

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Small Business Technology Credit

March 9, 2007

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 10 (Thissen)/ S.F. 230 (Larson)

	Fund Impact			
	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>	<u>F.Y. 2010</u>	<u>F.Y. 2011</u>
			(000's)	
General Fund	(\$48,600)	(\$45,700)	(\$54,800)	(\$65,100)

Effective for tax years beginning after December 31, 2006.

EXPLANATION OF THE BILL

The bill would create a nonrefundable technology credit against the individual income tax or corporate franchise tax equal to 25% of the first \$40,000 of computer and peripheral equipment purchased in a tax year for a business with 100 or fewer full-time employees. If the tax exceeded the liability, the excess credit could be carried over for up to five years.

REVENUE ANALYSIS DETAIL

- Data on business purchases of computers and peripheral equipment was taken from the Bureau of Economic Analysis' *National Economic Accounts Fixed Asset Table* regarding non-residential historical-cost investment in computers and peripheral equipment.
- This estimate assume that growth in business purchases of computer and peripheral equipment equals growth in investment in computers and peripheral equipment from Global Insight, Incorporated's February 2007 forecast.
- The national data was apportioned to Minnesota based on employment. Data on Minnesota's share of national employment was taken from the Local Area Unemployment Statistics published by the Minnesota Department of Employment and Economic Development.
- Based on data from the Bureau of Labor Statistics and the Census Bureau, this estimate assumes that 97.9% of businesses have 100 or fewer full-time employees, and therefore qualify for the credit. The Internal Revenue Service's *Statistics of Income Integrated Business Dataset* indicates that, during 2002, the smallest 97.9% of firms (measured by business receipts) reported 12.4% of total depreciation. This estimate assumes that the share of total depreciation can be used as a proxy for the share of total computer and peripheral purchases.

REVENUE ANALYSIS DETAIL (Continued)

- This estimate was reduced by 50% to take into account purchases by qualifying companies that exceed \$40,000 in a year.
- All of tax year 2007 was allocated to fiscal year 2008. Other tax years were allocated 30/70 to fiscal years.

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

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