MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
R & D Credit

April 11, 2008

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2831 (Saltzman) / H.F. 3704 (Bunn)

	Fund Impact			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y. 2011**
		(000's)		
General Fund	$0	($41,000)	($24,300)	($24,300)

Effective beginning with tax year 2008.

EXPLANATION OF THE BILL

Current Law: Corporations are allowed to claim a nonrefundable research and development (R & D) credit. The credit can be used against only the regular tax. The credit is 5% of the first $2 million of qualified research expenses and 2.5% on qualified research expenses over $2 million. Any unused amount is carried forward and is used against tax liability in future years.

Proposed Law: The tax credit percentage would be 10% of the first $250,000 of qualified research expenses and 5% of the excess over $250,000.

For taxpayers claiming a tax credit on qualified research expenses up to $250,000, the tax rate percentage is increased from 5% to 10%. This group of taxpayers would have their tax credits doubled.

For taxpayers claiming a tax credit on qualified research expenses over $250,000 and less than $2 million, the tax credit percentage would remain the same. The increase in the tax credit for this group of taxpayers is $12,500 per taxpayer (5% of the first $250,000).

For taxpayers claiming a tax credit on qualified research expenses over $2 million, the tax credit percentage would increase from 2.5% to 5%. The increase in the tax credit for this group of taxpayers is $12,500 per taxpayer plus a doubling of the credit on qualified expenses over $2 million.

The bill changes the credit from a nonrefundable credit to a refundable credit. When a credit is refundable, the amount the credit exceeds tax liability is paid to the taxpayer. Unlike present law, the tax credit can be used against both the regular and the alternative minimum tax (AMT). The bill caps the amount that the R & D credit can reduce AMT tax liability at $25,000. AMT tax liability in the current tax year creates a corresponding AMT credit that can be used to reduce the regular tax in future years. With the cap on how much the R& D credit can reduce AMT liability and provided that the taxpayer has an AMT tax liability greater than $25,000, the AMT paid is larger than without the cap. Also, the bill allows any member of the unitary group to claim the credit.

EXPLANATION OF THE BILL (continued)

All prior year carryover R & D credits would become refundable. Carryover R &D credits are generated when the R & D credit exceeds the amount of regular tax. The carryover R & D credits can be carried forward fifteen years. Under the bill, all of the remaining carryover R & D credits generated over the past fifteen years can be claimed as a refundable credit.

REVENUE ANALYSIS DETAIL

- The R& D estimate is based on R & D data from returns filed during calendar year 2007.
- About 95% of the revenue loss is concentrated in about 50 taxpayers who claim R & D credits under current law that are greater than $100,000.
- Because the change is considered retroactive, the tax year 2008 revenue loss associated with the proposal that normally would occur in fiscal year 2008 is shifted to fiscal year 2009.
- Growth in overall corporate tax collections as projected by the Department of Finance in the February 2008 forecast is used to project future revenue losses.
- Carryover R & D credits generated when the credit was nonrefundable are assumed to paid out in fiscal year 2009.

Number of Taxpayers: There are about 250 taxpayers affected by the bill.

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

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