

REVENUE ESTIMATING CONFERENCE

TAX: Corporate Income Tax

ISSUE: Tax Credit for Research and Development

BILL NUMBER(S): HB 607 SB 1184

SPONSOR(S): Senator Thrasher, Representative Plakon

MONTH/YEAR COLLECTION IMPACT BEGINS: January 1, 2011

DATE OF ANALYSIS: February 10, 2010

SECTION 1: NARRATIVE

a. Current Law:

Currently, there is no credit for research and development in Florida's Corporate Income Tax.

b. Proposed Change:

The Bill would create a credit for research and development in Florida's Corporate Income Tax similar to the one provided under s. 41 of the Internal Revenue Code, in the Federal Corporate Income Tax. The credit would be 10 percent of the excess of the current year's qualified research expenses over the average of the four prior years' qualified research expenses. The granting of credits is capped at \$15 million per calendar year. A business may not take more than 50 percent of their remaining tax liability after all other credits are taken. Unused credits may be carried forward for up to 5 years, and may be sold to another taxpayer

If a corporation was not in existence for the duration of the based period, the credit will be reduced by 25 percent for each year the business did not exist during the base period.

This bill is effective for tax years beginning on or after July 1, 2011.

SECTION 2: DESCRIPTION OF DATA AND SOURCES

Internal Revenue Service SOI Tax Stats- Corporation Research Credit Form 6765- Credit for Increasing Research Activities, 2006: <http://www.irs.gov/taxstats/article/0,,id=164402,00.html>

Department of Revenue, Corporate Income Tax Collections 2006 and the NEEC Data

Internal Revenue Service: SOI Tax Stats – Corporation Complete Report – Table 7 Corporation Returns with Net Income, 2006: <http://www.irs.gov/taxstats/bustaxstats/article/0,,id=112834,00.html>

SECTION 3: METHODOLOGY (INCLUDE ASSUMPTIONS AND ATTACH DETAILS)

The Internal Revenue publishes the Qualified Research Credits by industry sector. Total qualified research expenditures are composed of C Corporations' aggregate spending on research related activities. Three major sectors make up the bulk of research spending, manufacturing, information and professional, scientific and technical services. To create a proportion of how much research attributes to Florida, a ratio was determined by dividing adjusted Florida federal income by IRS's federal income subject to tax, for the corresponding sectors. That ratio was then applied to total qualified research spending to determine out of \$144 billion spent, \$2 billion was attributable in 2006. If the values are grown at 3.2% than as much as \$19 million in FY ending 2011 would qualify for the credit, well above the \$15 million cap.

The high estimate assumes that all of the credits would be taken during the year. The low estimate assumes that only a fifth of the credits would be taken each year (based on the 5-year carry forward schedule).

SECTION 4: PROPOSED FISCAL IMPACT

State Impact: All Funds	FY 2010-11 Cash	FY 2010-11 Annualized	FY 2011-12 Cash	FY 2012-13 Cash	FY 2013-14 Cash
High	0	(\$15 Million)	(\$15 Million)	(\$15 Million)	(\$15 Million)
Middle					
Low	0	(\$15 Million)	(\$3 Million)	(\$6 Million)	(\$9 Million)

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SECTION 5: CONSENSUS ESTIMATE (ADOPTED 2/19/10) The conference adopted the high estimate, assuming that the federal credit under 26 U.S.C. s. 41 is reinstated.

	FY 2010-11 Cash	FY 2010-11 Annualized	FY 2011-12 Cash	FY 2012-13 Cash	FY 2013-14 Cash
General Revenue	0	(15.0)	(15.0)	(15.0)	(15.0)
State Trust	0	0	0	0	0
Total State Impact	0	(15.0)	(15.0)	(15.0)	(15.0)
Total Local Impact	0	0	0	0	0
Total Impact	0	(15.0)	(15.0)	(15.0)	(15.0)

	A	B	C	D	E	F	G	H	I	J	K	L
1	Total Qualified Research Spending US (2006, 1000's)											
2	http://www.irs.gov/taxstats/article/0,,id=164402,00.html	Total	Proportions									
3	All sectors	\$144,408,875										
4	Manufacturing	\$106,866,758	74.0%									
5	Information	\$17,124,959	11.9%									
6	Professional, scientific and technical services	\$10,795,829	7.5%									
7	All Other Sectors	\$9,621,329	6.7%									
8												
9												
10	Florida Proportional Income by Sector (2006, 1000's)											
11	http://www.irs.gov/taxstats/bustaxstats/article/0,,id=112834,00.html											
12		US	Florida	Florida/ US								
13	Manufacturing	\$450,573,840	\$3,781,879	0.8%								
14	Information	\$85,331,292	\$1,857,744	2.2%								
15	Professional, scientific, and technical services	\$20,092,162	\$957,776	4.8%								
16	Other Sectors	\$734,300,006	\$28,243,913	3.8%								
17												
18	Florida's Percentage of Total Qualified Research											
19	Manufacturing		0.6%									
20	Information		0.3%									
21	Professional, scientific and technical services		0.4%									
22	All Other Sectors		0.3%									
23												
24												
25	Proportion of Florida Qualified Research Spending											
26	All sectors		1.5%									
27	Florida Qualified Research Spending	\$2,154,510										

Florida Proportional Qualified R&D					
Year	R&D	Avg Prior 4 yr	Difference	10% Credit	FY Ending
2006	\$2,155	N/A	N/A	N/A	N/A
2007	\$2,223	N/A	N/A	N/A	N/A
2008	\$2,295	N/A	N/A	N/A	N/A
2009	\$2,368	N/A	N/A	N/A	N/A
2010	\$2,444	\$2,260	\$184	\$18	N/A
2011	\$2,522	\$2,332	\$190	\$19	\$19
2012	\$2,603	\$2,407	\$196	\$20	\$19
2013	\$2,686	\$2,484	\$202	\$20	\$20
2014	\$2,772	\$2,564	\$208	\$21	\$21
2015	\$2,861	\$2,646	\$215	\$21	\$21
2016	\$2,952	\$2,730	\$222	\$22	\$22

Assumptions
Growth Rate= 3.2%*
**Growth rate is based on the national average from 2006 onward*