Legislative Analysis

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ANGEL INVESTOR AMENDMENTS

House Bill 4793
Sponsor: Rep. Bill Huizenga
Committee: Commerce

Complete to 6-9-08

A SUMMARY OF HOUSE BILL 4793 AS INTRODUCED 5-17-07

The bill would amend a provision of the Income Tax Act (206.30) that allows a deduction from taxable income from gains made from certain equity investments in new Michigan-based "competitive edge technology" businesses.

Public Act 214 of 2005 amended the Income Tax Act to create a new deduction equal to all or a portion of the gain realized from an initial equity investment of at least $100,000, if the initial investment plus the gain, or a portion of it, were reinvested in an equity investment in a "qualified business" within one year after the initial gain was realized. This deduction could be claimed for tax years beginning on or after January 1, 2007, and the initial equity investment would have to be made before December 31, 2009.

House Bill 4793 would allow the deduction for a taxpayer whose share in a total investment was $25,000, if the total initial equity investment equals $100,000.

A "qualified business" is one that meets all of the following criteria: (1) is a seed or early stage business as defined in Section 3 of the Michigan Early Stage Venture Investment Act of 2003 (MCL 125.2233); (2) has its headquarters in Michigan, is domiciled in Michigan, and has a majority of its employees working in Michigan; (3) has a pre-investment valuation of less than $10 million; (4) has been in existence less than five years (although this does not apply to business doing research at a college or university or a tax-exempt organization; (5) is engaged only in competitive edge technology ; and (6) is certified by the Michigan Strategic Fund as a "qualified" business. ("Competitive edge technology" means advanced automotive, manufacturing, and materials technology; alternative energy technology; homeland security and defense technology; and life sciences technology.)

FISCAL IMPACT:

This bill would reduce income tax revenue by an indeterminate amount. The fiscal impact depends on the gains realized from initial equity investments and the reinvested amounts as specified in the bill. This bill would have no direct fiscal impact on local units of government.

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