

MINNESOTA • REVENUE

CORPORATE FRANCHISE TAX INDIVIDUAL INCOME TAX R&D Credit

March 14, 2011

Preliminary Estimates

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 11 (Bills)

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>
	(000's)			
Individual Income Tax / 12.5% first tier	(\$300)	(\$400)	(\$400)	(\$400)
Corporate Tax / 12.5% first tier	(\$5,700)	(\$4,600)	(\$4,700)	(\$4,800)
Corporate Tax / 5% second tier	<u>(\$33,100)</u>	<u>(\$27,200)</u>	<u>(\$29,100)</u>	<u>(\$30,600)</u>
Corporate Tax	(\$38,800)	(\$31,800)	(\$33,800)	(\$35,400)
General Fund Total	(\$39,100)	(\$32,200)	(\$34,200)	(\$35,800)

Effective beginning with tax year 2011.

EXPLANATION OF THE BILL

Current Law: The research and development (R & D) credit equals 10% of the first \$2 million of eligible expenses and 2.5% of any eligible expenses in excess of \$2 million. The credit is refundable, and it can be claimed by corporations, shareholders in S corporations, and partners in partnerships. Eligible expenses for activities in Minnesota are those eligible for the federal R & D credit.

Proposed Law: The bill increases the first-tier credit from 10% to 12.5% and the second-tier credit from 2.5% to 5%.

REVENUE ANALYSIS DETAIL

Corporate Franchise Tax

- The estimate is based on R & D credit data from returns filed during calendar year 2008.
- Growth in total eligible R & D expenditures is based on the forecast growth in national R & D expenditures by industry, as projected by the February 2011 forecast from Global Insight.
- Because about half of the dollars of first-tier R & D credit is received by those with eligible expenditures above the \$2 million cap, first-tier R & D expenditures are forecast to grow more slowly than second-tier expenditures.
- The tax year 2011 revenue loss is allocated to fiscal year 2012. Other tax year estimates are allocated 30/70 to fiscal years.

REVENUE ANALYSIS DETAIL (Cont.)

Individual Income Tax

- The estimated change in credits for shareholders in S corporations and partners in partnerships is based on federal experience.
- Because few if any S corporations and partnerships are expected to have eligible expenditures over \$2 million, growth rates are based on the growth in national R & D expenditures by industry, as projected by the February 2011 forecast from Global Insight.
- Tax year revenue loss is allocated to the following fiscal year.

Number of Taxpayers: The credit is claimed on slightly more than 200 returns each year. Only about 40 have expenditures that qualify for the second-tier rate.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy