

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Extend Research Credit to Sole Proprietors

March 13, 2014

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 1963 (Anderson, S.) As Proposed to be Amended (H1963A1)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
General Fund	\$0	(\$6,500)	(\$1,400)	(\$1,500)

Effective retroactively beginning with tax year 2010.

EXPLANATION OF THE BILL

Current Law: The research and development (R & D) credit is a nonrefundable tax credit. The tax credit can be used to reduce the franchise tax due from C corporations, and the tax credit can be used to reduce the individual income tax due for partners in a partnership and shareholders in an S corporation. If the tax credit exceeds the tax, the excess tax credit can be carried forward 15 years to reduce the regular tax in future years. For tax years 2010 through 2012, the credit was refundable.

Proposed Law: All individual income taxpayers including sole proprietors would be able to claim the R & D credit. Under present law, only individual taxpayers who are partners in a partnership or shareholders in an S corporation are able to claim the R& D credit.

REVENUE ANALYSIS DETAIL

- The total R & D credit for the individual income tax for tax year 2012 is \$14.9 million.
- The amount of R & D tax credit that would be claimed by sole proprietors is not known but is assumed to increase the R & D credit for individual taxpayers by 10%.
- Fiscal year 2015 reflects the cost of making the law change retroactive. The four retroactive years accounts for \$5.1 million of the total revenue loss for that fiscal year.
- The total 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
[www.revenue.state.mn.us/research_stats/Pages/
Revenue-Analyses.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx)

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