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BILL ANALYSIS

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Senate Bill 1392 (as introduced 9-15-04)  
Sponsor: Senator Tom George  
Committee: Appropriations

Date Completed: 9-15-04

### **CONTENT**

The bill would amend the Single Business Tax Act to change the year an eligible taxpayer may begin claiming a tax credit for pharmaceutical-related research expenses. Under current law, an eligible business may claim this credit for tax years beginning after 2002, if it qualified during an 18-month period that ended in April 2004. Under this bill, a business could claim this credit for tax years that begin after 2006.

MCL 208.39f

### **BACKGROUND**

Public Act 588 of 2002 amended the Single Business Tax Act to create a credit for qualified research expenses related to a taxpayer's pharmaceutical-based business activity in this State. The credit equals 6.5% of the amount by which a qualifying company's research expenses for a tax year exceed the company's average research expenses in the previous three tax years, but the credit in any one year cannot exceed \$10 million. To qualify for this special pharmaceutical research tax credit, a company must 1) manufacture, sell, and conduct research and development activity on pharmaceutical products; and 2) employ at least 8,500 people in Michigan, all of whom are located within a 100-mile radius of each other. Also, at least 5,000 of these employees must be primarily involved in research and development activity. In order to qualify for the credit, a business must have met these requirements within 18 months of the effective date of Public Act 588, so the 18-month qualifying period ran from October 16, 2002 through April 16, 2004. Under the law, if a company qualified for the credit during this 18-month period, it is eligible for the credit each year thereafter even if the company no longer meets the minimum employment and research requirements.

These requirements were designed so that the only company that could possibly qualify for this credit would be Pfizer, once it completed purchasing Pharmacia, as long as Pfizer essentially maintained the employment levels and research activity of the two companies. To date, Pfizer has not claimed this credit in any tax year.

### **FISCAL IMPACT**

The bill would increase estimated single business tax revenue, and General Fund/General Purpose revenue, by \$10 million in both FY 2003-04 and FY 2004-05, and it would prevent any business from claiming this credit in FY 2005-06. While no credit has been claimed to date, it was estimated that the maximum credit would be claimed beginning in FY 2003-04; therefore, as part of the consensus revenue estimates, single business tax collections

reflected a \$10 million single business tax credit in each of these years. Under this bill, this tax credit would be eliminated and revenue estimates therefore would increase by \$10 million for each of these years. Eliminating the possibility of any business claiming this credit in FY 2004-05 is part of the budget target agreement.

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