MINNESOTA · REVENUE

CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
Foreign Royalty Repeal
Increase R & D Tax Credit

January 30, 2013

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 10 (Rest) As Proposed to be Amended (SCS0010-A3)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
	(000's)			
Foreign Royalty Subtraction Repeal	$109,000	$76,100	$74,900	$74,100
R&D Tax Credit				
Corporate Franchise Tax	($35,600)	($28,500)	($29,700)	($30,900)
Individual Income Tax	($700)	($700)	($700)	($700)
General Fund Net Impact	$72,700	$46,900	$44,500	$42,500

Effective beginning with tax year 2013.

EXPLANATION OF THE BILL

Foreign Royalty Subtraction Repeal
The bill would repeal the subtraction for foreign royalty income. Under current law, 80% of royalties received from foreign corporations is allowed to be subtracted from federal taxable income. Under the bill, all royalties received from foreign corporations would be subject to tax.

R & D Tax Credit
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. Expenses eligible for the credit are the same as those used to compute the federal R&D credit. In order to claim the Minnesota credit, the R&D must take place in Minnesota.

The proposal would increase the second-tier tax credit rate from 2.5% to 4.5%; the first-tier tax credit rate would remain the same.

REVENUE ANALYSIS DETAIL

Foreign Royalty Subtraction Repeal

- The estimates are based on corporate income tax data for returns received in calendar year 2011. This is the latest available data.
- The revenue estimate is adjusted downward to reflect the effect of the phase-in to 100% sales weighting in tax year 2014.
- The revenue gain is assumed to match the growth of corporate franchise tax collections in the November 2012 revenue forecast.
- All of tax year 2013 was allocated to fiscal year 2014. Other tax years were allocated 30/70 to fiscal years.
- The tax for approximately 600 unitary groups would be affected by the repeal of the subtraction.

R & D Tax Credit - Corporate Franchise Tax

- The estimate is based on latest available R & D credit data from tax year 2010.
- The total R & D credit for tax year 2010 is $64.6 million.
- The R & D credit amounts are assumed to grow at 4% per year.
- All of the tax year 2013 revenue loss was allocated to FY 2014. Other tax years were allocated 30/70 to fiscal years.
- The credit would be increased for an estimated 90 taxpayers

R & D Tax Credit - Individual Income Tax

- The estimate is based on R & D credit data from tax year 2011.
- The total R & D credit for tax year 2011 is projected to be $13.0 million.
- The R & D credit amounts are assumed to grow at 4% per year.
- Tax year revenue loss is allocated to the following fiscal year.
- The credit would be increased for an estimated 20 taxpayers.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

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