

Income/Franchise:

Minnesota Tax Court Holds Sourcing of Services Under Cascading Rules is Not Limited to Direct Customers

Case No. 9570-R, Minn. Tax Ct. (11/21/24). In a market-based sourcing case involving a pharmacy benefit management company and its affiliates that filed a Minnesota combined corporate franchise tax return for the tax year at issue where the company, pursuant to an agreement, provided its health insurance affiliate with a wide range of services – including the administration of retail, mail order, and specialty drug pharmacy benefits for eligible members, as well as point-of-care, physician office communications, cost containment services, and other services it developed and implemented – the Minnesota Tax Court (Court) held that certain receipts from such services must be sourced to Minnesota based on the in-state location of the insurance affiliate’s plan members rather than sourced together entirely out-of-state (in this case, entirely to Wisconsin) to its affiliate as a “direct recipient” of the services. In doing so, the Court reasoned that application of Minnesota’s cascading rules in this case was “straightforward” and “the plain language of the statute does not limit receipt of services for attribution purposes to ‘direct customers’ of the taxpayer.” The Court explained that the determination of “who received services” is fact specific and concluded, in this case, the taxpayer failed to show its services related to prescription reimbursements were received outside Minnesota. Please contact us with any questions.

URL: <https://mn.gov/tax-court-stat/published%20orders/2024/Humana%20MarketPoint%20v%20COR%209570R%20Order%20on%20Cross%20Motions%20SJ%2011212024%20FINAL.pdf>

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