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Minnesota Supreme Court Rules on Sourcing Pharmacy Benefit Management Services

Like many states, Minnesota uses a market-based approach for calculation of the corporate franchise tax apportionment, by sourcing sales of services to the state where the services are “received.” A recent decision by the Minnesota Supreme Court provides guidance on how to properly interpret where certain services are “received.” [*Humana MarketPoint, Inc. v. Commissioner of Revenue*, Minn. S. Ct., Dkt. No. A25-0058, 09/24/2025]

At issue in *Humana* was how receipts for pharmacy benefit management services should be properly apportioned. Although *Humana*’s customer, the insurance company plan (the “direct customer”), was headquartered in Wisconsin, *Humana* originally filed returns attributing the receipts to Minnesota based on the number of insurance company plan members who filled prescriptions in Minnesota. Effectively, looking through the customer to the customer’s customer (the “ultimate customer”).

Humana was compensated in two ways. First, it was reimbursed for amounts it paid to participating pharmacies when those pharmacies dispensed prescriptions to plan members. Second, it was paid a service provider fee based on the number of prescriptions that were dispensed to plan members.

Humana filed an amended return in Minnesota where it attributed the receipts to Wisconsin, the location of its “direct” customer headquarters, resulting in a refund from Minnesota. The commissioner of the Minnesota Department of Revenue (DOR) denied the refund claim. *Humana* appealed by filing a complaint in district court. After transferring to tax court, the parties cross-moved for summary judgment after stipulating to facts. The tax court granted the DOR’s motion.

Humana argued that its receipts from services must be attributed to where its direct customer received the services, Wisconsin. The court noted that because the facts show that *Humana*'s services were received by plan members in both Minnesota and Wisconsin, *Humana* did not meet its burden to show that the services were received entirely outside of Minnesota.

The tax court agreed with the DOR and concluded that the plain language of the statute "does not limit receipt of services for attribution purposes to 'direct customers' of the taxpayer," and "the determination of who received services is fact specific." In applying this interpretation, the tax court concluded that *Humana* failed to prove the services performed in exchange for the covered drug reimbursements "were provided only to and received only by [the direct customer] at locations outside Minnesota," an essential element of its claim. Because of a stipulation that all fees should be sourced together, the service provider fees had to be similarly sourced. The Supreme Court also found it relevant that the taxpayer, in providing its services, interacted directly with its customer's plan members.

The Minnesota Services Sourcing Statute creates a set of cascading rules that identify where to source receipts from the performance of services. *Humana* argued that when read as a whole, services are sourced to a place where the customer directly receives the service. However, the commissioner countered that the terms "direct" and "customer" do not appear in the statute, and it does not place any restriction on who receives a service.

In upholding the tax court's decision, the Supreme Court interpreted the "received" language as it is used in the Services Sourcing Statute to mean "to come into possession of or get from some outside source."

The Supreme Court noted that the cascading rules only require the analysis to move to the second option only if the state where the services are received is not readily determinable. To make its interpretation, the court noted this structure "implicitly acknowledges that a business's services *may not* be received by the direct customer and may instead be received by the customer's customer." [emphasis in original]

What this means to you

Minnesota taxpayers who provide services should analyze their facts in the context of this court's decision that "received" for sourcing services means "to come into possession of or get from some outside source," and does not require receipt by a direct customer.

Because the decision held that "received" is not limited to direct customers, and services can be considered received by a customer's customer, there may be refund opportunities for taxpayers who sourced services to direct customers with Minnesota headquarters.

Contact us

If you have questions regarding how this decision impacts your business, contact Smitha Chintamaneni, Bill Schenkelberg, or a member of Husch Blackwell's State and Local Tax team.