

**Subject** Research credit

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## Overview

H.F. 173 would allow taxpayers to elect an alternative simplified credit (ASC) under the state's credit for increasing research activities (commonly referred to as the "research credit").

The ASC allows a taxpayer to use a simplified method to determine the base amount, for purposes of calculating the credit. Instead of using the "regular" base amount for the research credit (described below), the ASC uses a base amount that is 50 percent of the taxpayer's most recent three-year average of qualified research expenditures (QREs). The excess of the taxpayer's current taxable year QREs over the ASC base amount then qualifies for the Minnesota credit, at a credit rate of either ten percent (on the first \$2,000,000 of the excess QREs) or four percent.

The regular federal credit, which Minnesota mostly follows, is designed to provide a credit for increases in a business's QREs relative to increases in a taxpayer's total gross receipts, over both a longer and shorter time period. By contrast, the ASC only looks to the increase in a taxpayer's current year QREs relative to half of the taxpayer's most recent three-year average of QREs.

For the regular credit, the credit is equal to a percentage of a taxpayer's current taxable year QREs that exceed the taxpayer's base amount. The base amount is further determined based on a historical percentage of a taxpayer's QREs compared to historical gross receipts. That percentage is then applied to a more recent four-year average of the taxpayer's gross receipts to determine the base amount.

For the credit in Minnesota, only QREs in Minnesota qualify for the credit. In addition, only a taxpayer's gross receipts in Minnesota are used to determine the base amount.

One limitation on the base amount for both the federal and state credit is that the base amount may not be less than 50 percent of a taxpayer's current year QREs. Taxpayers with large dollar amounts of QREs in Minnesota relative to their Minnesota gross receipts may therefore hit this cap on the base amount relatively frequently.

If a taxpayer's current QREs exceed the base amount, federally, the taxpayer is allowed a credit equal to 20 percent of the excess. If a taxpayer uses the alternative simplified credit, the credit rate is 14 percent. At the state level, a taxpayer is allowed a credit equal to ten percent of the excess on the first \$2,000,000 of that excess, and a four percent credit on the excess over \$2,000,000.

## Summary

Section	Description
1	<p><b>Definitions. (Research credit)</b></p> <p>Modifies the base amount (which is used to determine the portion of current year QREs qualifying for the credit) to allow the use of an alternative simplified credit. The proposed base amount would be 50 percent of the most recent three-year average amount of QREs.</p>
2	<p><b>Alternative simplified credit election.</b></p> <p>Requires a taxpayer to make an irrevocable election to use the alternative simplified credit for a taxable year.</p>



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