

REVENUE ANALYSIS DETAIL

- A database of schedule R&D information from corporate taxpayers for tax years 2009-2012 was used to estimate this proposal.
- The ASC option changes both the amount of creditable dollars and the tax credit rates applied to those dollars.
- For most taxpayers the amount of creditable dollars would remain about the same under the ASC method at 50% of current year R&D expenditures.
- There are some notable exceptions to the general rule mentioned above. Overall, the total creditable dollars under the ASC option are 24% higher than those under current law.
- Few taxpayers having 100% of their creditable dollars subject to the 10% first tier credit under current law would have a higher tax credit under the ASC option. In order for these taxpayers to have a larger tax credit under the bill, their creditable dollars need to increase by more than 67% to offset the impact of the lower 6% ASC tax credit rate. For most taxpayers, there is little increase from current law in the amount of creditable dollars.
- As a general rule, the current law calculation produces a larger credit than the ASC if creditable dollars are \$6.0 million or less.
- It is assumed that taxpayers with more than \$6.0 million in creditable dollars will generally switch to the ASC option. Under current law, as creditable dollars increase above \$6.0 million, the average effective tax credit rate starts to fall below 6% and evenly approaches 4%. Under the ASC method, the average effective tax credit rate is a steady 6%.
- For about 2/3 of taxpayers, the ASC option produces a smaller tax credit than under current law. These taxpayers accounted for 15% of all current-year R&D expenditures.
- For about 1/3 of taxpayers, the ASC option produces a larger tax credit than under current law. These taxpayers accounted for 85% of all current-year R&D expenditures. For these taxpayers the overall ratio of tax credit to current-year R&D expenditure increases by 75%, from 2.0% to 3.5%.
- Because the credit continues to be non-refundable, research credit dollars are assumed to grow at 3% per year.
- Results from the analysis of database of schedule R&D information show that about 40% of the increase in tax credit dollars would be used to reduce current-year tax liabilities. The other 60% of the increase in tax credit dollars would be carried forward to reduce tax liability in future years.
- The revenue impact of the carryover from additional credits created by the ASC option will be delayed. In fiscal year 2024 only a small portion of the revenue loss is from the use of carryover credits. In fiscal years in and after fiscal year 2025, carryforwards will substantially increase the revenue loss.
- Due to a retroactive effective date, all the tax year 2021 revenue loss is allocated to FY 2022. Losses from other tax years are allocated 30/70 to fiscal years.

REVENUE ANALYSIS DETAIL (Cont.)

Number of Taxpayers: In the first year, the law change will increase the R&D credit for about 50 corporate taxpayers, about 10% of the corporate taxpayers claiming the credit. The number of corporate taxpayers benefiting from the ASC option is projected to grow to about 200. It is assumed that the additional carryover credits created by the ASC option will be used against tax in future years.

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Individual Income Tax

- It is assumed that very few individuals would choose the ASC option to calculate their R&D credit because a relatively small share of their creditable dollars is subject to the second-tier tax credit rate.
- Because the credit continues to be non-refundable, the total research credit amounts are assumed to grow at 3% per year.
- Tax year losses are allocated to the following fiscal year.

Number of Taxpayers: In the beginning, the law change will increase the R&D credit for about 50 corporate taxpayers, about 10% of the corporate taxpayers claiming the credit. The number of corporate taxpayers benefiting from the ASC option is projected to grow to about 200. It is assumed that the additional carryover credits created by the ASC option will be used against tax in future years.

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