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This bill extends the research credit to sole proprietors, effective for tax year 2017.

**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 electing to be treated as partnerships). 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 payers.