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SFA**BILL ANALYSIS**

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Senate Bill 10 (as introduced 1-8-97)

Sponsor: Senator Bill Schuette

Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 10-15-97

CONTENT

The bill would amend the Single Business Tax Act to specify that for tax years beginning after January 1, 1997, a taxpayer could claim a single business tax (SBT) credit for qualified research and development expenses.

Specifically, the SBT credit would be 5% of the amount determined by subtracting the credit year qualified research and development percentage from the base year qualified research and development percentage and then multiplying the resulting percentage by the base year qualified research and development expenses. (This calculation is referred to below as formula #1.)

For a taxpayer who had not claimed a research and development credit under the Internal Revenue Code for the five years immediately preceding the tax year in which the taxpayer first claimed an SBT credit, the SBT credit would be determined as follows:

- For the first year, the credit would equal 10% of the taxpayer's credit year qualified research and development expenses.
- For the second year, the credit would be 11% of those expenses.
- For the third year, the credit would be 12% of those expenses.
- For the fourth year, the credit would have to be determined using formula #1 except that the base year qualified research and development percentage and the base year qualified research and development amount would have to be determined using the three years immediately preceding the credit year.
- For the fifth year, the credit would have to be determined using formula #1 except that the base year qualified research and development percentage and the base year qualified research and development amount would have to be determined using the four years immediately preceding the credit year.

For a taxpayer who claimed a research and development credit under the Internal Revenue Code for one or more of the five years immediately preceding the first year in which the taxpayer claimed an SBT credit, the SBT credit would have to be determined as if the years for which the Federal credit was claimed were years for which an SBT credit was claimed.

If the SBT credit for the tax year and any unused carryforward of the credit exceeded the taxpayer's tax liability for the tax year, the excess portion could not be refunded, but could be carried forward to offset tax liability in subsequent tax years for 10 years or until exhausted, whichever occurred first.

"Base year qualified research and development expenses" would mean the qualified research and development expenses of the taxpayer for the five years immediately preceding the credit year divided by five. "Base year qualified research and development percentage" would mean the

qualified research and development expenses of the taxpayer for the five years immediately preceding the credit year divided by the gross receipts of the taxpayer for the same period. "Credit year" would mean a year in which a credit under the bill was claimed. "Credit year qualified research and development expenses" would mean qualified research and development expenses of the taxpayer for the year in which an SBT credit was claimed. "Credit year qualified research and development percentage" would mean qualified research and development expenses of the taxpayer for the year in which an SBT credit was claimed divided by the gross receipts of the taxpayer for the same year. "Qualified research and development" would mean qualified research, and "qualified research and development expenses" would mean qualified research expenses, as defined in the Internal Revenue Code.

Proposed MCL 208.37e

Legislative Analyst: N. Nagata

FISCAL IMPACT

The fiscal impact of this bill cannot be determined because as originally drafted, a key formula used to calculate the credit, has some technical problems, and therefore, is not workable.

Fiscal Analyst: J. Wortley

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