



This Week in State Tax (TWIST)

September 29, 2025



Minnesota: Pharmacy benefits received in Gopher State; Supreme Court looks through to “customer’s customer”

The Minnesota Supreme Court recently addressed whether a taxpayer’s income from the provision of pharmacy benefits management services was properly sourced in part to Minnesota (i.e., the location of the plan members) as opposed to Wisconsin where the taxpayer argued the service was received by the customer. The case focused on contracts between two members of a combined group—an insurance provider (HIC) that offers medical and drug insurance products to plan members in Minnesota and other states, and a pharmacy benefits manager (HPS) that provides various services related to HIC’s plan members. Among the services provided by HPS were maintaining the formulary for the plans (i.e., covered drugs), recruiting and maintaining a network of pharmacies to provide services to customers, and claims adjudication. Minnesota law attributes receipts from the performance of services to “the state where the services are received.” If the location where services are received is not readily determinable, Minnesota applies a cascading set of sourcing rules that looks to the ordering location or billing address of the customer.

On its original 2016 Minnesota tax return, Humana sourced its receipts based on where the HIC plan member resided when the member purchased the drug plan, including Minnesota. Subsequently, Humana amended its 2016 Minnesota return, attributing all HPS receipts to Wisconsin, the location of HIC’s headquarters and sought a refund of over \$800,000. After the Commissioner of Revenue denied Humana’s refund claim in full, Humana appealed to the district court, which transferred the case to the state Tax Court. In upholding the Commissioner, the Tax Court found that the plain language of Minnesota’s sourcing rule as applied to the sale of services did not limit the receipt of services to direct customers of the taxpayer. Instead, the determination of who received the services was fact specific, and Humana failed to prove the receipts were provided only to HIC and received only by HIC at locations outside Minnesota. Humana subsequently appealed to the Minnesota Supreme Court.

The taxpayer first argued that the plain language of the sourcing rule required a determination of where the taxpayer’s “direct customer” received the services, not where the customer’s customer received the services. Further, in the taxpayer’s view, the third and fourth cascading rules in the sourcing statute (i.e., the location of the ordering office or billing office), foreclose the possibility of sourcing by looking to where the plan member received the services. Finding in favor of the state, the court first looked to the dictionary definition of the term “received”. Based on these definitions, it concluded that “received” plainly means “to come into possession of or get from some outside source.” This definition, in the court’s view, does not limit “received” to exclude indirect beneficiaries. The court also reviewed the cascading rules, finding that the structure of the rules “implicitly

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acknowledges that a business's services may not be received by the direct customer and may instead be received by the customer's customer."

The taxpayer also pointed to a Minnesota Supreme Court decision in *Lutheran Brotherhood Research Corp.*, in which the court rejected a look-through approach for sourcing services provided by a mutual fund service provider to a family of funds. The court noted that the sourcing statute in *Lutheran Brotherhood* required service receipts to be attributed to where the benefit of the service was *consumed*. Thus, the case has only limited value in interpreting the current statute. Based on the facts presented, the Supreme Court held that the tax court did not err in finding that Humana had not successfully met its burden to show HPS's services were received entirely outside Minnesota. As such, Humana's refund claim denial was upheld. For questions about [Humana MarketPoint, Inc. v. Comm'r of Revenue](#), contact [Dale Busacker](#) and [Miriam Sahouani](#).

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