

# Legislative Analysis

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## **SBT: R&D CREDIT FOR CONTRIBUTIONS TO ELIGIBLE BUSINESSES**

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### **House Bill 4606**

**Sponsor: Rep. Ed Clemente**

**1<sup>st</sup> Committee: Tax Policy**

**2<sup>nd</sup> Committee: New Economy and Quality of Life (Referral Pending)**

**Complete to 4-24-07**

### **A SUMMARY OF HOUSE BILL 4606 AS INTRODUCED 4-18-07**

House Bill 4606 would amend the Single Business Tax Act to provide qualified taxpayers with a tax credit for contributions made to eligible businesses for research and development. The credit would equal to 50 percent of a taxpayer's eligible contribution to a business, not to exceed \$500,000. The bill specifies that the Michigan Economic Growth Authority (MEGA) could grant up to 25 research and development credits each year.

The taxpayer making the contribution and the business receiving the contribution would have to enter into an agreement with MEGA to comply with the terms of the agreement for five years. If MEGA subsequently determined that there had not been compliance, then 125 percent of credits received would have to be repaid. The firm could have no prior financial interest in the qualified taxpayer, and the taxpayer could not have had a prior financial interest in the business.

To be an "eligible business," a firm would have to be engaged in research and development that, together with any affiliate, employs fewer than 50 full-time employees or has gross receipts of less than \$10 million. A "qualified taxpayer" would be a taxpayer who proposes to fund, support, and collaborate in the research and technology innovation with an eligible business in the state and who had not received a research and development credit in the past calendar year. An "eligible contribution" would be "the transfer of pecuniary interest in the form of cash", and could not include contract research.

Application Process. Before making a contribution, a taxpayer would be required to submit an application to the Michigan Economic Growth Authority for approval of the credit. That application would have to include at least all of the following:

- An economic impact analysis, including the impact on both the qualified taxpayer and eligible business; the innovation impact on the technology sector; and the number of jobs created.
- A project and collaboration structure that includes: the structure of investment between the qualified taxpayer and eligible business; technology development

roles and responsibilities; and a commercialization plan, including intellectual property structure.

- A technology summary, including a due diligence review by the qualified taxpayer.
- Other collaborators or interested and supportive business.
- A financial summary.
- Total eligible contribution by the qualified taxpayer.
- In-kind services provided by the qualified taxpayer.
- Other investors or service providers in the project.
- Total overall investment into the project.

Application Review. MEGA would develop criteria to competitively review applications, including criteria related to the economic impact in Michigan, the total cash investment by the qualified taxpayer, the total in-kind services provided by the qualified taxpayer, other collaborations and services provided, the impact of technology development across specific and other sectors, and the commercialization plan and potential for commercialization.

A qualified taxpayer could not claim a credit unless MEGA had issued a certificate to the taxpayer. That certificate would be attached to the annual SBT return. The bill also specifies the components required for inclusion on the certificate.

Research and Development. The bill would define "research and development" to mean one of the following: (1) Translational research conducted with the objective of attaining a specific benefit or to solve a practical problem. (2) Activity that seeks to utilize, synthesize, or apply existing knowledge, information, or resources to the resolution of a specified problem, question, or issue, with high potential for commercial application to create jobs in this state. (3) Original investigation for the advancement of scientific or technological knowledge that will enhance the research capacity of this state in a way that increases the ability to attract to or develop companies, jobs, researchers, or students in this state.

MCL 208.33

## **FISCAL IMPACT:**

House Bill 4606 would provide up to 25 research and development credits each not to exceed \$500,000 per year. This bill would reduce revenue by a maximum of \$12.5 million per year.

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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.