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This Week in State Tax (TWIST)

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MINNESOTA

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Minnesota: Worldwide Combined Reporting Update

Provisions to adopt mandatory worldwide combined reporting effective for tax years beginning after December 31, 2023 were approved by both the House and Senate in versions of an omnibus tax bill (House File 1938 and Senate File 1811) that were sent to a conference committee in Minnesota. According to press reports, the state Senate withdrew its support for the worldwide combined reporting provisions at the first committee meeting. The committee is expected to resume its deliberations this week.

As sent to the conference committee, the bills would amend Minnesota Statutes 2022, section 290.17, subdivision 4, which addresses the unitary business principle, to make clear that the entire *worldwide* income of the unitary business would be subject to apportionment in Minnesota. Foreign entities and corporations not subject to a federal income tax filing requirement would be required to determine net income under normal rules for corporations. The bills strike provisions that currently exclude the net income and apportionment factors of foreign businesses from the unitary group. The other rules that apply to current unitary groups appear to remain the same. For instance, on the combined reports, all intercompany transactions between entities included in the group are eliminated and the entire net income of the unitary business is apportioned among the entities by using each entity's Minnesota factors for apportionment purposes in the numerators of the apportionment formula and the total factors for apportionment purposes of all entities included in the denominator. A new section of law would dictate how the federal taxable income of a foreign corporation or entity must be computed. Notably, a profit and loss statement must be prepared in the currency in which the books of account of the foreign corporation or other foreign entity are regularly maintained. Adjustments would then be made to the profit and loss statement to conform it to U.S. GAAP. Further adjustments must be made to the profit and loss statement to conform it to the tax accounting standards required by the Commissioner. Unless otherwise authorized by the Commissioner, the profit and loss statement of each member of the combined group, and the apportionment factors related to the combined group, whether domestic or foreign, must be converted into U.S. dollars and income apportioned to Minnesota must be expressed in U.S. dollars. Importantly, if the Commissioner determines that the information required of foreign corporations or entities may be obtained only through a burdensome effort and expense, the Commissioner may allow reasonable approximations of the information. If these changes are enacted, which appears less likely with the Senate's support withdrawn, Minnesota would be the only state in the U.S. that mandates worldwide combined reporting. Please contact Dale Busacker or John O'Mahoney with questions.

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