

HOUSE RESEARCH

Bill Summary

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Overview

This bill makes the following changes in the research credit. It:

- Increases the first-tier credit rate from 2.5 percent to 4 percent, effective for tax year 2016.
- Makes the first \$200,000 of the research credit refundable, effective for tax year 2015. This makes the credit attributable to the first-tier rate refundable.

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 the credit once again to a nonrefundable credit.

Section

- 1** **Research credit rate.** Increases the second-tier rate of the research credit from 2.5 percent to 4 percent. This rate applies to qualified research (increases over the base amount) that exceeds \$2 million.

Effective date: Tax year 2016.
- 2** **Research credit carryover.** Provides that the research credit carryover does not apply to the portion of the credit that is refundable under section 3. Under present law, amounts in excess of the 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.

Effective date: Tax year 2015.
- 3** **Research credit refundable.** Provides that the portion of the research credit that is attributable to the first-tier amounts (the 10 percent credit rate on first \$2 million of qualified research expenditures for the tax year) is refundable.

Effective date: Tax year 2015.