



Minnesota Research Tax Credit

January 31, 2019

Issue Overview: Research Tax Credit

- Has no purpose specified in law
- Increased jobs and earnings but in relatively small numbers; the credit did not pay for itself
- Changes proposed to the credit received no analysis of effectiveness
- Available data are insufficient to track performance
- Audits can create administrative burdens
- Department offered limited guidance to taxpayers

Background

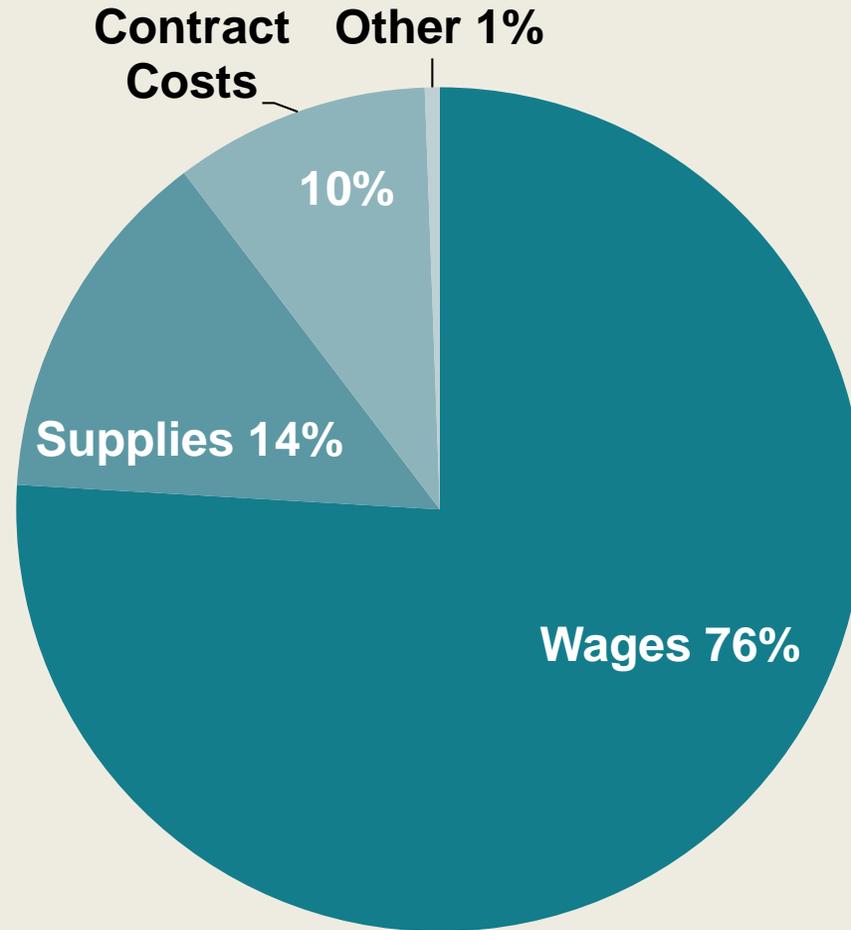
- 1981 Legislature established the tax credit
- Current eligible businesses:
 - S corporations
 - C corporations
 - Partnerships

Background

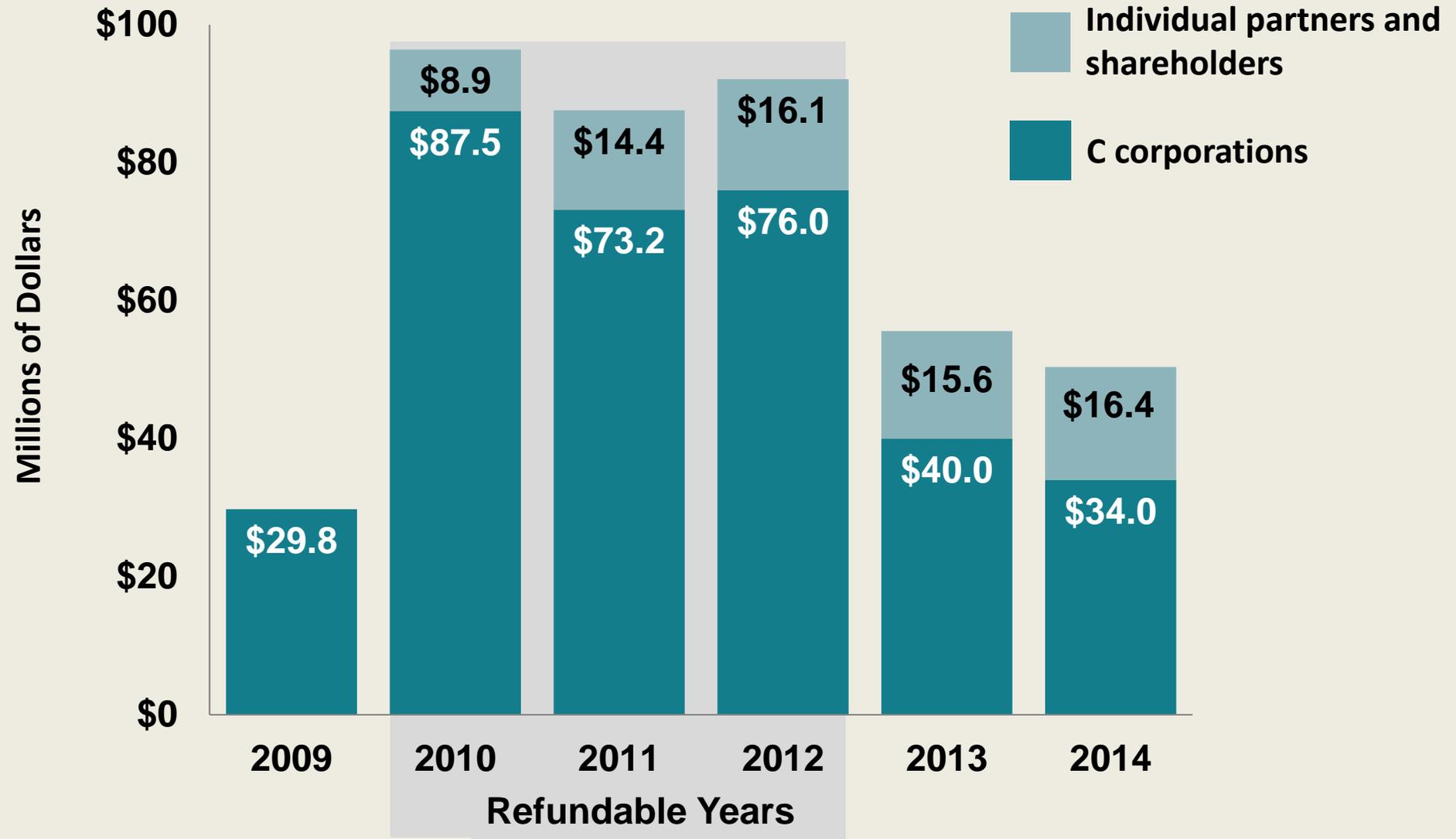
- Qualified research must meet legal requirements
- Research tax credit calculation
 - Compare qualified research expenses against a base
 - Two tiers of credit rates

	First Tier	Second Tier
Qualified Research Expenses	Up to \$2 million	Exceeding \$2 million
Credit Rate	10 percent	4 percent

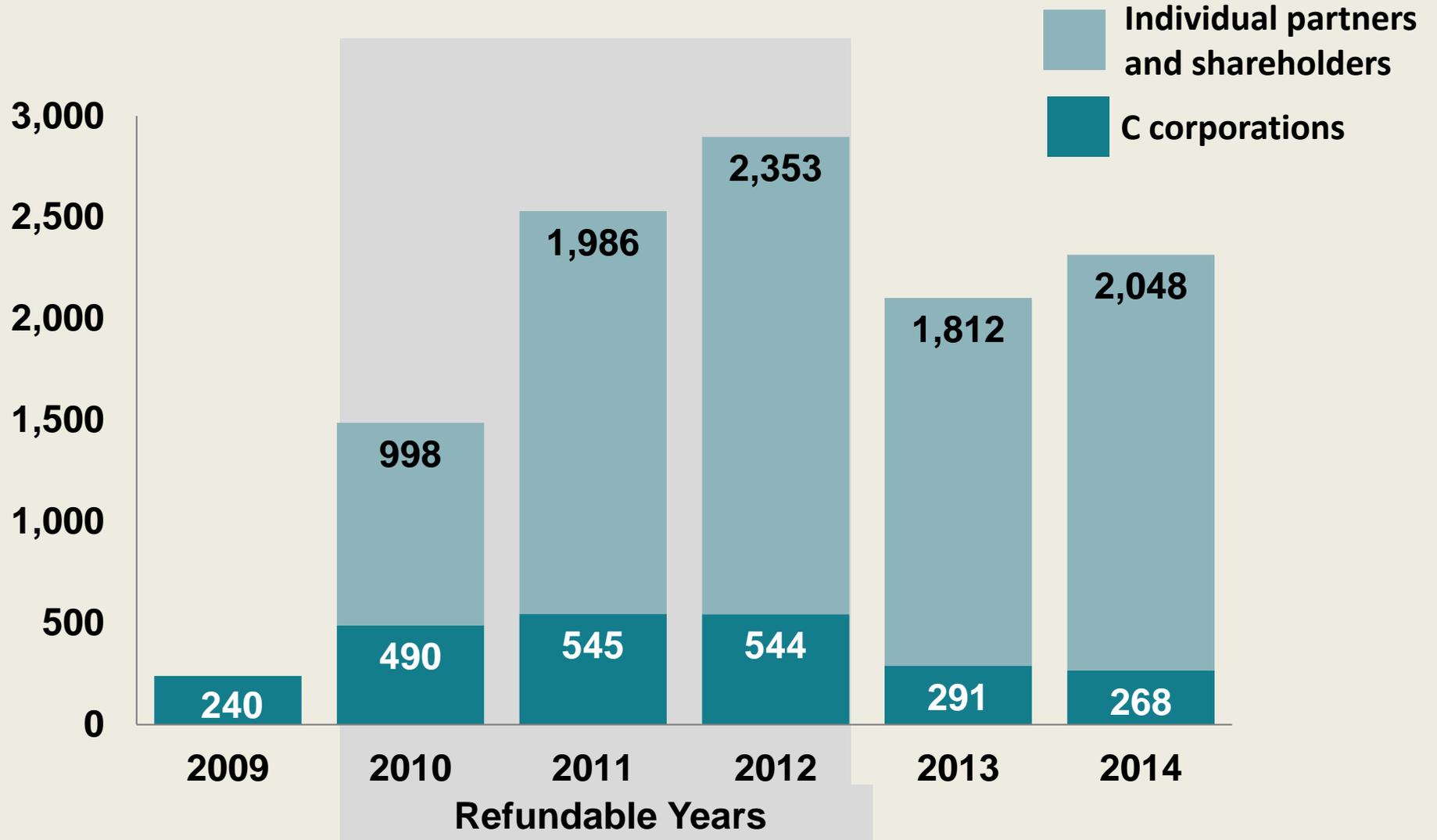
Expenses for Eligible Research in Minnesota



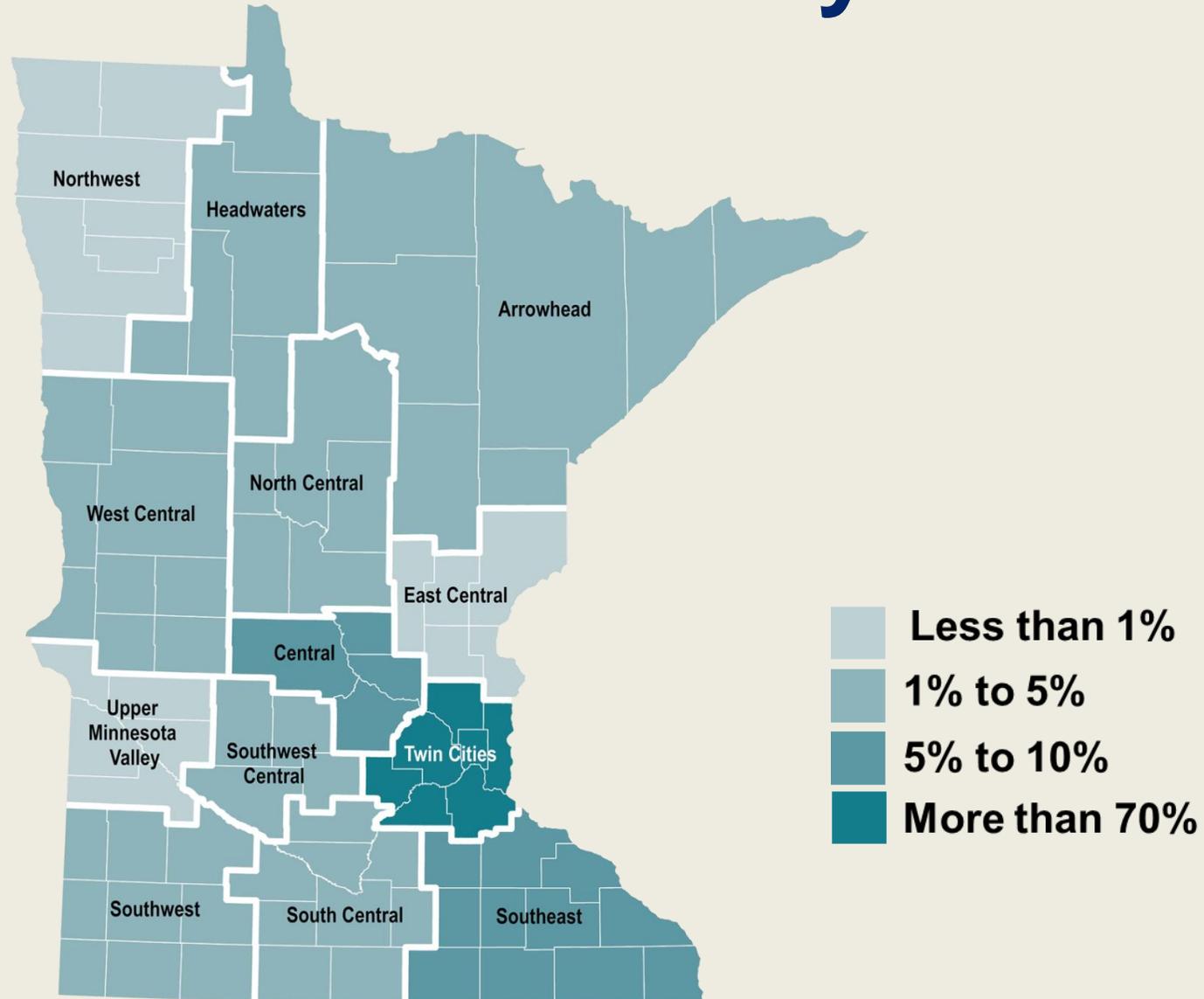
Amounts of Research Tax Credit Claimed



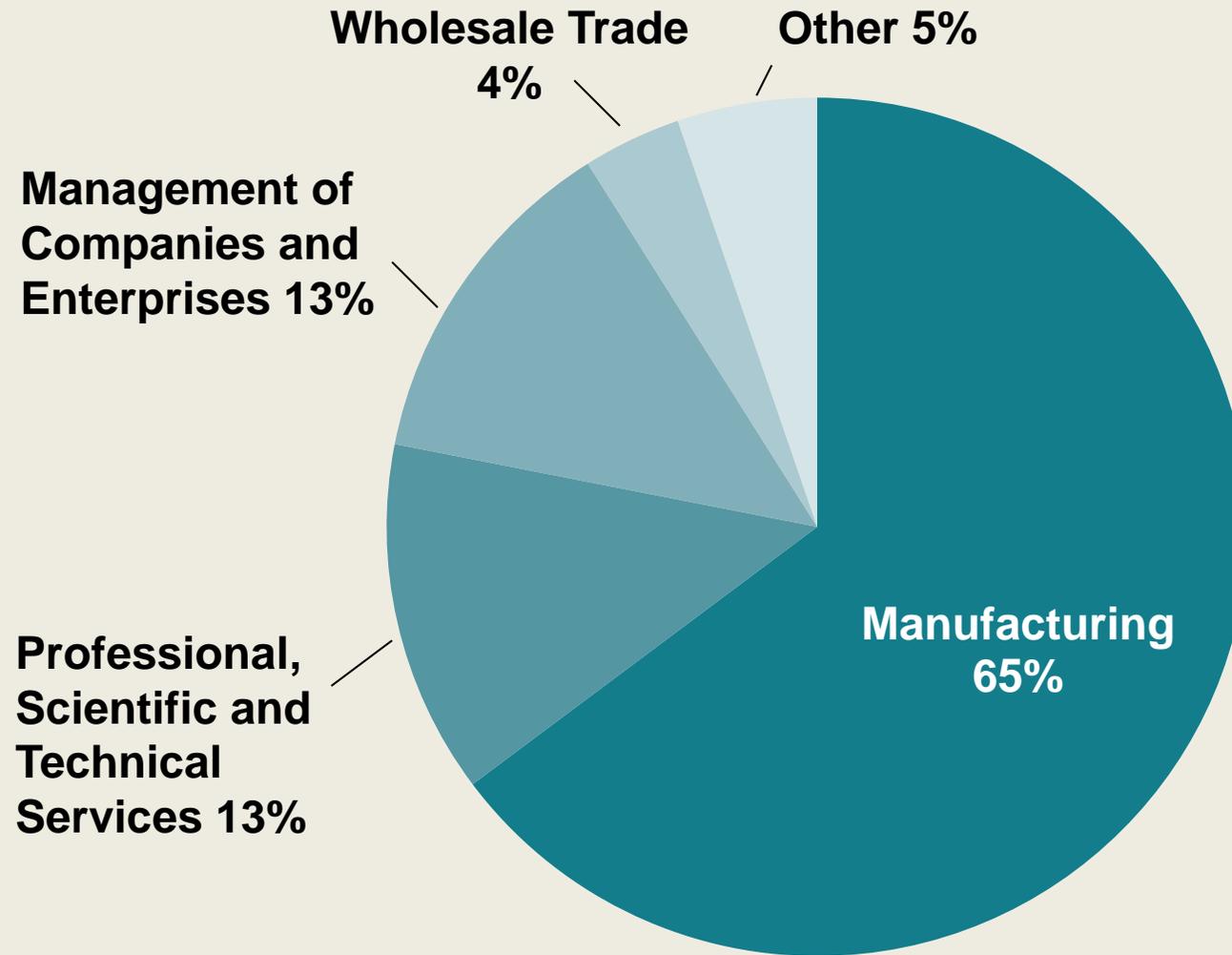
Number of Claimants



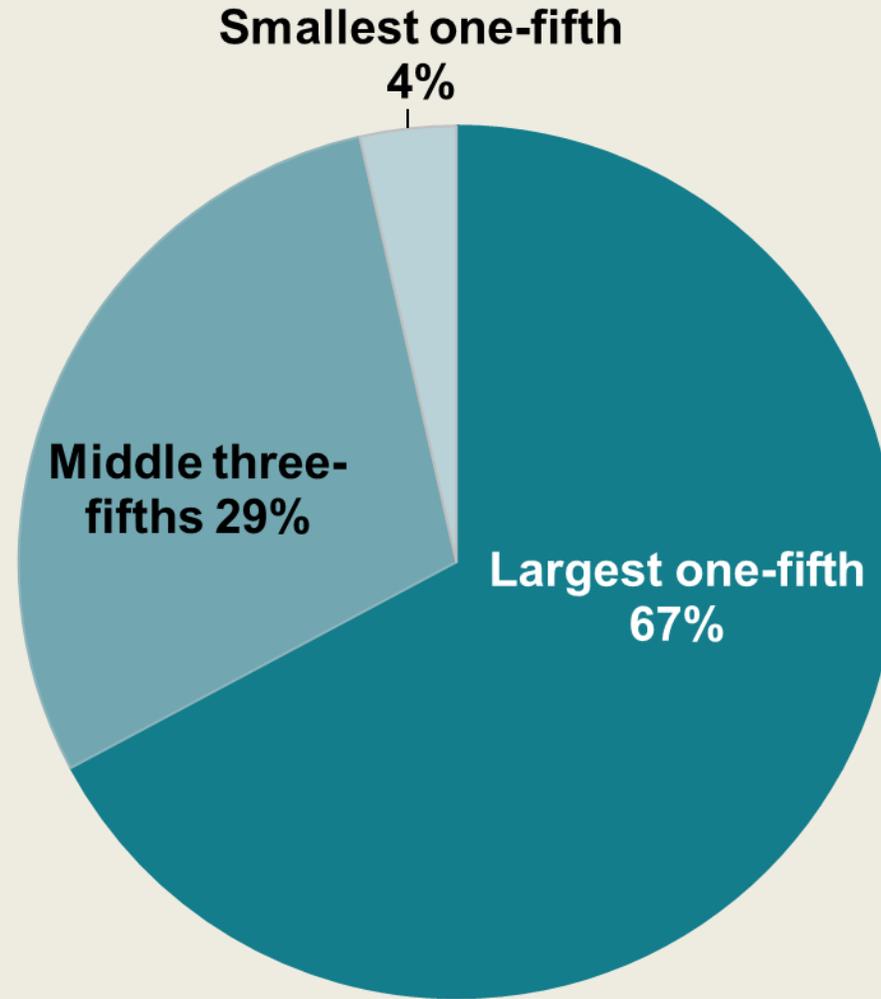
Location of Research Activity



Manufacturing Industry Share of Credit



Tax Credit by Size of Company



Lack of Purpose and Objectives

- Evaluating effectiveness requires knowing the tax credit's purpose
- Minnesota law does not specify a purpose for the research tax credit
- Recommendation: Legislature should establish in statute explicit and measureable objectives

Estimated Economic Effects

- Objective: Create or retain jobs
- Economic model developed by Pew Charitable Trusts

Estimated Job Creation and Earnings Increases

	Net Increase in Employment (in job-years)	Net Increase in Earnings
2008	790	\$43 million
2009	870	\$50 million
2010	860	\$59 million
2011	1,150	\$91 million
2012	1,330	\$101 million
2013	1,540	\$124 million
2014	1,540	\$129 million

Placing Estimated Tax Credit Effects in Context

- Statewide jobs and earnings 2008-2014
 - Small fraction (less than 0.06 percent) of statewide jobs and earnings
- Four industries' jobs and earnings
 - At most, 0.2 percent each year

Estimated Net Fiscal Benefits v. Tax Credit Cost



Activities for Proposed Changes to Research Tax Credit

- Understand fiscal risks and impacts on effectiveness
- Department of Revenue prepares revenue estimates
- Estimates of impacts on the credit's effectiveness are not available

Proposed Changes to Research Tax Credit

- Recommendation: Legislature should require and review analyses of tax credit effectiveness
 - Require analysis of changes to tax credit
 - Review effects after a specified period

Possible Controls on Costs when Changing the Research Tax Credit

- Target the tax credit
- Limit the cost of the tax credit
- Link tax credit to actual performance of the claimants

Data Issues

- Insufficient Department of Revenue data
- Data are largely incomplete on individual taxpayers
- Outdated data
- Recommendation: Legislature should authorize the department to collect data sufficient for periodic evaluation

Audits

- Department of Revenue does not separately audit for research tax credits
- Business perspectives on audits were mixed
 - Length of audits
 - Costs of complying with the audits
 - Burden of fulfilling information requests

Audits

- Department of Revenue provided limited guidance
- Recommendation: Department of Revenue should offer additional, and more specific, help

Others' Research Tax Credits

- Comparing credit rates is helpful but incomplete
- States calculate the credit differently
- Small- and medium-sized hypothetical companies in Minnesota had as much or more tax credit than five other states
- Large hypothetical company in Minnesota had less tax credit than five other states

List of Recommendations

- Legislature should establish in statute explicit and measurable objectives for the research tax credit
- Legislature should require and review analyses of proposed changes
- Legislature should authorize Department of Revenue to collect data sufficient for evaluating the tax credit
- Department of Revenue should provide additional, more specific information to taxpayers

Minnesota Research Tax Credit

www.auditor.leg.state.mn.us