	-16.6%	-16.6%	23%
Kandiyohi	\$451,973.16	\$14,011.05	\$437,962.10	\$104,857.77	27,570	431,046	\$100,002.72	4.9%	4.9%	23%
Lake	\$131,063.00	\$4,979.16	\$126,083.84	\$29,358.11	7,108	120,951	\$27,093.08	8.4%	8.4%	22%
Chippewa	\$164,810.90	\$6,365.38	\$158,445.52	\$35,320.28	7,359	168,545	\$36,120.45	-2.2%	-2.2%	21%
Lyon	\$250,031.75	\$8,566.00	\$241,465.74	\$53,179.95	10,568	244,099	\$51,918.18	2.4%	2.4%	21%
Sherburne	\$368,997.47	\$11,348.34	\$357,649.12	\$78,281.59	15,167	339,626	\$76,592.70	8.6%	2.2%	21%
Mille Lacs	\$235,818.86	\$8,154.00	\$227,664.86	\$49,625.21	9,449	229,954	\$48,391.04	2.6%	2.6%	21%
Dodge	\$152,890.80	\$5,389.70	\$147,501.10	\$30,731.36	4,702	135,046	\$27,144.58	13.2%	13.2%	20%
Martin	\$286,887.93	\$9,041.69	\$277,846.24	\$57,090.70	8,059	260,431	\$51,825.85	10.2%	10.2%	20%
Olmsted	\$1,463,965.81	\$42,293.92	\$1,421,671.90	\$281,003.69	30,120	1,402,091	\$274,941.15	4.4%	2.2%	19%
Le Sueur	\$215,745.82	\$7,472.13	\$208,273.69	\$40,898.94	4,145	206,543	\$39,154.38	4.5%	4.5%	19%
Itasca	\$429,179.85	\$13,920.11	\$415,259.74	\$78,969.09	5,688	427,924	\$78,738.00	0.3%	0.3%	18%
Waseca	\$181,579.21	\$6,494.59	\$175,084.62	\$33,226.29	2,329	172,981	\$31,652.91	5.0%	5.0%	18%
Winona	\$481,615.28	\$16,147.47	\$465,467.81	\$87,993.87	5,852	504,396	\$92,156.13	-4.5%	-4.5%	18%
Faribault	\$201,577.09	\$7,362.50	\$194,214.58	\$36,283.88	2,011	202,779	\$36,500.28	-0.6%	-0.6%	18%
Chisago	\$320,807.98	\$10,195.92	\$310,612.05	\$53,154.37	0	300,060	\$49,716.66	6.9%	6.9%	17%
Steele	\$276,372.05	\$9,464.30	\$266,907.75	\$44,135.65	0	274,941	\$43,907.09	0.5%	0.5%	16%
Swift	\$147,185.25	\$6,023.27	\$141,161.98	\$23,255.27	0	156,799	\$24,774.23	-6.1%	-6.1%	16%
Renville	\$257,218.65	\$8,982.21	\$248,236.44	\$38,317.73	0	258,389	\$37,491.04	-0.5%	2.2%	15%
Pipestone	\$169,990.94	\$6,292.77	\$163,698.17	\$24,716.28	0	166,052	\$24,183.04	2.4%	2.2%	15%
Wright	\$556,556.88	\$17,769.84	\$538,787.05	\$79,587.63	0	560,098	\$80,093.97	-0.6%	-0.6%	14%
Traverse	\$84,114.65	\$3,716.64	\$80,398.01	\$11,953.03	0	84,133	\$11,955.59	0.0%	0.0%	14%
Anoka	\$2,051,544.21	\$56,803.79	\$1,994,740.42	\$289,959.72	0	1,900,263	\$283,703.96	8.0%	2.2%	14%
Morrison	\$351,609.73	\$10,878.74	\$340,730.98	\$49,163.58	0	323,503	\$45,233.65	8.7%	8.7%	14%
Roseau	\$131,700.28	\$5,320.27	\$126,380.01	\$18,402.16	0	132,663	\$18,536.64	-0.7%	-0.7%	14%
Brown	\$258,426.08	\$9,160.49	\$249,265.58	\$36,091.84	0	264,510	\$36,941.54	-2.3%	-2.3%	14%
Stevens	\$127,212.89	\$5,220.66	\$121,992.23	\$17,420.32	0	129,243	\$17,044.49	-1.6%	2.2%	14%
Meeker	\$299,143.61	\$10,089.23	\$289,054.39	\$39,725.54	0	296,397	\$38,868.48	0.9%	2.2%	13%

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Clearwater	\$163,362.85	\$6,241.96	\$157,120.90	\$21,662.35	0	164,307	\$21,194.99	-0.6%	2.2%	13%
Houston	\$180,292.05	\$6,796.92	\$173,495.13	\$23,574.31	0	183,361	\$23,975.57	-1.7%	-1.7%	13%
Nicollet	\$234,573.96	\$7,875.85	\$226,698.11	\$29,703.02	0	220,404	\$27,908.75	6.4%	6.4%	13%
Norman	\$110,148.86	\$4,351.18	\$105,797.69	\$13,548.31	0	100,631	\$12,377.56	9.5%	9.5%	12%
Murray	\$116,684.62	\$4,699.25	\$111,985.37	\$14,344.77	0	111,341	\$13,687.83	4.8%	4.8%	12%
Crow Wing	\$585,894.87	\$18,515.39	\$567,379.48	\$69,122.15	0	585,695	\$69,098.58	0.0%	0.0%	12%
Isanti	\$245,151.89	\$9,378.07	\$235,773.82	\$28,437.62	0	271,980	\$31,549.72	-9.9%	-9.9%	12%
Pine	\$293,764.42	\$9,598.65	\$284,165.77	\$31,884.71	0	279,554	\$30,342.30	5.1%	5.1%	11%
McLeod	\$379,553.73	\$12,149.45	\$367,404.29	\$39,848.77	0	367,131	\$38,989.05	3.4%	2.2%	10%
Lac qui Parle	\$109,735.96	\$4,703.77	\$105,032.19	\$10,000.33	0	111,496	\$10,160.74	-1.6%	-1.6%	9%
Todd	\$297,204.62	\$11,468.12	\$285,736.50	\$27,042.19	0	343,739	\$31,276.27	-13.5%	-13.5%	9%
Grant	\$112,281.11	\$4,832.67	\$107,448.44	\$10,163.32	0	115,922	\$10,492.85	-3.1%	-3.1%	9%
Lincoln	\$89,523.06	\$3,893.86	\$85,629.20	\$8,084.87	0	88,740	\$8,014.17	0.9%	0.9%	9%
Wabasha	\$193,782.84	\$7,139.00	\$186,643.84	\$17,324.40	0	195,106	\$17,442.67	-0.7%	-0.7%	9%
Cottonwood	\$164,892.32	\$6,016.05	\$158,876.27	\$13,944.12	0	156,551	\$13,238.75	5.3%	5.3%	8%
Sibley	\$150,636.80	\$5,860.09	\$144,776.71	\$11,919.28	0	151,196	\$11,963.57	-0.4%	-0.4%	8%
Kanabec	\$159,303.36	\$6,396.40	\$152,906.96	\$11,211.61	0	169,610	\$11,936.95	-6.1%	-6.1%	7%
Hubbard	\$289,392.42	\$9,874.60	\$279,517.82	\$19,973.21	0	289,028	\$19,542.30	0.1%	2.2%	7%
Rock	\$106,515.07	\$3,994.10	\$102,520.97	\$7,262.04	0	91,347	\$6,227.88	16.6%	16.6%	7%
Lake of the Wc	\$75,474.30	\$3,312.82	\$72,161.48	\$4,882.57	0	73,633	\$4,777.23	2.5%	2.2%	6%
Wadena	\$212,828.84	\$7,256.63	\$205,572.21	\$10,606.31	0	199,144	\$9,924.35	6.9%	6.9%	5%
Big Stone	\$120,823.90	\$5,004.03	\$115,819.87	\$4,422.84	0	121,805	\$4,458.75	-0.8%	-0.8%	4%
Total	\$44,638,471.70	\$1,397,667.26	\$43,240,804.44	\$16,773,021.68	9,594,109			37.6%	37.6%	32

Overview of Senate Corporate Tax Modifications (BL1119)

Sec. 1. Substantial understatement.

Changes the standard in M.S. 289A.38, from 25 percent of gross income to 25 percent of taxable income for assessments after serious omission of reportable income on a return.

Sec. 2. FOC Definition.

Clarifies the definition of a foreign operating corporation (FOC) to require that at least 80 percent of its gross income in the year is "active foreign business income," that the income arises from active conduct of a trade or business in a foreign country, and it defines "active foreign business income" according to the Internal Revenue Code, Subtitle A, Chapter 1, subpart N.

Effective as a clarification of current law.

Sec. 3. Deemed Dividend.

Requires that the deemed dividend from an FOC must be reduced by intangible expenses and costs, interest, factoring transactions, intangible property, and fees and costs, and other similar income from domestic sources, and gains derived from the sale of real or personal property located in the United States.

These amounts are added back to Minnesota taxable income.

Sec. 4. Modifications Decreasing Taxable Income.

Disallows the foreign royalties subtraction for income arising from sources within the United States (domestic income as defined by federal law).

Sec. 5. Business conducted in such a way as to create losses or improper taxable net income.

Adds a clause providing that transactions or series of transactions whose primary business purpose is tax avoidance are disregarded for Minnesota tax purposes.

Sec. 6. Agreements regarding liabilities.

Authorizes taxpayers that have reported income that does not meet the active foreign business income test to enter into a payment agreement with the commissioner prior to any audit. After an audit, the commissioner may impose an additional 15 percent penalty in addition to any penalty in sec. 289A.60.

#3

Confidential Request

**Corporate Tax Proposal
Revised Preliminary Estimates**

The table below presents estimates on a corporate franchise tax proposal labeled Senate Proposal # 5.

- The proposal was received May 3, and it reduces the usage of the FOC (foreign operating corporation) / tax regime and the foreign royalty subtraction.
- The assumed effective date is tax year 2005.
- A change in corporate tax collections is assumed to start in fiscal year 2006.
- Due to the tax year 2005 effective date, the tax year 2005 impact that would normally occur in fiscal year 2005 is shifted to fiscal year 2006. Generally, tax year impact is allocated 30%/70% to fiscal years.
- The estimates are preliminary, and they may be subject to change.

Summary of Proposal # 5

The proposal changes the test to determine whether a corporation qualifies for FOC status. Under current law, the test is based on the percentage of a corporation's property and payroll factors located outside the United States. Under the proposal, a corporation qualifies as an FOC based on the percentage of its income from foreign sources. The proposal relies on definitions in the Internal Revenue Code to determine whether income is from foreign sources.

The proposal reduces the income of a foreign operating corporation if its intangible income is classified as from domestic sources according to the Internal Revenue Code. Also, the foreign royalty subtraction is reduced if the royalty is classified as from domestic sources according to the Internal Revenue Code.

Table 1. Senate Proposal # 5 (Revised Estimate)

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Foreign Operating Corporations	\$64,300	\$47,900	\$48,000	\$49,000
Royalty Subtraction	\$42,300	\$31,500	\$31,600	\$32,300
Interaction	\$1,000	\$700	\$700	\$700
Total	\$107,600	\$80,100	\$80,300	\$82,000

Minnesota Department of Revenue
Tax Research Division
May 13, 2005

#4

Small Business Survival Index 2004
Appendix D: State Rankings of Top Corporate Income Tax Rates

Rank	State	Top CIT Rate	Rank	State	Top CIT Rate
1	Nevada	0.000	27	Illinois	7.300
1	South Dakota	0.000	28	Kansas	7.350
1	Washington	0.000	29	Connecticut	7.500
1	Wyoming	0.000	30	Idaho	7.600
5	Michigan	1.800	30	New Mexico	7.600
6	Alabama	4.225	32	Nebraska	7.810
7	Texas	4.500	33	Wisconsin	7.900
8	Colorado	4.630	34	Kentucky	8.250
9	Mississippi	5.000	35	Indiana	8.500
9	South Carolina	5.000	35	New Hampshire	8.500
9	Utah	5.000	35	Ohio	8.500
12	Missouri	5.156	38	Delaware	8.700
13	Louisiana	5.200	39	New York	8.775
14	Florida	5.500	40	California	8.840
15	Georgia	6.000	41	Maine	8.930
15	Oklahoma	6.000	42	New Jersey	9.000
15	Virginia	6.000	42	Rhode Island	9.000
18	Hawaii	6.400	42	West Virginia	9.000
19	Arkansas	6.500	45	Alaska	9.400
19	Tennessee	6.500	46	Massachusetts	9.500
21	Oregon	6.600	47	Vermont	9.750
22	Montana	6.750	48	Minnesota	9.800
23	North Dakota	6.825	49	Iowa	9.900
24	North Carolina	6.900	50	Dist. of Columbia	9.975
25	Arizona	6.968	51	Pennsylvania	9.990
26	Maryland	7.000			

NOT DISCUSSED

Narrative: SF 2054-1A

Bill Description

This bill provides for reductions and eventual elimination of county Chemical Dependency Consolidated Fund (CCDTF) Maintenance of Effort (MOE) liability. MOE requirements are limited to 55% of CCDTF in SFY 2005, and the limit is decreased by 5% per year until MOE liability is eliminated. There is no change to the requirement that the normal county share of CCDTF liability is 15%.

Assumptions

It is assumed that this change will not affect county CCDTF placement activity. It is assumed that while the term "expenditure" is used, the intent of the bill is to limit the ratio between the MOE liability assignment and the county allocation amount in the CCDTF allocation formula, because that is the calculation used in supplementary documents provided by bill proponents.

Expenditure and/or Revenue Formula

While the total potential MOE liability under the CCDTF allocation formula is \$6 million per year, the actual fiscal impact of the bill is limited to the amount of MOE payments the Department receives in actual CCDTF operations. Data on actual MOE revenues in SFY 2004 by county were obtained and the amount of revenue change according to the bill for each year was calculated. Then each calculated amount was increased by the ratio of county expense in SFY 2004 to the projected county expense for future years in the most recent CCDTF forecast produced by DHS Reports and Forecasts Division. This resulted in the following:

	Maintenance of Effort Cap	2004 Base	Adjustment per Forecast	Adjusted Cost Estimate
FY 2006	55%	\$1,155,202	1.1140	\$1,286,939
FY 2007	50%	\$1,627,312	1.1879	\$1,933,153
FY 2008	45%	\$2,154,040	1.2544	\$2,701,971
FY 2009	40%	\$2,270,784	1.3158	\$2,987,882

Long-Term Fiscal Considerations

The bill reduces the maximum MOE assignment by 5% per year until all counties are liable for no more than 15% of the allocation. This process reduces the county CCDTF contribution from a current average of 24% costs to 15% of costs over the long term.

Local Government Costs

The MOE reduction reduces county costs by an amount equal to the increase in State expense.

References/Sources

Data from the DHS operated MMIS payment system, and information from the DHS Chemical Health System CCDTF allocation tables.

Agency Contact Name: Wayne Raske 582-1849
FN Coord Signature: STEVE BARTA
Date: 04/11/05 Phone: 296-5685

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: DOUG GREEN

Fiscal Note – 2005-06 Session

Bill #: S2054-1A **Complete Date:** 04/15/05

Chief Author: BERGLIN, LINDA

Title: CHEM DEP TREATMENT FUNDS ALLOCATION

Fiscal Impact	Yes	No
State	X	
Local	X	
Fee/Departmental Earnings		X
Tax Revenue		X

Agency Name: Human Services Dept

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY05	FY06	FY07	FY08	FY09
Expenditures					
General Fund	0	1,287	1,933	2,702	2,987
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund	0	1,287	1,933	2,702	2,987
Revenues					
-- No Impact --					
Net Cost <Savings>					
General Fund	0	1,287	1,933	2,702	2,987
Total Cost <Savings> to the State	0	1,287	1,933	2,702	2,987

	FY05	FY06	FY07	FY08	FY09
Full Time Equivalent					
-- No Impact --					
Total FTE					