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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

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 (as defined in the Internal Revenue Code).

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.

MCL 208.37e

Legislative Analyst: N. Nagata

FISCAL IMPACT

This bill would reduce single business tax revenue by an estimated \$90 million in FY 1997-98. The research and development credit proposed in this bill has two parts: 1) The research and development credit for businesses that have already been conducting research and development activity, and have been receiving the Federal credit, would reduce single business tax revenue an estimated \$49 million; and 2) the credit for businesses with gross receipts of under \$20 million and just starting to conduct research and development activity would reduce single business tax revenue by an estimated \$41 million. These estimates are based in part on data from the National Science Foundation. These data reveal that Michigan has the second highest level of research and development activity among the 50 states.

Date Completed: 10-30-97

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.