

Legislative Analysis



INCOME TAX DEDUCTION FOR LARGE INVESTORS IN COMPETITIVE EDGE FIRMS

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 521 (Substitute H-1)
Sponsor: Sen. Michael D. Bishop
House Committee: Commerce
Senate Committee: Commerce and Labor

Complete to 9-23-05

A SUMMARY OF SENATE BILL 521 AS REPORTED BY HOUSE COMMITTEE

The bill would amend the Income Tax Act (MCL 206.30) to allow a deduction (which would reduce taxable income) for all or portion of a gain realized from an initial equity investment of at least \$100,000 made before December 31, 2009, in a "qualified business" if the taxpayer reinvests in an equity investment in a qualified business within one year after the sale or disposition of the original investment. This would apply for tax years beginning after December 31, 2006.

The deduction would be based on the amount of reinvestment. The maximum would be the investor's basis in the original investment plus the gain. If the subsequent investment is less than that amount, the deduction would be reduced proportionately.

A "qualified business" would be defined to apply to a company that meets all of the following criteria:

**** Is a seed or early stage business as defined in Section 3 of the Michigan Early Stage Venture Investment Act of 2003.**

**** Has its headquarters in Michigan, is domiciled in the state, or has a majority of its employees working the majority of their time in the state.**

**** Has a pre-investment valuation of less than \$10 million.**

**** Has been in existence less than five years (although this would not apply to a business whose business activity is derived from a college or university or a 501C(3) organization located in the state.**

**** Is engaged only in competitive edge technology.**

**** Is certified by the Michigan Strategic Fund as meeting the aforementioned criteria.**

The term "competitive edge technology" refers, generally speaking, to advanced automotive, manufacturing, and materials technology; alternative energy technology; homeland security and defense technology; and life sciences technology.

Senate Bill 521 is tie-barred to Senate Bill 533 and House Bills 5047, 5048, and 5109. These bills are part of a package that anticipates the sale of some portion of tobacco settlement revenues to use in providing state financial support for competitive edge technology.

FISCAL IMPACT:

The fiscal impact of this bill would depend on the amount of reinvested capital gains. This bill would have no direct fiscal impact on local units of government.

Legislative Analyst: Chris Couch
Fiscal Analyst: Rebecca Ross

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.