



**CORPORATE FRANCHISE TAX  
INDIVIDUAL INCOME TAX  
Federal Research Expenditures**

March 9, 2026

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

Department of Revenue  
Analysis of H.F. 3816 (Witte)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2026</u></b>	<b><u>F.Y. 2027</u></b>	<b><u>F.Y. 2028</u></b>	<b><u>F.Y. 2029</u></b>
	(000's)			
<b>Corporate Franchise Tax</b>				
Immediate Expensing	\$0	(\$226,800)	(\$56,300)	(\$28,900)
Small Business Retroactive Expensing	\$0	(\$3,400)	\$2,400	\$1,000
Accelerated Expensing	\$0	(\$74,400)	\$47,500	\$19,800
Interaction	<u>\$0</u>	<u>\$10,500</u>	<u>(\$2,400)</u>	<u>(\$1,000)</u>
Subtotal	\$0	(\$294,100)	(\$8,800)	(\$9,100)
<b>Individual Income Tax</b>				
Immediate Expensing	\$0	(\$21,100)	(\$5,300)	(\$2,700)
Small Business Retroactive Expensing	\$0	(\$300)	\$200	\$100
Accelerated Expensing	\$0	(\$6,300)	\$4,400	\$1,800
Interaction	<u>\$0</u>	<u>\$300</u>	<u>(\$100)</u>	<u>\$0</u>
Subtotal	\$0	(\$27,400)	(\$800)	(\$800)
<b>General Fund Total</b>	\$0	(\$321,500)	(\$9,600)	(\$9,900)

Effective the day following enactment, except the changes incorporated by federal changes are effective retroactively at the same time the changes were effective for federal purposes.

**EXPLANATION OF THE BILL**

**Current Law:** Prior federal law generally required domestic research or experimental expenditures generally to be amortized ratably over five years. Domestic research or experimental expenditures include research or experimental expenditures paid or incurred by the taxpayer in connection with the taxpayer's trade or business other than such expenditures which are attributable to foreign research.

P.L. 119-21 allowed domestic research and experimental expenditures to be deducted immediately.

**Proposed Law:** The bill would conform to the federal treatment of research and experimental expenditures, including the immediate expensing and transitional rules.

*Immediate Expensing*

Under P.L. 119-21, beginning with tax year 2025 taxpayers may now deduct the full amount of domestic research or experimental expenditures in the year they are paid or incurred by the taxpayer. Alternatively, taxpayers may elect to charge these expenditures to capital account and amortize them over a period of not less than 60 months or over 10 years.

## **EXPLANATION OF THE BILL (Cont.)**

### *Transitional Rules*

In addition, beginning with tax year 2022 small businesses with average annual gross receipts of \$31 million or less may retroactively elect to deduct domestic research or experimental expenditures in the taxable year they were paid or incurred.

In the case of any domestic research and experimental expenditures which were paid or incurred in taxable years 2022 to 2024, and which were charged to capital account, a taxpayer may elect to:

- (1) deduct any remaining unamortized amounts in the first taxable year beginning after December 31, 2024 or;
- (2) deduct such remaining unamortized amounts ratably over the two taxable year period beginning with the first taxable year beginning after December 31, 2024.

## **REVENUE ANALYSIS DETAIL**

- The estimate is based on the amounts of Experimental and Research Expenditures reported in the 2022 IRS Statistics of Income “Line Item Estimates for Corporation Income Tax Returns and Individual Income Tax Returns.”
- From Form 4562, the total corporate amortization costs for Section 174 are about \$34 billion, 42.7% of the total amortization costs. That percentage is applied to the total amortization costs reported on individual income tax returns to give an estimated \$1.6 billion in Section 174 amortization costs on income tax returns.
- Due to the prior law amortization schedule of five years, the amounts above are assumed to equal 1/5 of the total Research and Experimental Expenses. Those totals are multiplied by five to get the annual expense amount. It is assumed that 80% of these totals are domestic expenses and eligible for immediate expensing.
- The total expenses for corporations are apportioned to Minnesota at 1%. Total expenses for individuals are apportioned to Minnesota at 1.9%. Expenses are assumed to grow at 3% a year.
- A prior law baseline is established by amortizing these amounts over five years to calculate how the deductions flow into Minnesota income.
- For 2025 and beyond, the immediate deduction amounts are equal to the estimated annual total research and experimental expenses.
- Small businesses (corporations with gross receipts of \$31 million or less) accounted for 5% of the research expenses reported on Schedule RD in 2022. It is assumed that 5% of the total research and experimental expenses in 2022-2024 would be eligible for federal retroactive expensing.
- The accelerated expenses are calculated by multiplying the years left on the prior law five-year schedule by the deduction amount for each year. For example, the 2022 prior law deduction amount is multiplied by two because deductions for three of the five years had already been claimed: 2022, 2023 and 2024.

### REVENUE ANALYSIS DETAIL (Cont.)

- Taxpayers may claim the accelerated deductions in the first taxable year beginning after December 31, 2024, or ratably over the two taxable year period beginning with the first taxable year beginning after December 31, 2024. It is assumed that 75% of taxpayers will deduct the amount in the first taxable year while 25% of taxpayers deduct the amount ratably over two taxable years.
- The tax year impact of the proposal is estimated by comparing the deductions flowing through to Minnesota under prior law to the deductions flowing through under the proposal and multiplying that amount by the applicable tax rate. For corporate franchise tax, a rate of 9.8% was used. For individual income tax, an average marginal rate of 8% is assumed.
- There is an interaction between the retroactive and accelerated provisions as research and experimental expenditures for small businesses are eligible for both provisions. Thus, estimating the two provisions in isolation double counts these expenditures.
- All retroactive tax year impacts are allocated to fiscal year 2027. All other tax year impacts are allocated 30% to the current fiscal year and 70% to the following fiscal year.

**Number of Taxpayers:** Unknown.

Minnesota Department of Revenue  
Tax Research Division  
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