

February 16, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2958 (Rest) / H.F. 3082 (Davids)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
		(000's)		
Eliminate AMT	\$0	(\$41,300)	(\$24,200)	(\$20,300)
Eliminate Minimum Fee	<u>\$0</u>	<u>(\$136,200)</u>	<u>(\$108,700)</u>	<u>(\$112,500)</u>
General Fund Total	\$0	(\$177,500)	(\$132,900)	(\$132,800)

Effective beginning in tax year 2022.

EXPLANATION OF THE BILL

Current Law:

Alternative Minimum Tax (AMT)

In addition to the regular corporate franchise tax with a 9.8% tax rate, taxpayers must also compute a calculation to see if they have any tax liability under the alternative minimum tax (AMT). Before the 2017 federal tax law change, there was a similar AMT under federal law.

The calculation of the AMT begins with the tax base used to compute the regular tax, taxable income. The AMT tax base may differ from the tax base for the regular tax because it includes the disallowance of tax preferences that were used in the regular tax calculation and it includes amounts for adjustments. The adjustments may be positive or negative.

The AMT tax base is multiplied by a 5.8% tax rate. The product of this calculation is the tentative minimum tax. If the tentative minimum tax is larger than the regular tax, the taxpayer must pay the difference between the tentative minimum tax and the regular tax as AMT.

The amount of AMT paid generates an AMT credit, which can be taken to reduce the regular tax in future years. A taxpayer with current-year regular tax can claim the AMT credit only if the taxpayer owes no current-year AMT. An AMT credit may be further limited to the extent that the regular tax is greater than the tentative minimum tax.

Minimum Fee

There are three types of business entities (C corporations, S corporations, and partnerships) that are subject to the minimum fee. The fee is based on the sum of the entity's total sum of its Minnesota factors (property, payroll, and sales). Since 2012, the minimum fee and brackets have been adjusted annually for inflation. The amounts for tax year 2022 are shown in the table below.

EXPLANATION OF THE BILL (Cont.)

Minimum Fee: Tax Year 2022

Sum of Minnesota property, payroll, and sales or receipts		Minimum Fee
Less than	\$1,080,000	\$0
\$1,080,000 to	\$2,159,999	\$220
\$2,160,000 to	\$10,809,999	\$650
\$10,810,000 to	\$21,609,999	\$2,160
\$21,610,000 to	\$43,219,999	\$4,330
\$43,220,000	or more	\$10,810

Proposed Law:

Alternative Minimum Tax

For corporate taxpayers beginning with tax year 2022, the proposed law would eliminate the AMT. The bill allows taxpayers to use accumulated unused AMT credits against the regular tax.

When compared to current law, the lack of a current-year AMT accelerates and increases the use of the AMT credit. Because the AMT credit is limited by the tentative minimum tax, under current law the AMT credit cannot be more than 42% of the regular tax. With the repeal of the AMT, there would be no current-year AMT/tentative minimum tax, and the AMT credit could be claimed against 100% of the regular tax.

Minimum Fee

For all three types of entities subject to minimum fee beginning with tax year 2022, the proposed law would eliminate the minimum fee.

REVENUE ANALYSIS DETAIL

Alternative Minimum Tax

- The estimate is based on an analysis of AMT and AMT credit amounts reported during tax years 2009-2018.
- The projection of the lost AMT revenue assumes AMT revenue of slightly more than 1% of current revenue projected during fiscal years 2023-2025. This assumption is based on historic trends during tax years 2009-2018.
- The amount of projected corporate tax revenue is based on the November 2021 forecast prepared by MMB.
- Due to a retroactive effective date, the revenue losses that normally happen in fiscal year 2022 are shifted to fiscal year 2023.
- Tax year revenue losses from tax years are allocated 30% / 70% to fiscal years.

REVENUE ANALYSIS DETAIL (Cont.)

- The estimate assumes an accelerated use of the AMT credit as compared to current law. The bulk of the impact from this effect happens in fiscal years 2022 and 2023. Overall, the accelerated and increased use of the AMT credit increases the total AMT revenue loss by about 19% through the forecast period.

Minimum Fee

- The estimate is based on historic trends of minimum fee amounts paid by C corporations, S corporations, and partnerships. Each of the three entity types has a different historic trends of minimum fee collections.
- The growth rate of combined for all three entities is 3.4%.
- Due to a retroactive effective date, the revenue losses that normally happen in fiscal year 2022 are shifted to fiscal year 2023.
- Tax year revenue losses from tax years are allocated 30% / 70% to fiscal years.

Number of Taxpayers: There are about 3,000 AMT payors, and there are 75,000 minimum fee payors.

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