

# Minnesota Research Tax Credit

Update to 2017 Evaluation Report

January 2019

## Problems Identified

- **Unclear Purpose.** Minnesota statutes do not identify a purpose for the research tax credit, making it difficult to evaluate how well the credit meets its objectives.
- **No Analysis of Proposed Changes.** The Legislature has changed the tax credit without information on whether the proposed changes would achieve the credit's likely purpose.
- **Insufficient Data.** The Department of Revenue has not collected sufficient data from research tax-credit claimants to make a full evaluation of the credit's impact possible. Nor does the department maintain important data, such as changes in tax credit amounts due to audited or amended tax returns.
- **Limited Information for Taxpayers.** Research tax-credit claimants told us they need additional and more specific information from the Department of Revenue about the documentation needed to substantiate a claim of the research tax credit during an audit.

## Changes Implemented

- **No 2018 Legislative Changes.** The 2017 Legislature raised the tax-credit rate applied to the second tier of qualified research expenses from 2.5 percent to 4 percent. The 2018 Legislature, however, made no substantive changes to the research tax credit.
- **More Information for Taxpayers.** As we reported last year, the Department of Revenue added detailed and specific tax-credit information to its website in 2017, consistent with OLA's recommendation. The information includes a list of more than 20 items that the department might request of tax-credit claimants and answers to the ten most frequently asked questions about the tax credit. According to the department, traffic to the research tax-credit website in 2017 increased by 80 percent over 2016 levels.

## Action Needed

- **Identify Purpose and Analyze Proposed Changes.** The Legislature should identify the purpose of the research tax credit and set explicit, measureable objectives in statute. It should specify whether the tax credit is intended to create or retain jobs, attract new businesses to Minnesota, retain businesses already located here, or something else. After identifying a purpose, the Legislature should analyze any proposed changes to determine whether those changes help achieve the credit's purpose.
- **Require Sufficient Data.** Based on the purpose the Legislature identifies for the tax credit, the Legislature should authorize and require the Department of Revenue to collect additional data on tax-credit claimants and maintain data that are needed for periodic evaluations of the research tax credit.