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Overview

This bill, as amended with the author's amendment (H0253A2), increases the second tier rate of the research credit from 2.5 percent to 4.5 percent and provides that the first \$250,000 of the credit is refundable. The changes are effective for tax year 2017.

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 **Credit rate.** Increases the credit rate under research credit that applies to the second tier (qualifying research expenditures in excess of \$2 million) from 2.5 percent to 4.5 percent. (This section is added by the amendment.)

Effective date: tax year 2017

Section

- 2** **Definition; liability for tax.** Moves the definition of liability for tax, currently in subdivision 3 of the statute, to the definitions subdivision of the credit statute. The definition is unchanged.
- Effective date:** tax year 2017
- 3** **Carryover credit.** Modifies the carryover provision of the research credit to eliminate the definition of “liability for tax,” which is moved to definitions subdivision of the statute by section 2 and provides that the refundable portion of the credit is not to be carried over. 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 2017
- 4** **Refundability.** Provides the first \$250,000 of the research credit is refundable. This will allow refunds for the first \$3.1 million of qualified research expenditures (i.e., the amount of the increase for the tax year over the taxpayer's base amount). Liability for tax for computing refundability includes the minimum fee amount, which the credit is currently not allowed to offset.
- Effective date:** tax year 2017