

# MINNESOTA • REVENUE

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

March 8, 2013

*Senate Author Added*

Department of Revenue  
Analysis of H.F. 206 (Anderson S.) / S.F. 604 Ortman

|                                     | Yes | No |
|-------------------------------------|-----|----|
| DOR Administrative<br>Costs/Savings |     | X  |

|                         | <b>Fund Impact</b>      |                         |                         |                         |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                         | <b><u>F.Y. 2014</u></b> | <b><u>F.Y. 2015</u></b> | <b><u>F.Y. 2016</u></b> | <b><u>F.Y. 2017</u></b> |
|                         |                         | (000's)                 |                         |                         |
| Corporate Franchise Tax | (\$37,600)              | (\$30,200)              | (\$31,400)              | (\$32,600)              |
| Individual Income Tax   | <u>(\$8,400)</u>        | <u>(\$8,700)</u>        | <u>(\$9,100)</u>        | <u>(\$9,400)</u>        |
| 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](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)