

# HOUSE RESEARCH

## Bill Summary

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**Version:** As introduced

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**Subject:** Research and Development Credit

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### Overview

This bill allows the research credit against the individual income tax and increases the lower tier credit rate from 5 percent to 10 percent. Under present law, the research credit applies only to the corporate franchise tax.

#### Section

- 1**      **Research credit; individual income tax.** Allows the research and development tax credit against the individual income tax and increases the credit rate that applies to the first \$2 million of qualifying research expenditures from 5 percent to 10 percent. Amounts in excess of \$2 million qualify for a credit rate of 2.5 percent. Present law limits the credit to corporate franchise tax liability.  
  
**Background.** The credit applies principally to amounts expended for wages for qualifying research activities that exceed a base amount. When the research credit was first enacted in 1982, it applied to both corporate franchise and individual income tax liability. In 1987 as part of elimination of several credits, the research credit was restricted to the corporate franchise tax. The federal research credit, on which the Minnesota is based, is available to both corporate and individual taxpayers.
- 2**      **Carryover.** Modifies the terminology of the carryover provision to clarify that individual income taxpayers qualify for the credit, as well as C corporations.
- 3**      **Allocation of credit.** Makes a conforming change to the allocation of the credit among partners or shareholders of S corporations to reflect the allowance of the credit against the individual income tax.