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SFA



BILL ANALYSIS

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Senate Bill 10 (Substitute S-2 as reported)
Sponsor: Senator Bill Schuette
Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 10-22-97

RATIONALE

There has been concern among private businesses, labor, and government groups that research and development corporations in Michigan are relocating to different states and new corporations are not arriving. While the State has to compete with many other states to attract and maintain these businesses, some people believe that an economic environment conducive to research and development could put the State at a competitive advantage. It has been suggested that a research and development tax credit would provide an incentive to maintain and attract research and development headquarters while improving the State's overall competitive position.

CONTENT

The bill would amend the Single Business Tax Act to specify that for tax years beginning after January 1, 1998, a taxpayer could claim a single business tax (SBT) credit for qualified research and development expenses.

Specifically, the SBT credit would be 1.25% of the amount determined by subtracting the credit year qualified research and development percentage from the base year qualified research and development percentage and then multiplying the resulting percentage by the base year qualified research and development expenses. (This calculation is referred to below as formula #1.)

For a taxpayer who had gross receipts under \$20,000,000 for the tax year and had not claimed a research and development credit under the Internal Revenue Code for the five years immediately preceding the tax year in which the taxpayer first claimed an SBT credit, the SBT credit would be determined as follows:

- For the first, second, and third years, the credit would equal 10% of the taxpayer's

credit year qualified research and development expenses.

- For the fourth year, the credit would be 7% of those expenses.
- For the fifth year, the credit would have to be determined using formula #1 except that the base year qualified research and development percentage and the base year qualified research and development amount would have to be determined using the four years immediately preceding the credit year.

A taxpayer that was a member of an affiliate group under the Act, a member of a controlled group of corporations under the Internal Revenue Code, or an entity under common control under the Internal Revenue Code would not be able to use the credit calculation above.

For a taxpayer who claimed a research and development credit under the Internal Revenue Code for one or more of the five years immediately preceding the first year in which the taxpayer claimed an SBT credit, the SBT credit would have to be determined as if the years for which the Federal credit was claimed were years for which an SBT credit was claimed.

If the SBT credit for the tax year and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, the excess portion could not be refunded, but could be carried forward to offset tax liability in subsequent tax years for 10 years or until exhausted, whichever occurred first.

"Base year qualified research and development expenses" would mean the qualified research and development expenses of the taxpayer for the five years immediately preceding the credit year divided by five. "Base year qualified research and development percentage" would mean the qualified research and development expenses of

the taxpayer for the five years immediately preceding the credit year divided by the gross receipts of the taxpayer for the same period. "Credit year" would mean a year in which a credit under the bill was claimed. "Credit year qualified research and development expenses" would mean qualified research and development expenses of the taxpayer for the year in which an SBT credit was claimed. "Credit year qualified research and development percentage" would mean qualified research and development expenses of the taxpayer for the year in which an SBT credit was claimed divided by the gross receipts of the taxpayer for the same year. "Qualified research and development" would mean qualified research, and "qualified research and development expenses" would mean qualified research expenses, as defined in the Internal Revenue Code. (The Code defines "qualified research expenses" as the sum of in-house research expenses (wages paid for qualified services, payments for supplies, and payments for the right to use computers in the conduct of qualified research) and contract research expenses (prepaid amounts and research consortia payments) that are paid or incurred by the taxpayer during the taxable year for its business.)

Proposed MCL 208.37e

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

A research and development tax credit would reduce the total cost of research and development activity within the State and would provide an ideal incentive for attracting and maintaining these corporations. The bill would create a credit to encourage companies to expand their research in the State while they grow in size and revenue. Research and development corporations provide high technology workforce development through numerous job openings and qualified candidates, create a solid industrial base for individual municipalities, and enhance the State's economic development.

Response: A business tax credit might not be enough to entice research and development companies from relocating to other states. Apparently, research and development equipment is an expensive investment. A personal property tax abatement for the equipment, along with the qualified research and development expense tax

credit, would ensure that the State could attract and retain these corporations.

Legislative Analyst: N. Nagata

FISCAL IMPACT

The fiscal impact of this bill cannot be determined at this time because some key data needed to make a reasonable estimate are not yet available.

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.