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S.F. No. 2970 – R&D credit alternative simplified calculation (as proposed to be amended by the A-1 amendment)

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The Minnesota research and development (R&D) credit is calculated using current year qualified research expenses over a base amount. The current year expenses must be greater than the base amount to qualify for the credit. The base amount equals the greater of:

- 50 percent of current-year Minnesota R&D expenses; or
- the “fixed base percentage,” which equals:

$$\begin{aligned} & \text{average MN gross receipts over the prior 4 years} \\ & \quad \text{multiplied by} \\ & \text{total Minnesota R\&D expenditures for years 1984-1988} \\ & \quad \text{divided by} \\ & \text{total Minnesota gross receipts for 1984-1988.} \end{aligned}$$

The fixed base percentage cannot exceed 16 percent.

The credit has a two tier structure: 1) ten percent of the first \$2 million of qualified research expenses resulting from this calculation; and 2) four percent of qualified research expenses over \$2 million.

Section 1. Definitions. Modifies the definition of “base amount” for taxpayers making the alternative simplified credit election under section 2. Under this section, the base amount equals 50 percent of average qualified research expenses over the three taxable years preceding the tax year in which the credit is claimed. Effective beginning in tax year 2022.

Section 2. Alternative simplified credit election. Allows taxpayers eligible for the credit to make the alternative simplified credit election for a taxable year. The election is irrevocable for that taxable year. Elections made by a partnership must be made on the partnership return or as otherwise required by the commissioner, and applies to all partners. Effective beginning in tax year 2022.