

**SBT CREDITS FOR PROMOTION OF
ALTERNATIVE ENERGY**

House Bill 6073
Sponsor: Rep. Barb Vander Veen
Committee: Energy and Technology

Complete to 5-14-02

A SUMMARY OF HOUSE BILL 6073 AS INTRODUCED 5-9-02

House Bill 6073 would amend the Single Business Tax Act to allow a taxpayer, and in certain cases a transferee of a taxpayer, to claim one or more of four new single business tax (SBT) credits. Specifically, the bill would create credits for (1) research, development, or manufacturing of alternative energy systems, vehicles, or technologies, (2) “qualified alternative energy entities”, (3) “qualified investment for research experimental activities”, and (4) early stage venture capital investment. These credits are described below.

Alternative energy systems, vehicles, or technologies. For tax years that begin after December 31, 2002, a taxpayer could claim a nonrefundable credit for that portion of the taxpayer’s tax liability attributable to the research, development, or manufacturing of an alternative energy marine propulsion system, an alternative energy system, an alternative energy vehicle, or an alternative energy technology for the tax year.

“Alternative energy technology” would mean, as it would be defined by House Bill 6074, equipment, component parts, materials, electronic deices, testing equipment, and related systems that are solely related to the following:

- the storage of hydrogen for use in an alternative energy system;
- the process of generating and putting into a usable form the power or heat generated by an alternative energy system;
- a microgrid—i.e., the lines, wires, and controls to connect two or more alternative energy systems.

The term would not include the component parts of an alternative energy system that are required regardless of the source.

“Alternative energy system” would refer to the small-scale generation of power or heat from one or any combination of the following types of energy systems (each of which is defined more fully in House Bill 6074):

- fuel cell;
- photovoltaic;
- solar-thermal;

- wind;
- CHP;
- microturbine;
- macroturbine;
- Stirling cycle;
- battery cell;
- clean or renewable fuel.

Qualified alternative energy entities. For tax years that begin after December 31, 2002, a taxpayer that was a “qualified alternative energy entity” could claim a credit for the taxpayer’s qualified withholding amount. Such an entity could claim the credit under the subsection after all allowable nonrefundable credits under the act. If this credit exceeded the entity’s tax liability for the tax year, the portion of the credit exceeding the liability would be refunded. A taxpayer would count as a qualified alternative energy entity if the taxpayer was (1) located in an “alternative energy zone” and (2) either conducted or supported research, development, enhancement, or manufacturing of alternative energy technology in the zone.

An “alternative energy zone” would be defined to mean a renaissance zone designated by the Michigan Strategic Fund as an alternative energy zone, as would be permitted by House Bill 6071. House Bill 6071 would require that an alternative energy zone be dedicated to the support, research, development, enhancement, and manufacturing of alternative energy technology.

Qualified investment for research experimental activities. For tax years that begin after December 31, 2002 and before January 1, 2013, an eligible taxpayer could claim a credit for qualified investment for research experimental activities conducted in the tax year, as approved by the Michigan Economic Growth Authority (MEGA). MEGA would approve or deny such a credit and could not approve more than 50 taxpayers as eligible taxpayers each state fiscal year. MEGA would issue a letter authorizing the credit to each eligible taxpayer approved for the credit, and the letter would state the amount of the credit that the taxpayer could claim each tax year as well as the tax year in which the taxpayer could claim the credit. MEGA would determine the percentage, which could not exceed 25 percent, of the taxpayer’s qualified investment for research experimental activities that the taxpayer could claim as a credit. The maximum credit that MEGA could approve for each eligible taxpayer could not exceed \$1 million per taxpayer per year.

MEGA would determine eligible taxpayers and issue the letter authorizing the credit to a taxpayer if the qualified investment of the taxpayer met at least one of the following criteria:

- the activity on which the qualified investment was based was conducted in a certified technology park;
- the qualified investment was in a business sector targeted by the Michigan Economic Development Corporation (MEDC) for increased economic development within the state; or the

qualified investment was directly related to an agreement between an institution of higher education in the state and a business for a product or technology based on advanced technology research and development conducted by the institution.

An eligible taxpayer would have to attach the letter authorizing credit to the annual return on which the credit was claimed. If the credit for the tax year and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, the excess would not be refunded but could be carried forward as an offset to the tax liability in subsequent tax years for five tax years or until the excess credit was used up.

A taxpayer could transfer all or a portion of the tax credit on a form prescribed by the treasury department. The transfer would be irrevocable and would have to be made in the year in which the letter authorizing the credit was issued. A taxpayer could claim a portion of the credit and transfer the remaining amount but could not transfer more than the annual credit amount for each tax year. A transferee could not subsequently transfer the credit or any portion of the credit. The bill specifies procedures for the taxpayer and transferee to follow in transferring a credit and claiming a transferred credit.

The bill would define "qualified investment" as the increase in expenditures for "research experimental activities" in the tax year by an eligible taxpayer as compared to the average expenditures for research experimental activities by the eligible taxpayer over the four tax years immediately preceding the tax year in which the credit was claimed. "Research experimental activities" would be defined as "research and experimental expenditures" as they are described in section 174 of the Internal Revenue Code.

Early stage venture capital investment credit. For tax years beginning after December 31, 2002 and before January 1, 2013, a qualified taxpayer could claim a tax credit for the amount authorized and for which a certificate was issued under the Michigan Early Stage Venture Capital Investment Act, which would be created by House Bill 6072. If the credit allowed for the tax year and any unused carryforward of the credit exceeded the taxpayer's tax liability for the year, the portion of the liability that exceeded the liability for the year would not be refunded but could be carried forward for five years or until used up, whichever came first. For tax years that began after December 31, 2013, if the taxpayer had unused carryforward credit, the taxpayer could continue to use that carryforward for the remainder of the five-year period or until it was used up, whichever occurred first.

A certified investor could transfer all or a portion of the credit. The transfer would be irrevocable and would be made in the tax year in which the certificate under the Michigan Early Stage Venture Capital Investment Act was issued. A certified investor could claim a portion of a credit and transfer the remaining credit amount. A transferee could not subsequently transfer the early stage venture capital credit or any portion of the credit. An investor could not transfer more than the annual credit amount authorized for that investor for each year. The bill specifies procedures for the investor and transferee to follow in transferring and receiving a credit.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.