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**BILL ANALYSIS**

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Senate Bill 92 (Substitute S-2 as reported)
Sponsor: Senator Michael D. Bishop
Committee: Commerce and Labor

CONTENT

The bill would amend the Income Tax Act to do all of the following:

- Allow a taxpayer to claim a credit against the income tax beginning in 2007 for equity investments made after 2005 in a "qualified business" (focused on technology) or a "community-based seed capital company".
- Create the Michigan Capital Investment Board to designate qualified businesses and determine the eligibility of community-based seed capital companies, and to distribute tax credits to investors.
- Limit the amount of a credit to 20% of the investor's total investment, subject to a \$50,000 maximum per business for an individual investor or \$250,000 for a partnership, limited liability company, S corporation, estate, or trust; and allow an investor to claim credits for five different investments.
- Limit the total of all credits available under the bill to \$10.0 million.
- Allow a credit to be claimed only in a tax year in which the taxpayer realized a loss on the investment or the investment became a worthless security as determined under the Internal Revenue Code.
- Prohibit a claim under the bill for the same investment used as a basis for a credit under the Michigan Early Stage Venture Investment Act.

A "qualified business" would be a business whose principal business operations are located in Michigan, that has been in operation for five years or less (unless it is a business whose business activity is based on research or development by an institution of higher education or a tax-exempt charitable nonprofit organization) is not engaged primarily in retail sales, real estate, or the provision of health care or other professional services, but focuses on areas including, but not limited to, alternative energy technology, technology as addressed by the Michigan Tri-Technology Corridor Initiative, and Michigan Life Sciences Corridor Initiative high technology activity; and has a preinvestment valuation of \$10.0 million or less.

"Community-based seed capital company" would mean a "flow-through entity", whose principal business operations are located in Michigan, formed solely for the purpose of investing in a single qualified business. "Flow-through entity" would mean an S corporation, partnership, limited partnership, limited liability partnership, or limited liability company and would not include a publicly traded partnership that has equity securities registered with the Securities and Exchange Commission.

The bill is tie-barred to Senate Bill 521, which would amend the Income Tax Act to allow a taxpayer to deduct a realized gain on an investment made under Senate Bill 92 if the gain were reinvested in a qualified business or community-based seed capital company.

FISCAL IMPACT

The bill would reduce income tax revenue by a maximum of \$10.0 million, and this loss in income tax revenue would most likely be realized over at least two years beginning in FY 2007-08. All of the \$10.0 million in reduced income tax revenue would affect GF/GP revenue. The bill would not have any direct fiscal impact on local government.

No cost estimate has been provided by the Department of Treasury regarding its administrative costs under the bill.

Date Completed: 5-24-05

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.