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BILL ANALYSIS

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House Bill 5345 (Substitute H-4 as reported without amendment)

Sponsor: Representative David Farhat

House Committee: Tax Policy

Senate Committee: Economic Development, Small Business and Regulatory Reform

CONTENT

The bill would amend the City Income Tax Act to allow a qualified start-up business to claim a credit against the city income tax each year, for tax years beginning after December 31, 2004. The credit would be equal to the taxpayer's tax liability attributable to that business for the tax year in each of the five consecutive tax years beginning with the first tax year in which the business claimed the single business tax credit proposed by House Bill 5331.

The city income tax credit would be effective for a city that, within 90 days after the bill's effective date, adopted a resolution to include these provisions in its ordinance.

"Qualified start-up business" would mean a business that had fewer than 25 full-time equivalent employees; had sales under \$1 million in the tax year for which the credit was claimed; and was not publicly traded; research and development would have to make up at least 15% of the business's expenses in the tax year for which the credit was claimed. The taxpayer also would have to meet certain criteria regarding its contribution liability under the Michigan Employment Security Act.

The bill is tie-barred to House Bill 5331.

Proposed MCL 141.635a

Legislative Analyst: J.P. Finet

FISCAL IMPACT

House Bill 5345 (H-4) would have an unknown, although likely negligible impact on State or local revenues. To qualify for the credit, a taxpayer could not have any business income. Under a city income tax, such a taxpayer would have no liability under these circumstances and thus receive no credit. The bill's potential impact would occur if the taxpayer had business income in one of the five consecutive years in which the taxpayer would be eligible to claim the credit. If the taxpayer did have a city income tax liability in such a year and a city had adopted the ordinance, the bill would reduce local revenue. For business income that would be included under the Michigan individual income tax, the bill would increase State revenue by reducing the amount of the credit for city income taxes. It is unknown how many cities would adopt a resolution to include the bill's provisions under their ordinances, but regardless of the number of cities that did so, the revenue effects at the State and local levels are expected to be negligible.

Date Completed: 5-12-04

Fiscal Analyst: David Zin

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Analysis available @ <http://www.michiganlegislature.org>

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