

# HOUSE RESEARCH

## Bill Summary

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This bill modifies the research credit under the corporate franchise and individual income taxes, allowing the first tier of the credit (the 10 percent rate credit) to apply the first \$2 million of qualifying research that the taxpayer does in Minnesota, not just the amount that exceeds the “base amount.”

Under present law, the research credit follows the pattern of the federal research credit as incremental credit. The state credit equals 10 percent of the first \$2 million of qualifying Minnesota research that exceeds the “base amount” and 2.5 percent of the excess. The concept of the “base amount” is taken from federal law, except it is calculated using only Minnesota research and gross receipts. Limiting the credit to the incremental above the base amount is intended to target the credit to a business’s increases in research expenditures. The base amount is defined by a historical amount that the taxpayer spent on research (typically 1984-1988 for established companies, but not more than 16 percent of their gross receipts), increased by the rate of change in the taxpayer’s gross receipts since then. (Startup are given a base amount equal to 3 percent of their gross receipts.) The base amount cannot, however, be less than 50 percent of the current year research expenditures, essentially capping the credit at 50 percent of research. This cap or 50 percent limitation would not apply to the first tier credit under the bill.

Under the bill, the second tier of the credit would remain limited to the increase in research over the base amount or the amount qualifying for the first tier, if that amount is higher.

Qualifying research generally means expenditures to develop or improve a product – in the experimental or discovery of information sense. Typical costs are for salaries, supplies, and costs of operating research facilities. Equipment and other capital outlays typically do not qualify. The Minnesota credit is refundable.