

Legislative Analysis



SMALL BUSINESS INVESTMENT CREDIT

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House Bill 5921 (Substitute H-1)

Sponsor: Rep. Ellen Cogen Lipton

Committee: New Economy and Quality of Life

Complete to 3-17-10

A SUMMARY OF HOUSE BILL 5921 AS REPORTED FROM COMMITTEE

The bill would amend the Income Tax Act to create a small business investment credit. Generally speaking, the bill applies to investments in young, small firms designated as "economic base employers" by the Michigan Strategic Fund.

Under the bill, for tax years 2010-2013, a taxpayer could claim a credit equal to 25 percent of the amount of a qualified investment in a qualified business. To qualify for the credit, the taxpayer would have to receive certification from the Michigan Strategic Fund. The MSF could not certify more than \$10 million in credits in a calendar year, but any amount under the cap that is not used could be carried over to the next year. An individual taxpayer could not claim more than \$500,000 in credits in any one tax year. Further, a taxpayer could not claim a credit of more than \$500,000 based on an investment in any one business. Overall, the MSF could not certify more than \$1 million in investments in any one business. A credit would have to be taken in equal installments over two years beginning with the year in which MSF certification was issued. The credit would not be refundable, but if a credit exceeded tax liability it could be carried forward for up to 15 years or until used up, whichever occurred first.

Qualified Investment. A qualified investment would be an investment of at least \$15,000 certified by the MSF that is made alongside of or through a seed venture capital or angel investor group registered with and approved by the MSF. The venture capital or investor group could not be in a business in which any member of the investor's family is an employee or owner of the business or in which the investor or any member of the investor's family has a pre-existing fiduciary relationship with the business.

Qualified Business. A qualified business (for investments) would have to meet all of the following criteria:

**** Be a seed or early stage business (as defined in the Michigan Early Stage Venture Investment Act.)**

**** Has (or will have) its headquarters in the state, is domiciled in the state, and has a majority of its employees working in the state.**

**** Has a pre-investment valuation of under \$10 million and has fewer than 100 full-time employees.**

** Has been existence less than five years (although this would not apply when the business activity is derived from research at a university of higher education in Michigan or a 501(c)(3) nonprofit located in the state).

** Is an "economic base employer" as determined by the MSF board. (This term is not defined in the bill.)

Application Process. The board of the MSF would have to develop an application and approval process for use in certifying investments and adopt a program describing parameters and criteria to be used in approving investments. Toward these ends, the board could:

** Apportion the annual aggregate credit to include set-asides by credit size, early stage, and other categories.

** Develop a method to define, register, and approve angel investor groups, seed capital firms, and venture capital firms.

** Determine and describe the conditions to be met to be considered "an investment alongside or through an approved angel group, seed capital firm, or venture capital firm."

MCL 206.278

FISCAL IMPACT:

House Bill 5921 would provide an income tax credit not to exceed \$10.0 million per calendar year. This bill would reduce income tax revenue by an estimated \$5.0 million for FY 2010-11 and on a full-year basis the revenue decrease would be \$10.0 million. To the extent this credit is taken through refunds, the revenue decrease would affect the General Fund/General Purpose (GF/GP). However, there could be a minimal impact on School Aid Fund (SAF) revenue. This bill would have no direct impact on local units of government.

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■ 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.