



## Update on Minnesota's R&D Tax Credit Following H.F. 9 by Prime Tax Group

### 1. Overview of Minnesota's R&D Tax Credit (pre-H.F. 9)

Minnesota's **Credit for Increasing Research Activities** (Minn. Stat. § 290.068) has long provided a **nonrefundable state-level credit** for qualifying in-state R&D expenditures:

- **CREDIT RATES:**
  - 10 % on the first \$2 million of qualifying expenses exceeding the base amount,
  - 4 % on qualifying expenses above \$2 million
- **QUALIFYING EXPENSES:**
  - Same federal definitions under IRC § 41, but strictly for research conducted *in Minnesota*.
  - Includes in-state wages, supplies, and contractor research; donations to qualifying nonprofits also eligible
- **CREDIT USAGE:**
  - Only offsets Minnesota income or franchise tax liability (i.e., **nonrefundable**).
  - Unused credit may be **carried forward up to 15 years** or allocated among members of a combined group
- **ECONOMIC IMPACT (2010–2014):**
  - Created approximately 790–1,540 job-years annually, with earnings impacts of \$43–\$129 Million; net fiscal benefit modest relative to credits claimed

### 2. June 14 H.F. 9 Changes: Introducing Partial Refundability

Effective for **tax years beginning:**

- **After December 31, 2024 through December 31, 2025** → up to **19.2% refundability** of any Minnesota R&D credit above tax liability.
- **After December 31, 2025 through December 31, 2027** → refundability increases to **25%**

#### Key mechanics:

- Only **excess credit** (beyond offsetting combined-group tax liability) is eligible for partial refund.
- Electing taxpayers must comply with DOR-specified elections.



- **Unmodified:** the 10% and 4% credit rates, along with QRE definitions, remain intact.

### 3. How H.F. 9 Alters R&D Credit Value Going Forward

Feature	Pre-H.F. 9	Post-H.F. 9 (after Jan 1, 2025)
Credit Rate (MN)	10 % / 4 %	Same
Refundability	<b>None</b>	<b>19.2 %</b> refundable (2025), <b>25 %</b> refund (2026–2027)
Carryforward	15 years	Unchanged
Combined-Group Allocation	Must be used within liability	Same, but excess can now be refunded (by election)

- Companies without sufficient Minnesota tax liability—historically unable to monetize credit—*now can receive a cash refund* of a portion of their credit.
- The credit remains **nonrefundable for the majority**, but now refundable *in part* for electing filers.

### 4. Strategic Implications & Next Steps

- **Enhanced liquidity:** Partial refundability elevates the practical value of Minnesota’s R&D credit for low-liability or start-up companies.
- **Competitive alignment:** Brings Minnesota closer to federal practices in terms of credit monetization.
- **Client action items:**
  - Identify clients with MN-based QREs—especially R&D-heavy, pre-profit or low-tax entities.
  - **Model impact:** calculate credit under 10 %/4 % structure, estimate refundable portion (19.2 % or 25 % of excess).
  - Prepare for the refundability election once DOR guidance is released.
  - Update internal R&D credit procedures and outreach.

### 5. Conclusion

Minnesota’s core R&D credit structure remains unchanged—retaining its two-tier 10 %/4 % rates, rigorous in-state QRE requirement, and 15-year carryforward. **H.F. 9’s introduction of partial refundability** for the first time materially enhances the credit’s cash value, especially for R&D-intensive businesses with limited state tax liability. As refundability increases over 2025–2027, expect stronger uptake and planning opportunities.