

HOUSE RESEARCH

Bill Summary

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Overview

This bill, as amended, makes the first \$250,000 of the research credit refundable. The changes are effective for tax year 2015.

Background. The research credit was enacted in 1982 as a nonrefundable credit against the individual income and corporate franchise taxes. The Minnesota credit is based on the federal research credit and applies to the growth in Minnesota research expenditures over a base amount (for most businesses, this is the amount of the research expenditures in a period in the mid-1980s increased by the percentage increase in their gross receipts). In 1987, the credit was limited to the corporate franchise tax (i.e., it was no longer allowed against the individual income tax). In 2010, the credit was extended to pass-through entities (S corporations and partnerships) under the individual income tax and was made refundable. 2013 legislation returned credit once again to a nonrefundable credit. This bill reverses the 2013 change for the first \$250,000 of the credit.

Section

- 1** **Definition; liability for tax.** Moves the definition of liability for tax, currently in subdivision 3, to the definitions subdivision of the credit statute. The definition is unchanged.
- 2** **Carryover credit.** Modifies the carryover provision of the research credit to eliminate the definition of "liability for tax," which is moved to section 1 and provides that the refundable portion of the credit is not to be carried over. Under present law, amounts in excess of the

Section

liability for tax are allowed a 15-year carryover to reduce taxes in future years. This would continue for amounts that do not qualify for the refund.

- 3** **Refundability.** Provides the first \$250,000 of the research credit is refundable. This will allow refunds for the first \$4 million of qualified research expenditures (i.e., the amount of the increase for the tax year over the taxpayer's base amount). Reductions in the alternative minimum tax and minimum fee count against the \$250,000 limit.