A bill for an act

relating to taxation; allowing additional research and development credit for small businesses; appropriating money; amending Minnesota Statutes 2006, section 290.068, subdivision 3, by adding subdivisions.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2006, section 290.068, subdivision 3, is amended to read:

Subd. 3. **Limitation; carryover.** (a)(1) The credit, other than the special credit under subdivision 7, for the taxable year shall not exceed the liability for tax. "Liability for tax" for purposes of this section means the tax imposed under this chapter for the taxable year reduced by the sum of the nonrefundable credits allowed under this chapter.

(2) In the case of a corporation which is a partner in a partnership, the credit, other than the special credit under subdivision 7, allowed for the taxable year shall not exceed the lesser of the amount determined under clause (1) for the taxable year or an amount (separately computed with respect to the corporation's interest in the trade or business or entity) equal to the amount of tax attributable to that portion of taxable income which is allocable or apportionable to the corporation's interest in the trade or business or entity.

(b) If the amount of the credit determined under this section, other than the special credit under subdivision 7, for any taxable year exceeds the limitation under clause (a), the excess shall be a research credit carryover to each of the 15 succeeding taxable years. The entire amount of the excess unused credit for the taxable year shall be carried first to the earliest of the taxable years to which the credit may be carried and then to each successive year to which the credit may be carried. The amount of the unused credit which may be added under this clause shall not exceed the taxpayer's liability for tax less the research credit for the taxable year.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2007.

Sec. 2. Minnesota Statutes 2006, section 290.068, is amended by adding a subdivision to read:

Subd. 7. **Special credit; small businesses.** (a) A qualified business is allowed a tax credit equal to 20 percent of qualified research expenditures incurred for the taxable year. The maximum credit under this subdivision is limited to $ .....

(b) For purposes of this subdivision and subdivision 8, a "qualified business" is a corporation, individual, or partnership that:

(1) had no more than 30 full-time equivalent employees in this state during the preceding taxable year; and

(2) is engaged in or is committed to engage in a qualified high technology field.

(c) For purposes of applying the requirement under paragraph (b), clause (1), all of the employees of the unitary business, as that term is used in section 290.17, subdivision 4, must be taken into account and "full-time equivalent" has the meaning given in section 469.318, subdivision 2.

(d) For purposes of this subdivision, "qualified high technology field" includes but is not limited to aerospace, agricultural processing, alternative energy, biotechnology, defense, drug delivery, environmental engineering, food technology, cellulosic ethanol, information technology, green manufacturing, materials science technology, medical devices, nanotechnology, pharmaceutical technology, and telecommunications. Unless otherwise provided under the rules of the Department of Employment and Economic Development, a business is a qualified business venture for purposes of this subdivision only if the business satisfies all of the following conditions:

(1) the business has its headquarters in Minnesota;

(2) at least 51 percent of the business's employees are employed in Minnesota;

(3) the business is engaged in, or is committed to engage in:

(i) using advanced technology to add value to a product, process, or service in a qualified high technology field;

(ii) conducting research in and development of a product, process, or service in a qualified high technology field; or

(iii) developing a new product, process, or service in a qualified high technology field;

(4) the business is not engaged in real estate development, insurance, banking, lending, lobbying, political consulting, information technology consulting, wholesale or

retail trade, leisure, hospitality, transportation, construction, ethanol production from corn, or professional services provided by attorneys, accountants, business consultants, physicians, or health care consultants;

(5) the business has not been in operation for more than ten consecutive years; and

(6) the business had less than $1,000,000 in annual gross sales receipts in the preceding taxable year.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2007.

Sec. 3. Minnesota Statutes 2006, section 290.068, is amended by adding a subdivision to read:

Subd. 8. **Special credit; appropriation.** (a) If the amount of the special credit under subdivision 7 for any taxable year exceeds the liability for tax, the commissioner shall refund the excess to the taxpayer.

(b) An amount sufficient to pay the refunds required by this subdivision is annually appropriated to the commissioner of revenue from the general fund.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2007.