Legislative Analysis

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TAX VOUCHERS FOR INVESTMENTS IN EARLY STAGE VENTURE CORPORATION

House Bill 5215 (Substitute H-1)
Sponsor: Rep. Dave Hildenbrand

House Bill 5216 (Substitute H-1)
Sponsor: Rep. David Law
Committee: Commerce

Complete to 9-27-05

A SUMMARY OF HOUSE BILLS 5215 & 5216 AS REPORTED FROM COMMITTEE

Public Act 102 of 2005 (Senate Bill 525) amended the Michigan Early Stage Venture Investment Act of 2003 to establish a tax voucher certificate system under which investors in the Michigan Early Stage Venture Investment Fund would obtain vouchers (in lieu of credits) that could be used to reduce tax liability under both the Single Business Tax Act and the Income Tax Act. Tax vouchers can also be transferred (irrevocably) in whole or in part from one party to another. Tax vouchers can be used in tax years beginning after December 31, 2008.

An investment is made in the Early Stage Venture Investment Fund subject to an agreement that establishes an agreed-upon investment amount and repayment schedule; a negotiated amount or negotiated return on the investment; and the maximum amount of tax vouchers the investor can claim. Generally speaking, investors are entitled to tax vouchers in an amount equal to the difference between the expected return on the investment and the amount actually repaid.

House Bills 5215 and 5216 would put complementary provisions regarding tax voucher certificates in the Single Business Tax Act and Income Tax Act, respectively.

House Bill 5215 would amend the Single Business Tax Act (MCL 208.37e) to allow a taxpayer who had been issued a tax voucher certificate to use it to pay an SBT liability for a tax year beginning after December 31, 2008. The bill would limit the total amount of certificates that could be approved to an amount sufficient to allow the Michigan Early Stage Investment Corporation to raise $450 million. The total amount of all tax voucher certificates issue could not exceed $600 million, and no new certificate would be approved after December 31, 2015. Further, the amount of certificates approved for use in any tax year could not exceed 25 percent of the total amount of all tax voucher certificates approved the Department of Treasury.

House Bill 5216 would amend the Income Tax Act (MCL 206.270) to allow a taxpayer to use a tax voucher certificate to pay an income tax liability for a tax year beginning after December 31, 2008.

Under both bills, the amount of the tax voucher that could be used to pay a liability in any tax year could not exceed the lesser of: 1) the amount of the tax voucher stated in the voucher certificate; 2) the amount authorized to be used in the tax year under the terms of the certificate; or 3) the taxpayer's liability for the tax year in which the voucher was to be used. If an amount of a voucher certificate exceeded the amount the taxpayer could use in a tax year, the excess could be used to pay any future liability.

The bills are tie-barred to each other and to House Bills 5047, 5048, and 5109, and Senate Bill 533. (These are commonly referred to as the tobacco settlement revenue securitization package, which anticipates selling some portion of the state's future tobacco settlement revenues with the proceeds to support economic development activities, including the promotion of competitive edge technologies.)

FISCAL IMPACT:

The fiscal impact would depend on the amount of the tax voucher certificates issued (not to exceed $600 million). The State fiscal impact would not occur until tax year 2009. These bills would have no direct local fiscal impact.

POSITIONS:

The Department of Treasury testified in support of the bills. (9-27-05)

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