

Income/Franchise:

Minnesota Tax Court Holds Gain Involving Goodwill is Business Income Based on Unitary Principles

Case No. 9484-R, Minn. Tax Ct. (12/20/22). The Minnesota Tax Court (Court) held that a nonresident individual's income stemming from goodwill generated by the sale of her stock ownership interests in two S corporations pursuant to an election under Internal Revenue Code section 338(h)(10) to treat the stock sales as sales of the underlying corporate assets constituted income of a unitary business subject to apportionment at the entity level under Minn. Stat. § 290.17, subs. 3 and 4. In doing so, the Court referenced a 2020 Minnesota Supreme Court decision involving an out-of-state taxpayer's capital gain from its sale of a majority interest in the US operations of a subsidiary business and concluded that it was directly applicable to the case at hand, with the pertinent asset in the present case being the goodwill. The Court reasoned that, under the provided facts, the value of the goodwill was based, in part, on the success of one of the S corporation's business operations, which included its revenue generated from Minnesota sales and was an integral asset of the S corporation's unitary business. The Court also explained that even if the gains at issue had constituted nonbusiness income, the allocable amount would be based on the entity's allocation percentage or ratio applied to the previous year's business income, rather than to the actual dollar amount of the previous year's income allocated to Minnesota. Please contact us with any questions.

URL: <https://mn.gov/tax-court-stat/published%20orders/2022/Cities%20Management%20v%20COR%2012-20-22.pdf>

— Ray Goertz (Minneapolis)
Managing Director
Deloitte Tax LLP
rgoertz@deloitte.com

Roburt Waldow (Minneapolis)
Principal
Deloitte Tax LLP
rwaldow@deloitte.com

Joe Garrett (Birmingham)
Managing Director
Deloitte Tax LLP
jogarrett@deloitte.com

Dave Dunnigan (Minneapolis)
Senior Manager
Deloitte Tax LLP
ddunnigan@deloitte.com

Mark Sanders (Minneapolis)
Senior Manager
Deloitte Tax LLP
msanders@deloitte.com

Olivia Schulte (Washington, DC)
Manager
Deloitte Tax LLP
oschulte@deloitte.com

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte’s approximately 415,000 people worldwide make an impact that matters at www.deloitte.com.