INDIVDUAL INCOMETAX
CORPORATE FRANCHISE TAX
Refundable R & D Tax Credit
Subtraction: Technology Investments

March 12, 2001

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

Department of Revenue
Analysis of S.F. 501 (Cohen), Article 1, Tax Incentives

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**FY2005**
	(000's)			
Individual Income Tax	----(Unknown*)----			
Corporate Franchise Tax	($1,000)	($900)	($1,000)	($1,100)

*Unknown but likely to be small through fiscal year 2005

For the individual income tax, effective for investments made after December 31, 2000.
For the corporate franchise tax, effective for tax years beginning after December 31, 2000.

EXPLANATION OF THE BILL

Current Law: For the individual income tax, capital gains are included in income to the same extent as under federal law.

The research and development tax credit is a nonrefundable credit allowed against the corporate franchise tax, and it has a fifteen-year carryover provision.

Proposed Law: For the individual income tax, a subtraction would be allowed equal to 50% of the capital gain included in federal taxable income from investments in qualified high technology businesses. A business qualifies if at least 50% of its activities consists in conducting qualified research in Minnesota or it derives at least 50% of its income from performing such research in Minnesota. The research qualifies if it is the type that qualifies for the federal research credit under IRC Sec. 41(d) or meets the definition provided regarding computer software. Certain types of companies are specifically excluded.

The research and development credit would be made refundable, and the carryover provision would be repealed.

REVENUE ANALYSIS DETAIL

Individual Income Tax

- Because the subtraction is effective for investments made after December 31, 2000, there will be no impact until investments made in 2001 and after are sold and a gain realized. Therefore, it is expected that any impact in fiscal years 2002 through 2005 would be small. The impact could be significant beyond fiscal year 2005.
- The criteria for a "qualified high technology business" are such that they would limit the number of eligible businesses. Only investments is these businesses would be allowed the special capital gains treatment in the bill.
- Although the direct appropriations in Article 2 of the bill could stimulate private investments in high technology businesses, in most cases any gains would be realized beyond the forecast period.
- The amount eligible for the proposed subtraction in the future cannot be determined at this time. The market environment for high technology firms is extremely uncertain and cannot be predicted with any validity.
- A single lucrative sale could generate considerable gains to be excluded, but such unique events cannot be forecast.

Corporate Franchise Tax

- The revenue estimate is based on data from returns received in calendar year 1998.
- The estimate assumes that filed 1998 data represents collections in fiscal year 1998.
- Filed 1998 R& D tax credit data was examined to determine how much of the current law R & D tax credit would be refundable.
- The average growth in R &D credits claimed during the past years is used to project future revenue losses.
- The FY 2002 estimate was increased by 30% to reflect the January 1, 2001, effective date.

Number of Taxpayers Affected:

About 75 corporate taxpayers would benefit from making the research and development credit refundable. About 200 corporations that claim the credit would receive no additional benefit.

ADMINISTRATIVE/OPERATIONAL IMPACT See fiscal note

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

sf0501-1 / DD/ch