2025 State R&D Credit Changes

What Taxpayers Need to Know

December 3, 2025

Introduction

In the ever-evolving landscape of tax incentives, research and development (R&D) credits continue to play a pivotal role in fostering innovation and economic growth. Recently, several states have made significant changes to their R&D credit regimes, offering new opportunities and challenges for businesses. This article provides an overview of the latest state-by-state changes to the R&D credit, highlighting key updates and implications for businesses.

California

California's R&D credit program continues to offer a regular credit calculated as 15% of California qualified research expenses ("QREs") over a base amount. For tax years beginning on or after January 1, 2025, California now conforms to the federal Alternative Simplified Credit ("ASC") methodology, however it is only available at a reduced rate of 3% of QREs over a base amount (1.3% in the case of taxpayers without any QREs in any of the three preceding tax years).

The ASC provides an alternative calculation for taxpayers who lack detailed historical data required for the regular credit. It also creates a new opportunity for taxpayers who previously generated little or no credit under the regular credit or the Alternative Incremental Credit ("AIC") (which is eliminated for tax years beginning after 2024), due to significant annual gross receipts.

Credits remain non-refundable, but unused credits can be carried forward indefinitely.

Iowa

Iowa's R&D credit was historically based on the federal credit and provided a refundable incentive for businesses investing in research activities. Over time, the state added new restrictions to the program, such as eliminating the "substantially all" rule, phasing out supply costs as eligible expenses, and requiring that employees spend at least 50% of their time on R&D for their wages to qualify. These changes reflected a tightening of eligibility and a move toward more targeted support for research activities.

Rather than continuing to layer on additional restrictions, for tax years beginning on or after January 1, 2026, Iowa opted for a fresh start by replacing the old credit with a new, application-based program administered by the Iowa Economic Development Authority ("IEDA") (see Divisions XIII and XIV of Iowa Senate File 657). Under this new approach, businesses must be certified by the IEDA and operate in designated sectors such as advanced manufacturing, bioscience, insurance, finance, or technology innovation. The new credit is up to 3.5% of eligible Iowa research expenditures (required to be verified by an Iowa CPA), subject to a statewide annual cap of $40 million and pro-rata allocation if claims exceed the cap. The credit remains refundable, but businesses must submit an application and meet annual verification requirements, including reporting on R&D investment, research locations, and job creation.

Michigan

Michigan has introduced a new refundable R&D credit for tax years beginning on or after January 1, 2025 (see Notice Regarding New Research and Development Credit). The credit is application based and taxpayers will be able to begin submitting applications on January 1, 2026. The credit is calculated on a calendar year basis (in the case of a fiscal-year filer, the calendar year ending within the tax year) and is based on the number of employees:

- For businesses with 250 or more employees: the credit is 3% of qualifying R&D expenses up to the base amount, and 10% for expenses exceeding the base amount ("excess expenses"), capped at $2 million per year per taxpayer.
- For businesses with fewer than 250 employees: the credit is 3% of qualifying R&D expenses up to the base amount, and 15% for excess expenses, capped at $250,000 per year per taxpayer.

An additional 5% credit is available for R&D expenses incurred in collaboration with a Michigan research university (capped at $200,000 per year, per taxpayer). The total annual credit for all taxpayers is capped at $100 million and will be prorated if claims exceed this limit. Credits are non-transferable and flow-through entities can claim the credit against withholding tax. Excess credits are refundable.

Tentative claims for the 2025 calendar year are due to the state by April 1, 2026. Tentative claims for calendar year 2026 (and tax years beginning in 2026) and forward are due to the state by March 15 of the following calendar year (for example, the 2026 tentative claim is due by March 15, 2027). Tentative claims must be submitted using actual, not estimated, QREs.

Minnesota

Minnesota's R&D credit is becoming partially refundable (see Credit for Increasing Research Activities | Minnesota Department of Revenue and Sec. 290.068 MN Statutes). The credit remains nonrefundable by default, with taxpayers carrying over credits in excess of tax liability for 15 tax years. However, for tax years beginning after 2024, taxpayers may elect to receive a refund if the credit exceeds their tax liability. The refundability rate is 19.2% for tax years beginning in 2025 and 25% for tax years beginning in 2026 and 2027. For tax years beginning after 2027, the refundability rate is statutorily capped at 25%, but has yet to be determined.

The credit is calculated as 10% of the first $2 million of QREs exceeding the base amount, and 4% of QREs thereafter. Unused credits not refunded may be carried forward for up to 15 tax years. Taxpayers must maintain detailed records per IRS guidelines, and the Minnesota Department of Revenue may request contemporaneous documentation during audits.

Oklahoma

Oklahoma has introduced a new Research and Development Rebate program, effective for tax years beginning on or after January 1, 2025 (see Oklahoma Senate Bill No. 324). The credit has an annual cap of $20 million and applications will be processed in the order received. It is important to note that the Oklahoma legislature has yet to appropriate funds for the rebate program and funding may not be available until the 2026 program year.

Applicants must provide detailed information, including the as-filed Federal Form 6765, company and contact information, Oklahoma sales and employment data, total QREs incurred in Oklahoma (broken out by cost bucket by percentage), the Oklahoma credit claim (5% of Oklahoma QREs), a general description of research activities, and attestations signed by the taxpayer. Unlike other states with tax credits that are claimed on income tax returns, Oklahoma's program will issue rebates to successful applicants.

Texas

Texas has made significant changes to its R&D credit regime, extending the credit permanently and increasing the credit rate (see Texas Senate Bill 2206, effective January 1, 2026). For all franchise tax reports originally due on or after January 1, 2026, eligible taxpayers may claim a credit equal to 8.722% of QREs in excess of the base period. The credit rate increases to 10.903% for research conducted in partnership with Texas higher education institutions. If an eligible taxpayer did not incur QREs in at least one of its prior three report years, the credit rate shall be 4.361% or 5.451% of QREs incurred during the report period for regular and higher education research expenses (respectively).

In addition to the increased credit rates, Texas has defined QREs as those amounts reported on line 48 of the federal Form 6765 that are attributable to research conducted in Texas. Taxpayers will be required to amend their Texas R&D credit claims in the case of an amended federal claim or an adjustment by the Internal Revenue Service.

The credit will now be refundable for entities owing no franchise tax (subject to certain limitations) and non-refunded credits may be carried forward for up to 20 years. Credits are non-transferable except in the case of a complete asset transfer.

Summary of State R&D Credit Changes

Feature / State	California	Iowa	Michigan	Minnesota	Oklahoma	Texas
Credit Type	Permanent credit. Alternative calculation methodology introduced.	New application-based program	New application-based refundable credit.	Partially refundable credit	Rebate program	Permanent credit, increased rates
Eligibility	All taxpayers with California QREs	Certified by IEDA; advanced sectors only	Application-based; employee count matters	All taxpayers with Minnesota QREs	Application required; detailed info	All taxpayers with Texas QREs
Credit Rate	15% (regular), 3% (ASC), 1.3% (ASC, no prior QREs)	Up to 3.5% of eligible expenditures	3% (base), 10%/15% (excess, by size), +5% for university collab	10% (first $2M QREs), 4% thereafter	5% of OK QREs	8.722% (regular), 10.903% (higher ed), 4.361%/5.451% (no prior QREs)
Refundability	Non-refundable; carryforward indefinite	Refundable	Refundable	Refundable (19.2% in 2025, 25% in 2026+)	Rebate issued to applicants	Refundable for entities with no franchise tax; carryforward 20 yrs
Annual Cap	No cap	$40M statewide	$2M/$250K per taxpayer; $100M statewide	No cap; carryforward 15 yrs	$20M	No cap
Special Notes	ASC conforms to federal, but at reduced rate; AIC eliminated	Only for designated sectors; pro-rata if cap exceeded	Extra credit for university collaboration; Calendar year basis	Refundability rate increases over time	Funding may not be available until 2026	Non-transferable except asset transfer; higher rates for higher ed

Legend:
QREs = Qualified Research Expenses
ASC = Alternative Simplified Credit
AIC = Alternative Incremental Credit
IEDA = Iowa Economic Development Authority

Conclusion and Call to Action

The landscape for state R&D credits is evolving rapidly, with new opportunities and compliance requirements emerging. Businesses should review their eligibility, documentation practices, and strategic partnerships to maximize available credits or rebates and avoid pitfalls. Given the complexity and variability of state programs, proactive planning and expert guidance are essential.

Contact KPMG today to discuss how these changes may impact your business and to develop a tailored strategy for leveraging R&D credits or rebates in your state. Our experienced professionals can help you navigate the new rules, optimize your claims, and ensure compliance with evolving state and federal requirements.

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