

SENATE BILL NO. 1017

September 26, 2024, Introduced by Senators WEBBER, KLINEFELT and WOJNO and referred to the Committee on Finance, Insurance, and Consumer Protection.

A bill to amend 1967 PA 281, entitled
"Income tax act of 1967,"
(MCL 206.1 to 206.847) by adding sections 277 and 677.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 **Sec. 277. (1) Subject to the limitations under this**
2 **subsection, for tax years beginning on and after January 1, 2025**
3 **through December 31, 2028, a qualified taxpayer may claim a credit**
4 **against the tax imposed under this part equal to 20% of the**
5 **qualified taxpayer's research and development expenses incurred in**

1 this state during the tax year that are in excess of the base
2 amount as certified by the Michigan strategic fund. The Michigan
3 strategic fund shall not approve and certify more than
4 \$100,000,000.00 in total tax credits under this subsection and
5 section 677(1) for a single calendar year. The maximum amount of
6 the credit allowed under this subsection must not exceed
7 \$5,000,000.00 per tax year per qualified taxpayer.

8 (2) Subject to the limitations under this subsection, for tax
9 years beginning on and after January 1, 2025 through December 31,
10 2028, a qualified taxpayer may claim a credit against the tax
11 imposed under this part equal to 20% of the qualified taxpayer's
12 expenses incurred during the tax year that are attributable to the
13 storage and maintenance of the qualified taxpayer's finished goods
14 inventory. The Michigan strategic fund shall not approve and
15 certify more than \$25,000,000.00 in total tax credits under this
16 subsection and section 677(2) for a single calendar year. The
17 maximum amount of the credit allowed under this subsection must not
18 exceed \$1,000,000.00 per tax year per qualified taxpayer. For
19 purposes of this subsection only, qualified taxpayer does not
20 include a taxpayer designated under subsection (6) (c) (ii) and
21 includes only a taxpayer designated under subsection (6) (c) (i) that
22 has less than \$5,000,000.00 in annual gross revenue.

23 (3) For a qualified taxpayer who is a member of a flow-through
24 entity that qualifies for the credit under this section, that
25 taxpayer may claim a credit against the member's tax liability
26 under this part based on the member's distributive share of
27 business income reported from that flow-through entity or an
28 alternative method approved by the department.

29 (4) A qualified taxpayer shall not claim a credit under this

1 section unless the Michigan strategic fund has issued a certificate
2 to the qualified taxpayer. The qualified taxpayer shall attach the
3 certificate to the annual return filed under this part on which a
4 credit under this section is claimed. The certificate required by
5 this subsection must state all of the following:

6 (a) The taxpayer is a qualified taxpayer and the date on which
7 the taxpayer was designated as a qualified taxpayer.

8 (b) The amount of the credit under subsection (1) or (2), or
9 both, if applicable, for the qualified taxpayer for the designated
10 tax year.

11 (c) The qualified taxpayer's federal employer identification
12 number or the Michigan department of treasury number assigned to
13 the taxpayer.

14 (5) The credit allowed under this section must be claimed
15 after all other allowable nonrefundable credits under this part. If
16 the amount of the credit allowed under this section exceeds the tax
17 liability of the qualified taxpayer for the tax year, that portion
18 of the credit that exceeds the tax liability of the qualified
19 taxpayer for the tax year may be refunded or carried forward to
20 offset tax liability in subsequent tax years or until used up,
21 whichever occurs first. Amounts carried forward do not affect the
22 maximum amount of credits that may be claimed in subsequent tax
23 years.

24 (6) As used in this section:

25 (a) "Base amount" means the average amount of research and
26 development expenses incurred in this state for the 3 tax years
27 immediately preceding the tax year for which the credit is being
28 claimed under this section.

29 (b) "Michigan strategic fund" means the Michigan strategic

1 fund created under section 5 of the Michigan strategic fund act,
2 1984 PA 270, MCL 125.2005.

3 (c) "Qualified taxpayer" means a taxpayer that was designated
4 by the Michigan strategic fund as either of the following:

5 (i) A business whose primary business activity is defense
6 contracting, aerospace defense, aerospace equipment manufacturing,
7 or other aerospace and defense technology activities.

8 (ii) A business that is a tier 1, tier 2, or tier 3 defense
9 supplier, aerospace supplier, aerospace defense supplier, or
10 aerospace defense contractor with less than \$5,000,000.00 in annual
11 gross revenue.

12 (d) "Research and development expenses" means qualified
13 research expenses as that term is defined in section 41(b) of the
14 internal revenue code for research conducted in this state.

15 Sec. 677. (1) Subject to the limitations under this
16 subsection, for tax years beginning on and after January 1, 2025
17 through December 31, 2028, a qualified taxpayer may claim a credit
18 against the tax imposed under this part equal to 20% of the
19 qualified taxpayer's research and development expenses incurred in
20 this state during the tax year that are in excess of the base
21 amount as certified by the Michigan strategic fund. The Michigan
22 strategic fund shall not approve and certify more than
23 \$100,000,000.00 in total tax credits under this subsection or
24 section 277(1) for a single calendar year. The maximum amount of
25 the credit allowed under this subsection must not exceed
26 \$5,000,000.00 per tax year per qualified taxpayer.

27 (2) Subject to the limitations under this subsection, for tax
28 years beginning on and after January 1, 2025 through December 31,
29 2028, a qualified taxpayer may claim a credit against the tax

1 imposed under this part equal to 20% of the qualified taxpayer's
2 expenses incurred during the tax year that are attributable to the
3 storage and maintenance of the qualified taxpayer's finished goods
4 inventory. The Michigan strategic fund shall not approve and
5 certify more than \$25,000,000.00 in total tax credits under this
6 subsection and section 277(2) for a single calendar year. The
7 maximum amount of the credit allowed under this subsection must not
8 exceed \$1,000,000.00 per tax year per qualified taxpayer. For
9 purposes of this subsection only, qualified taxpayer does not
10 include a taxpayer designated under subsection (6)(c)(ii) and
11 includes only a taxpayer designated under subsection (6)(c)(i) that
12 has less than \$5,000,000.00 in annual gross revenue.

13 (3) A qualified taxpayer shall not claim a credit under this
14 section unless the Michigan strategic fund has issued a certificate
15 to the qualified taxpayer. The qualified taxpayer shall attach the
16 certificate to the annual return filed under this part on which a
17 credit under this section is claimed. The certificate required by
18 this subsection must state all of the following:

19 (a) The taxpayer is a qualified taxpayer and the date on which
20 the taxpayer was designated as a qualified taxpayer.

21 (b) The amount of the credit under subsection (1) or (2), or
22 both, if applicable, for the qualified taxpayer for the designated
23 tax year.

24 (c) The qualified taxpayer's federal employer identification
25 number or the Michigan department of treasury number assigned to
26 the taxpayer.

27 (4) The credit allowed under this section must be claimed
28 after all other allowable nonrefundable credits under this part. If
29 the amount of the credit allowed under this section exceeds the tax

1 liability of the qualified taxpayer for the tax year, that portion
2 of the credit that exceeds the tax liability of the qualified
3 taxpayer for the tax year may be refunded or carried forward to
4 offset tax liability in subsequent tax years for 5 years or until
5 used up, whichever occurs first. Amounts carried forward do not
6 affect the maximum amount of credits that may be claimed in
7 subsequent tax years.

8 (5) By July 1 of each year, the department, in cooperation
9 with the Michigan strategic fund, shall submit to each member of
10 the legislature, the governor, the clerk of the house of
11 representatives, the secretary of the senate, and the senate and
12 house fiscal agencies an annual report concerning the operation and
13 effectiveness of the research and development tax credits created
14 under sections 277 and 677. The report shall include all of the
15 following:

16 (a) A brief assessment of the overall effectiveness of the
17 research and development tax credits created under sections 277 and
18 677. The department may use the applicable provisions of the
19 economic development incentive evaluation prepared under the
20 economic development incentive evaluation act, 2018 PA 540, MCL
21 18.1751 to 18.1759, to satisfy this subdivision.

22 (b) The number of businesses applying and filing tentative
23 claims for a research and development tax credit for the
24 immediately preceding calendar year.

25 (c) The name of each qualified taxpayer submitting claims for
26 a research and development credit with an annual return and the
27 amount of the research and development tax credit allowed for the
28 immediately preceding calendar year.

29 (6) As used in this section:

1 (a) "Base amount" means the average amount of research and
2 development expenses incurred in this state for the 3 tax years
3 immediately preceding the tax year for which the credit is being
4 claimed under this section.

5 (b) "Michigan strategic fund" means the Michigan strategic
6 fund created under section 5 of the Michigan strategic fund act,
7 1984 PA 270, MCL 125.2005.

8 (c) "Qualified taxpayer" means a taxpayer that was designated
9 by the Michigan strategic fund as either of the following:

10 (i) A business whose primary business activity is defense
11 contracting, aerospace defense, aerospace equipment manufacturing,
12 or other aerospace and defense technology activities.

13 (ii) A business that is a tier 1, tier 2, or tier 3 defense
14 supplier, aerospace supplier, aerospace defense supplier, or
15 aerospace defense contractor with less than \$5,000,000.00 in annual
16 gross revenue.

17 (d) "Research and development expenses" means qualified
18 research expenses as that term is defined in section 41(b) of the
19 internal revenue code for research conducted in this state.

20 Enacting section 1. This amendatory act does not take effect
21 unless Senate Bill No. 1018 of the 102nd Legislature is enacted
22 into law.