

HOUSE RESEARCH

Bill Summary

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Overview

This bill extends the research credit to sole proprietors, effective for tax year 2015. To qualify for the credit, sole proprietors will be required to apply to the Department of Employment and Economic Development for certification of the business's qualified research expenses.

Background. The research credit equals 10 percent of the first \$2 million of qualified research expenditures and 2.5 percent of qualified expenditures in excess of \$2 million. Qualified expenditures are Minnesota research expenditures (defined under the federal credit but limited to the Minnesota expenditures) in excess of a base amount (also defined under the federal credit). The credit is allowed against the corporate franchise tax and the individual income tax for pass-through entities (S corporations and partnerships, including LLCs). From its enactment in 1982 through tax year 1986, the credit applied to both the corporate franchise and individual income taxes (including for sole proprietors). For tax years 1987 through 2009 the credit was only allowed against the corporate franchise tax. 2010 legislation extended the credit to pass-through entities. This bill would return the credit to its pre-1987 status as allowed to all individual income tax payors.

Section

- 1 **Credit allowed.** Extends the research credit to sole proprietors, effective for tax year 2015.
- 2 **Application for certification.** Requires sole proprietors to apply to DEED by September 15th following the calendar year in which the research was done for certification of the credit

Section

amount. DEED is required to determine the amount of credit the taxpayer is eligible for and certify the amount to the taxpayer within 90 days after receiving the application. DEED also is required to notify the Department of Revenue and the allowed credit is limited to the certificate issued by DEED. (The H0281A1 amendment excludes C corporations, S corporation shareholders, and partners from the requirement to apply for certification under this subdivision.)