FACT SHEET | Closing Corporate Tax Loopholes

2017 Budget for a Better Minnesota

Minnesotans work hard and play by the rules, and they expect a level playing field. Governor Mark Dayton and Lt. Governor Tina Smith are proposing a series of reforms to close corporate tax loopholes that provide some businesses with special tax benefits not afforded to small businesses and working Minnesotans. Governor Dayton and Lt. Governor Smith's tax bill would level the playing field for working Minnesotans and small businesses by eliminating loopholes and tax avoidance strategies.

Closing Corporate Tax Loopholes

- **A Level Playing Field** – Some corporations take advantage of special loopholes in our tax code to avoid paying their fair share. To level the playing field for working Minnesotans and small businesses, Governor Dayton and Lt. Governor Smith's proposal would eliminate business loopholes.
    - **Blocking Frivolous Transactions** – The Governor and Lt. Governor's bill would close tax loopholes that allow corporations to make frivolous transactions that are only meant to evade taxes.
    - **Preventing Tax Evasion** – Governor Dayton and Lt. Governor Smith's tax bill would stop companies from using complex corporate structures and transactions. These tactics have no business purpose other than to avoid paying Minnesota taxes.
    - **Closing Loopholes for Financial Institutions** – The Governor and Lt. Governor's tax bill would close a loophole used by some institutions to artificially lower their taxable income through subsidiary entities.
- **Ending the Exploitation of Dividends to Avoid Taxation** – Dividends are corporate profits that are distributed to shareholders. The federal and state tax codes treat this type of income differently than other types of income, often taxing it at lower rates. Businesses will sometimes exploit these discrepancies and differing rules to avoid paying their fair share of taxes.
    - **Aligning to Federal Dividend Tax Law** – The Governor and Lt. Governor's tax bill would eliminate a tax deduction on profits stemming from the sale of foreign company stock. This change would align Minnesota law to federal law. Minnesota law currently allows shareholders to take an 80 percent deduction on this type of transaction. Under the reform, the entire dividend would be subject to taxation.
    - **Eliminating Corporate Dividend Benefits** – Governor Dayton and Lt. Governor Smith's tax bill would eliminate unintended dividend benefits for corporations selling stock that was purchased with debt. Their proposal also would bar corporate taxpayers from reporting a net loss on a dividend sale, when net income was actually gained.

Creating Uniform Tax Rates

- **Closing Mutual Fund Tax Loopholes** – The Governor and Lt. Governor's tax bill would eliminate a mutual fund tax loophole, which allows businesses to lower their tax rate by manipulating their corporate structure. Currently, when a mutual fund is managed by a corporation, the income is apportioned based on where the shareholders of the mutual fund are located. If another type of entity, such as a partnership or limited liability company, manages a mutual fund, its income is apportioned based on where the mutual fund is located.
- **Eliminating Insurance Company Loopholes** – Governor Dayton and Lt. Governor Smith's tax bill would remove loopholes used by insurance companies to shelter income from corporate taxation. Their proposal would stop businesses from shifting income subject to corporate tax to a non-admitted insurance company not subject to the tax. It would create a uniform tax rate for insurance premiums. Currently, directly purchased policies have a lower tax rate than those purchased through an agent.