

Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536

**SFA**



**BILL ANALYSIS**

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bill 618 (Substitute S-2 as reported)  
Sponsor: Senator Valde Garcia  
Committee: Economic Development, International Trade and Regulatory Affairs

**CONTENT**

The bill would create the "Certified Capital Company Act" to provide a 100% single business tax credit (SBT) to a "certified investor", i.e., a company that invested at least \$2 million of certified capital in a certified capital company. The certified capital company then would have to make qualified investments in a qualified business (a small business concern or a business in an eligible distressed area), according to a schedule and criteria specified in the bill. Total credits claimed under the bill by all taxpayers could not exceed \$200 million.

The bill specifies procedures for certification by the Department of Treasury of a certified capital company, including collection of a \$7,500 application fee and an annual \$5,000 certification fee. The Department would have to conduct an annual review of each certified capital company, and could charge it up to \$5,000 for the review. Any material violation of the proposed Act regarding investments would be grounds for decertification. Decertification could cause the recapture of tax credits previously claimed and the forfeiture of future tax credits to be claimed by certified investors.

A certified investor would earn a tax credit equal to 100% of its investment and could take a maximum of 10% of the credit in any tax year. A certified investor that was an insurer would not have to pay any additional tax under the Insurance Code as a result of claiming a credit or reduce the amount of SBT liability in connection with rate-making. A certified investor could transfer or sell a vested credit only to another certified investor. A certified investor or its affiliates could not directly or indirectly beneficially own 10% or more of a certified capital company's equity securities; manage a certified capital company; or control the direction of investments for a certified capital company.

Within three years, a certified capital company would be required to have made qualified investments equal to at least 30% of its certified capital. Within five years, the company would have to have made qualified investments equal to at least 50% of its certified capital. The company could not invest more than 15% of its certified capital in only one qualified business. A certified capital company's net worth would have to be at least \$500,000.

"Certified capital company" would mean a company whose primary business activity was investment in qualified businesses and that was certified by the Department of Treasury as meeting the bill's criteria. "Qualified business" would mean a business other than one predominantly engaged in professional services provided by accountants, lawyers, or physicians that had its headquarters or principal business operation located in Michigan and was a small business concern and/or had its principal business operations located in one or more eligible distressed areas.

"Certified capital" would mean an investment of cash by a certified investor in a certified capital company that fully funded the purchase price of an equity interest in the company or a qualified debt instrument issued by the company.

Legislative Analyst: Patrick Affholter

## **FISCAL IMPACT**

No reasonable estimate of the fiscal impact of this bill can be made at this time, because there are too many unknown factors. The key unknown factors include: 1) the number of businesses that would qualify as certified investors, 2) the amount these certified investors would invest in qualified activities, and 3) whether these investments would occur anyway without this new proposed tax credit. Although the bill would limit the total amount of tax credits to \$200 million, there is no way to know how much of these credits would be claimed in any one year, or how many years it would take for these credits to be fully claimed.

An application fee of \$7,500 would be charged to capital companies applying for certification. Once approved, a \$5,000 annual fee would be imposed on each certified capital company to continue its certification status. In addition, the Department of Treasury could assess a fee of up to \$5,000 to conduct an annual certification review of each certified capital company. The collected fees would benefit the General Fund and the revenue collected would depend upon how many companies would be certified and require a review.

Implementation of this bill would require a new review and approval function of the Department of Treasury. Since the number of applications that would be received is unknown, the potential staffing needs of the Department are indeterminate.

The bill also would increase the administrative responsibilities of the Michigan Economic Development Corporation by requiring it to publish opinions on the status of certain companies with no clear revenue source to support these activities.

Date Completed: 5-24-02

Fiscal Analyst: Jay Wortley  
Jessica Runnels  
Maria Tyszkiewicz

Floor\sb618

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.