

February 19, 2019

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	X	

Department of Revenue  
Analysis of S.F. 1008 (Nelson)

	<b>Fund Impact</b>			
	<b>F.Y. 2020</b>	<b>F.Y. 2021</b>	<b>F.Y. 2022</b>	<b>F.Y. 2023</b>
			(000's)	
General Fund	(\$1,400)	(\$1,100)	(\$1,100)	(\$1,100)

Effective beginning with tax year 2019.

**EXPLANATION OF THE BILL**

**Current Law:** Minnesota research and development (R&D) expenditures qualify for the R&D tax credit only to the extent they exceed a base amount. The base amount is the larger of the following:

- (1) 50% of current-year Minnesota research and development expenditures, or
- (2) A fixed percentage of average Minnesota gross receipts over the prior four years.

For older businesses, the fixed percentage is the ratio of Minnesota R&D expenditures to Minnesota gross receipts in the base years of 1984-1988, up to a maximum of 16%. Newer businesses (“start-ups”) use an alternative method to calculate the fixed percentage. For most businesses, the first calculation of the base amount (50% of Minnesota R&D expenditures) is larger. As a result, half of their Minnesota research expenditures qualify for the credit.

Some older businesses lack documentation for their R&D spending in the base years of 1984-88. Without this information, no fixed base percentage or base amount can be computed. Without a base amount, no R&D tax credit can be claimed.

**Proposed Law:** The proposal allows taxpayers without documentation of R&D spending during the base years of 1984-1988 to use a fixed base percentage of 16%. This is the highest fixed base percentage that could apply if documentation were available. The proposal would not affect start-up companies.

**REVENUE ANALYSIS DETAIL**

- Based on an analysis of returns filed in 2013, Minnesota R&D expenditures are estimated to average \$2.5 billion per year. It is assumed that newly eligible taxpayers account for 2% of those expenditures (\$50 million). It is assumed that 50% of the R&D expenditures of the newly eligible taxpayers would qualify for the credit.
- There are two tax credit percentages. The first-tier credit rate (10%) applies to creditable R&D up to \$2 million. The second-tier rate (4%) applies to creditable R&D greater than \$2 million.
- The average credit rate for newly eligible expenditures is estimated at 8.5%.

**REVENUE ANALYSIS DETAIL (Cont.)**

- Because the credit is nonrefundable, the revenue loss is reduced by 50%.
- Due to a retroactive effective date, all of the tax year 2019 revenue loss is allocated to fiscal year 2020. The revenue loss from other tax years are allocated 30/70 to fiscal years.

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)

sf1008\_1 / dkd hjg