CORPORATE FRANCHISE TAX
INDIVIDUAL INCOME TAX
R &D Tax Credit Computation

February 4, 2013

	Yes	No
DOR Administrative Costs/Savings		x

Department of Revenue
Analysis of H.F. 206 (Anderson S.)

	Fund Impact			
	F.Y. 2014	**F.Y. 2015**	**F.Y. 2016**	**F.Y. 2017**
		(000's)		
Corporate Franchise Tax	($37,600)	($30,200)	($31,400)	($32,600)
Individual Income Tax	($8,400)	($8,700)	($9,100)	($9,400)
General Fund Total	($46,000)	($38,900)	($40,500)	($42,000)

Effective beginning with tax year 2013.

EXPLANATION OF THE BILL

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. Eligible expenses are expenses in excess of a base period amount. The base period amount is a measurement of R & D effort in prior years.

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 bill would change the calculation of the credit. The first tier credit would be calculated at 10% of the first $2 million of current-year R & D spending. In contrast, under current law the R & D tax credit is applied to eligible expenses in excess of a base period amount. Under this change in the formula of computing the R & D credit, those with R&D spending below $2 million could have their credits increased by as much as 100%.

The calculation of the second tier credit would start with current-year research expenses less the greater of the base period amount or the amount used to calculate the first tier. The second tier credit rate of 2.5% would apply to that difference. The result is that the second tier credit rate of 2.5% could apply to up $2 million in eligible expenses that are not included under current law.

REVENUE ANALYSIS DETAIL

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.
- All existing users of the credit would be able to claim a larger credit than under current law.
- Taxpayers that could not claim a tax credit under current law because their base amount exceeded their current-year expenses would be able to claim the credit.
- 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.

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.
- All existing users of the credit would be able to claim a larger credit than under current law.
- Taxpayers that could not claim a tax credit under current law because their base amount exceeded their current-year expenses would be able to claim the credit.
- The R & D credit amounts are assumed to grow at 4% per year.
- Tax year revenue loss is allocated to the following fiscal year.

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

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