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Senate Bill 862 (Substitute S-2 as reported by the Committee of the Whole)
Sponsor: Senator Laura M. Toy
Committee: Economic Development, Small Business and Regulatory Reform

CONTENT

The bill would amend the Single Business Tax Act to create a single business tax (SBT) credit for a taxpayer that was a qualified start-up business that did not have net income for two consecutive tax years, for tax years beginning after December 31, 2003. The taxpayer could claim the credit for the second of those tax years and each immediately following consecutive tax year in which the taxpayer did not have net income. If that taxpayer had net income in any of the intervening tax years, the two consecutive years without net income threshold would have to occur after the tax year in which the taxpayer had net income, before the taxpayer could claim the credit for any following tax year.

The credit would equal the taxpayer's SBT liability for the tax year in which the taxpayer had no net income. A credit could not be claimed for more than four tax years in total.

"Qualified start-up business" would mean a business that had fewer than 25 full-time equivalent employees; had sales of less than \$1,000,000 in the tax year for which the credit was claimed; and was not publicly traded; also, research and development would have to make up at least 15% of its expenses in the tax year for which the credit was claimed.

Proposed MCL 208.31a

Legislative Analyst: Julie Koval

FISCAL IMPACT

There are approximately 200,000 business firms in Michigan and about 1,400 of these businesses are conducting some type of research and development (R&D) activity. This bill would provide a tax credit equal to a business's total single business tax liability, and any new or existing business would qualify for this credit if it met the following five requirements:

1. Had no net income for two consecutive years,
2. Had fewer than 25 employees (calculated on a full-time equated basis),
3. Had annual sales of less than \$1 million,
4. Conducted R&D activity that accounted for at least 15% of its total business expenses,
5. Was not a publicly traded business, and
6. Had a single business tax liability.

It is estimated that less than 5%, or about 65 firms, of the 1,400 firms that currently conduct some type of R&D activity would meet all of these requirements, and therefore would be eligible for this proposed tax credit. It is estimated that collectively these businesses would realize an SBT reduction totaling \$0.4 million in FY 2004-05 and \$0.6 million in FY 2005-06. This estimated loss in single business tax revenue would have an impact on General Fund/General Purpose revenue. The bill would have no direct impact on local governments.

In addition, the tax exemptions proposed in Senate Bills 863 - 873 and 875, could be claimed only by businesses that claimed the SBT credit proposed by this bill.

Date Completed: 2-11-04

Fiscal Analyst: Jay Wortley