

**MNCARE TAXES
Credit for Research**

April 12, 2001

	Yes	No
Separate Official Fiscal Note Requested	X	
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 1043 (Bishop)/S.F. 1167 (Kiscaden)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
Health Care Access Fund	(\$7,230)	(\$7,580)	(\$7,940)	(\$7,490)

Effective for research expenses paid in 2001 and thereafter.

EXPLANATION OF THE BILL

Current Law: For calendar year 2001, the MNCare credit for research is 2.5% of qualifying research expenditures for qualifying hospitals or health care providers. For calendar years 2002 and later, if the actual or estimated credit for research paid exceeds \$2.5 million, the Commissioner of Finance must determine the rate to the nearest one-half percent so that the total credit for research paid to all qualifying filers will most closely equal \$2.5 million. The rate of the credit for the following calendar year must be published in the State Register by October 1 of each year. The credit is payable in the following calendar year if the MNCare return is timely filed.

Proposed Law: For calendar year 2001, the rate for the MNCare credit for research would be 7.5% instead of 2.5%. For calendar years 2002 and later, if the actual or estimated credit for research paid exceeded \$10 million, the Commissioner of Finance would determine the rate to the nearest one-half percent so that the total credit for research paid to all qualifying filers would most closely equal \$10 million instead of \$2.5 million. The rate of the credit for the following calendar year would still have to be published in the State Register by October 1 of each year.

REVENUE ANALYSIS DETAIL

- Minnesota Department of Revenue records show that the qualifying research expenditure base for calendar year 2000 is about \$137.9 million. This figure includes an adjustment of about \$1.7 million for returns not yet filed but expected to be filed.
- Based on Department of Revenue data from 1996 to 2000, a four-year average growth factor for qualifying research expenditures was calculated to be 4.82%. This factor was used to extrapolate expenditures through calendar year 2004.
- Department of Revenue records for calendar year 2000 indicate that no recipient of the credit for research would have had their MNCare tax liability completely eliminated if the rate for that year had been 7.5% instead of 2.5%. It is assumed that this trend will continue.

April 12, 2001

REVENUE ANALYSIS DETAIL (Continued)

- Under both current and proposed law, the credit at the full rate would exceed the dollar limitation. Therefore, for calendar years 2002 and later, reduced credit rates under current law and proposed law were calculated to the nearest one-half percent to emulate the calculations that will be required of the Commissioner of Finance.
- The impact for fiscal years 2003 and later (based on expenditures for 2002 and later) can vary from precisely \$7.5 million because the rate must be calculated in advance to the nearest one-half percent.

Number of Taxpayers Affected: Current data indicates that there are about ten qualifying hospitals or health care providers that claim the credit for research.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>

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