Legislative Analysis

RESEARCH AND DEVELOPMENT TAX CREDIT

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House Bill 5601 as introduced
Sponsor: Rep. Matt Hall
Committee: Tax Policy
Complete to 1-18-21

SUMMARY:

House Bill 5601 would amend Part 2 of the Income Tax Act, which addresses the corporate income tax (CIT), to allow taxpayers to claim an income tax credit for ***qualified research and development expenses***. The credit would apply to research and development (R&D) expenses incurred in Michigan during the given tax year and could be equal to 15% of the taxpayer's R&D expenses.

Qualified research and development expenses would mean research and development expenses (as defined in the federal Internal Revenue Code) that are related to any of the following:

- The design, development, or improvement of semiconductors, semiconductor devices and equipment, and other related products and technology, such as integrated circuits, and to the processes, techniques, formulas, software, or inventions to sustain the ability of the semiconductor industry to continually improve semiconductor performance and technology while decreasing costs through technological innovation.
- The design, engineering, testing, or diagnostics of automated driving systems for automated motor vehicles, related to advanced automotive technology.
- A design, development, or improvement related to life sciences technology.

If the amount of the credit allowed under this provision exceeded the tax liability of the taxpayer for the tax year, that portion of the credit that exceeded the tax liability would not be refunded but *could* be carried forward to offset tax liability under the Income Tax Act for up to 15 years or until used up, whichever occurred first.

Proposed MCL 206.672

BACKGROUND:

An R&D tax credit is available at the federal level, and over 30 states offer an R&D tax credit to offset state tax liability. Section 41 of the Internal Revenue Code governs this "Credit for Increasing Research Activities," with the name describing the motivation for the credit.

FISCAL IMPACT:

As written, House Bill 5601 would reduce revenue received from the CIT by an unknown, but potentially very large, amount.

Based on R&D spending data for Michigan in 2018 from the National Science Foundation, roughly 45% of all R&D expenditures in the Transportation sector (NAICS 361) in the United States were conducted in Michigan, totaling more than $16 billion. Even if only 20% of this amount meets the requirement for qualified R&D, CIT revenue could decline by almost $500.0 million if no carryforwards were necessary. To the extent that the credit exceeded a taxpayer's CIT liability, the overall impact would be lower, although the excess would likely be claimed in a future tax year.

All CIT revenue accrues to the general fund.

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