

Subject Alternative simplified credit allowed

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Overview

H.F. 3316 would allow taxpayers to claim the state credit for increasing research activities (also known as the “research credit”) using an alternative simplified credit (ASC).

Under current law, the credit is determined by comparing current taxable year QREs to the amount of QREs a taxpayer would have made if their historical percentage of QREs to gross receipts were applied to a four-year average of current gross receipts. If current year QREs exceed this amount, the excess is the base amount for the credit. At the state level, for the first \$2,000,000 of QREs that exceed the base amount, the credit rate is ten percent. For amounts over \$2,000,000, the rate is four percent.

Some exceptions apply. The historical percentage cannot exceed 16 percent and the base amount cannot fall below 50 percent of current year QREs.

The ASC allows taxpayers to skip the above steps in calculating their base amount, and instead allows taxpayers to claim a credit solely with reference to the percentage by which current taxable year QREs exceed 50 percent of a current three-year average of QREs.

The ASC benefits taxpayers with higher base amounts under the current formula or who cannot otherwise use the current formula. (The state calculation for base amount references the federal definition, with some state-specific modifications.)

The ASC is available federally, but at a lower rate than the regular federal credit (14 percent versus 20 percent) and is not allowed in Minnesota.

Summary

Section	Description
1	<p>Definitions.</p> <p>Modifies the definition of “base amount” for the research credit by allowing the ASC base amount to be used in this determination. The proposed ASC base amount is 50 percent of the three-year average of Minnesota QREs for the three taxable years immediately preceding the taxable year in which the credit is claimed.</p> <p>Effective date: tax years beginning in 2022.</p>
2	<p>Alternative simplified credit election.</p> <p>Allows taxpayers to make an election to calculate their base amount for the research credit using the ASC base amount under section 1. The election must be made prior to the filing deadline (including extensions) and is irrevocable for the taxable year.</p> <p>Effective date: tax years beginning in 2022.</p>



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