

MINNESOTA • REVENUE

CORPORATE FRANCHISE TAX INDIVIDUAL INCOME TAX Make the Research Credit Refundable

March 12, 2014

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue

Analysis of H.F. 2015 (Anderson, S.) As Proposed to be Amended (H2015A1)

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
		(000's)		
Corporate Franchise Tax	\$0	(\$41,200)	(\$33,200)	(\$34,700)
Individual Income Tax	<u>\$0</u>	<u>(\$2,200)</u>	<u>(\$2,300)</u>	<u>(\$2,400)</u>
General Fund Total	\$0	(\$43,400)	(\$35,500)	(\$37,100)

Effective beginning with tax year 2014.

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. In corporate unitary groups the franchise tax includes all of the franchise tax due from all members of the unitary group. The tax due is reduced by any nonrefundable tax credits. 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.

Proposed Law: The R & D credit would change from being a nonrefundable credit to a refundable credit.

REVENUE ANALYSIS DETAIL

Corporate Franchise Tax

- The amount of the current year R & D credit for tax year 2011 was recomputed as if it were a nonrefundable tax credit. Credit dollars are considered nonrefundable when the current year R & D tax credit is less than or equal to the regular tax. The difference between the total credits reported and a computed nonrefundable credit amount is the revenue loss.
- One adjustment also was applied to the difference. Due to the repeal of the foreign royalty subtraction, the estimate of the amount of regular tax dollars was increased. The increase in regular tax dollars results in an increase of nonrefundable credit dollars.
- The R & D credit amounts are assumed to grow at 4% per year.
- Due to a retroactive effective date, all of the tax year 2014 revenue loss is allocated to FY 2015. Tax year revenue losses other than those from tax year 2014 are allocated 30/70 to fiscal years.

REVENUE ANALYSIS DETAIL (Cont.)

Individual Income Tax

- The total reported R & D credit for tax year 2012 is estimated to be \$14.9 million.
- The amount of the current year R & D credit for tax year 2012 was recomputed as if it were a nonrefundable tax credit. As a result of this computation, about 85% of the total reported R & D credit dollars was considered nonrefundable. The remainder of 15% of total reported R & D credit dollars was considered refundable. Credits were considered refundable if the credit amount is greater than the tax due. The difference between the total credits reported and a computed nonrefundable credit amount is the revenue loss.
- 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.

Number of Taxpayers: Over 400 taxpayers would be affected by the bill.

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)