

SUBSTITUTE FOR
SENATE BILL NO. 862

A bill to amend 1975 PA 228, entitled
"Single business tax act,"
(MCL 208.1 to 208.145) by adding section 31a.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 31a. (1) For tax years that begin after December 31,
2 2003, a taxpayer that is a qualified start-up business that does
3 not have net income for 2 consecutive tax years may claim a
4 credit against the tax imposed under this act for the second of
5 those 2 consecutive tax years and each immediately following
6 consecutive tax year in which the taxpayer does not have net
7 income equal to the taxpayer's tax liability for the tax year in
8 which the taxpayer has no net income. If the taxpayer has net
9 income in any of the intervening tax years, the 2 consecutive tax
10 years without net income threshold must be met after the tax year
11 in which the taxpayer has net income before the taxpayer may

1 claim the credit under this section for any following tax year.
2 A credit under this section shall not be claimed for more than a
3 total of 5 tax years.

4 (2) A member of an affiliated group as defined in this act, a
5 controlled group of corporations as defined in section 1563 of
6 the internal revenue code and further described in 26 CFR
7 1.414(b)-1 and 1.414(c)-1 to 1.414(c)-5, or an entity under
8 common control as defined by the internal revenue code shall
9 determine net income for purposes of this section on a
10 consolidated basis.

11 (3) As used in this section:

12 (a) "Net income" means net income as determined under
13 generally accepted accounting principles (GAAP) excluding funds
14 received from small business innovation research grants and small
15 business technology transfer programs established under the small
16 business innovation development act of 1982, Public Law 97-219,
17 reauthorized under the small business research and development
18 enhancement act, Public Law 102-564, and subsequently
19 reauthorized under the small business reauthorization act of
20 2000, Public Law 106-554.

21 (b) "Qualified start-up business" means a business that meets
22 all of the following criteria:

23 (i) Has fewer than 25 full-time equivalent employees.

24 (ii) Has sales of less than \$1,000,000.00 in the tax year for
25 which the credit under this section is claimed.

26 (iii) Research and development make up at least 15% of its
27 expenses in the tax year for which the credit under this section

1 is claimed.

2 (iv) Is not publicly traded.

3 (c) "Research and development" means qualified research as
4 that term is defined in section 41(d) of the internal revenue
5 code.