



Senate Fiscal Agency  
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**BILL ANALYSIS**

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Senate Bill 568 (Substitute S-2 as reported)  
Sponsor: Senator Wayne Kuipers  
Committee: Economic Development and Regulatory Reform

**CONTENT**

The bill would amend the Income Tax Act to reduce the minimum amount of a taxpayer's initial equity investment in a "qualified business", and extend the deadline for making the investment, in order for the taxpayer to take a deduction for a gain realized from the investment.

For tax years beginning after December 31, 2006, a taxpayer may deduct, to the extent included in adjusted gross income, all or a portion of the gain realized from an initial equity investment of at least \$100,000 made by the taxpayer before December 31, 2009, in a qualified business, if an amount equal to the sum of the taxpayer's basis in the investment plus the gain, or a portion of that amount, is reinvested within one year after the sale or disposition of the investment. Under the bill, the deduction would be allowed if the minimum initial equity investment were \$25,000 and were made by December 31, 2011.

"Qualified business" means a business that is a seed or early stage business as defined in the Michigan Early Stage Venture Investment Act; has its headquarters, is domiciled, or has a majority of its employees working a majority of their time in Michigan; has a preinvestment valuation of less than \$10 million; has existed less than five years (except for certain businesses); is engaged only in competitive edge technology; and is certified by the Michigan Strategic Fund as meeting these requirements at the time of each proposed investment.

MCL 206.30

Legislative Analyst: Patrick Affholter

**FISCAL IMPACT**

The fiscal impact cannot be identified because of many unknown variables. In fact, it is still not possible to estimate the fiscal impact of the existing deduction because: 1) the first year the current deduction may be claimed is the 2007 tax year and no information is yet available on how many taxpayers will claim this deduction or how much will be deducted, and 2) there is no way to estimate the amount of capital gains investors will realize from initial equity investments, how much of these initial investments and subsequent gains will be reinvested in qualified businesses, or when these gains will be realized and reinvested. Given that the fiscal impact of the existing deduction is not known, it is not possible to provide a reasonable estimate of the fiscal impact of the change to the current deduction proposed in this bill. All that is known at this time is that the cost of the deduction would increase under this bill because the minimum amount of the initial equity investment needed to qualify for the deduction would be lowered from \$100,000 to \$25,000 and, therefore, more taxpayers would qualify for the deduction. This bill would have no direct fiscal impact on local government.

Date Completed: 1-24-08

Fiscal Analyst: Jay Wortley