

# HOUSE RESEARCH

## Bill Summary

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**Analyst:** Joel Michael, joel.michael@house.mn

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This bill increases each of the rates of the research credit by 2.5 percentage points. Under present law, the research credit equals ten percent of the first \$2 million of qualifying research and 2.5 percent of the excess over \$2 million. Under the bill those percentages would increase to 12.5 percent and five percent.

Background. The research credit is a refundable credit that applies against both the corporate franchise tax and individual income tax for flow-through tax entities (S corporations and partnerships). The credit is based on "qualified research," which is the firm's expenditures on research in the current taxable year minus a base amount. This base amount is based on the research expenditures by the entity during a three-year period (from 1984-1988) as a percentage of its gross receipts, but not to exceed 16 percent. Startup firms have a fixed-base percentage of three percent. (These computations are taken from federal law.) Qualifying research expenditures are largely expenditures on employee compensation (not equipment) for employees, conducting the research. The credit is limited to research conducted in Minnesota and the gross receipts used to determine the base amount are Minnesota gross receipts.