



OLR RESEARCH REPORT

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STATE LIMITS ON BUSINESS TAX CREDITS

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You asked if any states place limits on the total amount of business tax credits a company can claim in a year.

The information in this report applies to state credit limits applicable to state corporate income taxes. It excludes credits against state taxes on (1) businesses that are not organized as C corporations, such as S corporations or limited liability companies, and (2) special kinds of corporations such as financial institutions, insurance companies, and utilities. This report also covers only states that limit total credits to less than 100% of total tax liability and excludes those that allow companies to offset 100% of liability but require them to pay at least a minimum tax. Finally, it deals only with overall limits on multiple credits. Many states other than those listed here impose per-credit, rather than aggregate, limits on the amounts companies can claim.

We found eight states in addition to Connecticut that currently impose, or recently imposed, annual limits on the total tax credits companies may claim against state corporation taxes (see Table 1). Six states, including Connecticut, limit total credits to between 50% and 80% of a company's tax liability without credits. New York has a temporary limit of \$2 million worth of credits with the excess credits deferred to after January 1, 2013. Oklahoma imposed a temporary moratorium on all tax credits, which expired July 1, 2012.

TABLE 1: STATE LIMITS ON TOTAL ANNUAL CORPORATION TAX CREDITS

State	Corporation Tax Rate	Overall Credit Limit	Maximum Tax Liability Offset	Minimum Tax	Source
California	8.84%	Yes, temporary, for 2008 and 2009 tax years only	50% ¹	\$800	CCH <i>State Tax Guide</i>
Connecticut	7.5%	Yes	70%, or 100% for 2011 and 2012 tax years in some cases, but not below the minimum tax ²	\$250	Dept. of Revenue Services, Form CT 1120 and Instructions; CGS § 12-217zz
Massachusetts	8%	Yes	50%, but not below the minimum tax; some credits are exempt from the limit	\$456	Mass. Gen. Laws, Ch. 63, § 32C; Mass Dept. of Revenue, 2011 Form 355, Schedule H Instructions
Mississippi	3%-5%	Yes, applicable to certain credits ³	50% ³	None	CCH <i>State Tax Guide</i> ; Mississippi Dept. of Revenue
New Jersey	9%	Yes	50%, but not below the minimum tax	Minimum tax varies based on New Jersey gross receipts ⁴	N.J.A.C. § 18:7-3.17; N.J. Stats. § 54-10A-4.5
New York	7.1%	Yes, temporary	Certain credits over \$2 million subject to deferral for tax years beginning 1/1/10 and before 1/1/13; ⁵ minimum tax applies	Minimum tax varies based on New York receipts ⁵	Instructions for 2011 NY Form CT-500, Corporation Tax Deferral
North Carolina	6.9%	Yes, for total of 14 credits	50%, less any other credits claimed	\$35	CCH <i>State Tax Guide</i>
Oklahoma	6%	Moratorium on most tax credits generated on or after 7/1/10 and before 7/1/12	NA	\$25	CCH <i>State Tax Guide</i> ; Oklahoma Tax Commission
Vermont	6%-8.5%	Yes	80%, but not less than the minimum tax	\$250	Vermont Dept. of Taxes, Corporate Income Tax and 2011 Vermont Corporate Income Tax Instructions

NOTES:

¹ **California:** Taxpayers with annual net business income under \$500,000 were exempt. Full-time employment hiring credit was exempt.

² **Connecticut:** A company may offset additional tax liability for 2011 and 2012 by an amount equal to \$6,000 times its average net monthly increase in employees, up to 100% of its total tax liability. In order for an employee to count, he or she must (1) be required to work at least a 35-hour week and (2) not have been employed in Connecticut by a related company within 12 months before the applicable calendar year.

³ **Mississippi:** The 50% limit applies to the sum of the state's new jobs tax credit, headquarters credit, and research and development skills credit. Since many other credits are not subject to the limit, companies can combine limited and unlimited credits to offset 100% of tax liability.

⁴ **New Jersey:** For privilege periods beginning in 2012 and after, New Jersey's minimum corporation tax is:

NEW JERSEY MINIMUM CORPORATION TAX

<i>NJ Gross Receipts</i>	<i>Minimum Tax</i>
Less than \$100,000	\$375
\$100,000-\$250,000	562.50
\$250,000-\$500,000	750
\$500,000-\$1 million	1,125
\$1 million or more	1,500
Affiliated or controlled group with payroll of \$5 million or more	2,000

⁵ **New York:** Refundable credits subject to deferral may be claimed over three tax years starting January 1, 2013 as follows: 50% of total accumulated credits for the 2013 tax year, 75% of the balance of the accumulated credits for 2014, and remaining balance of accumulated credit for 2015. Nonrefundable deferred credits can be claimed in 2013 and subsequent years without limits except for the minimum tax. New York's minimum corporation tax is:

NEW YORK MINIMUM CORPORATION TAX

<i>NY Receipts</i>	<i>Minimum Tax</i>
Less than \$100,000	\$25
\$100,000-\$250,000	75
\$250,000-\$500,000	175
\$500,000-\$1 million	500
\$1 million -\$5 million:	1,500
\$5 million-\$25 million	3,500
\$25 million or more	5,000

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