INCOME TAX ACT OF 1967 (EXCERPT)

Act 281 of 1967

206.717 Research and development credit.

Sec. 717.

(1) Subject to the limitations under this section, for tax years beginning on and after January 1, 2025, an employer that is an authorized business may claim a credit against the taxes required to be withheld and remitted to this state under this chapter as follows:

(a) For an authorized business with 250 or more employees, an amount equal to the sum of 3% of the employer's qualifying research and development expenses incurred during the calendar year ending with or within the tax year up to the base amount and 10% of the employer's qualifying research and development expenses incurred during the calendar year ending with or within the tax year in excess of the base amount. The credit amount calculated under this subdivision must not exceed $2,000,000.00 per tax year per employer.

(b) For an authorized business with less than 250 employees, an amount equal to the sum of 3% of the employer's qualifying research and development expenses incurred during the calendar year ending with or within the tax year up to the base amount and 15% of the employer's qualifying research and development expenses incurred during the calendar year ending with or within the tax year in excess of the base amount. The credit amount calculated under this subdivision must not exceed $250,000.00 per tax year per employer.

(2) Subject to the limitations under this section, an employer that is an authorized business may claim an additional credit equal to 5% of the qualifying research and development expenses used to calculate the credit under subsection (1) that were incurred in collaboration with a research university in this state pursuant to a written agreement between the employer and the research university. In order to claim the additional credit under this subsection, if requested by the department, the employer must provide the department with a copy of the written agreement with the research university. The additional credit allowed under this subsection must not exceed $200,000.00 per tax year per employer.

(3) To be eligible for a credit under this section, an employer must submit, in a form and manner as prescribed by the department, a tentative claim for which a credit under this section is sought to the department on or before April 1, 2026 for tentative claims made for qualifying research and development expenses incurred during the 2025 calendar year and for tentative claims made for qualifying research and development expenses incurred for each calendar year after 2025 on or before March 15 after the calendar year ending with or within the tax year for which the employer intends to submit a claim for the credit. The tentative claim required under this subsection must include, at a minimum, all of the following information:

(a) If the credit is to be claimed under subsection (1)(a) or (b).

(b) The amount of qualifying research and development expenses incurred for which a credit is being claimed.

(c) If an additional credit is to be claimed under subsection (2) for collaboration with a research university.

(4) The department shall review all tentative claims submitted under subsection (3) and if the amount of tentative claims submitted exceeds the amount allowed under subsection (5), the department shall publish a notice on its website notifying claimants of the adjustment to the tentative claims for that calendar year as required under subsection (5).

(5) The aggregate amount of credits allowed to be claimed by all employers under this section and all taxpayers under section 677 based on qualifying research and development expenses incurred in a single calendar year must not exceed $100,000,000.00. If the aggregate amount of tentative claims submitted under this section and section 677 exceeds $100,000,000.00, the department shall prorate the amount of credits allowed for each claimant as follows:

(a) If the aggregate amount of tentative claims submitted by all employers qualifying under subsection (1)(b) and all taxpayers qualifying under section 677(1)(b) does not exceed $25,000,000.00, the amount of credits claimed by each of those claimants must not be prorated. However, for employers submitting a tentative claim for a credit under subsection (1)(a) or taxpayers submitting a tentative claim for a credit under section 677(1)(a), the amount of tentative claims submitted must be prorated so that each claimant's allowed credits equal that claimant's pro rata share of the remaining amount of credits allowed to be claimed under this subsection and section 677(5).

(b) Except as provided in subdivision (c), if the aggregate amount of tentative claims submitted by all employers qualifying under subsection (1)(b) and all taxpayers qualifying under section 677(1)(b) exceeds $25,000,000.00, the amount of tentative claims submitted by each of those claimants must be prorated so that each claimant's allowed credits equal that claimant's pro rata share of $25,000,000.00, and the amount of tentative claims submitted by each employer qualifying under subsection (1)(a) or taxpayer qualifying under section 677(1)(a) must be prorated so that each claimant's allowed credits equal that claimant's pro rata share of $75,000,000.00.

(c) If the aggregate amount of tentative claims submitted by all employers qualifying under subsection (1)(b) and all taxpayers qualifying under section 677(1)(b) exceeds 25% of the aggregate amount of tentative claims submitted by all employers under this section and all taxpayers under section 677, then the proration under subdivision (b) does not apply, and the amount of tentative claims submitted by each employer under this section and taxpayer under section 677 shall be prorated so that each claimant's allowed credits equal that claimant's pro rata share of $100,000,000.00.

(6) A member of a flow-through entity that submits a claim for a credit under this section is not allowed to claim any portion of that credit. An employer shall not assign or transfer all or any portion of a credit allowed under this section. A credit or any portion of a credit allowed under this section is not assignable or transferable either by agreement or by operation of law.

(7) An employer shall, in a form and manner as prescribed by the department, file a claim for a credit under this section with the annual return required under section 711 for the tax year in which a tentative claim for a credit under this section is submitted. The credits allowed under this section must be claimed after all allowable nonrefundable credits under this act. If the amount of the credits allowed under this section exceeds the tax liability of the employer for the tax year, that portion of the credit that exceeds the tax liability of the employer for the tax year must be refunded.

(8) As used in this section:

(a) "Authorized business" means, except as otherwise provided under this subdivision, a flow-through entity that is subject to the withholding requirements under section 703(2) and that has incurred during the calendar year ending with or within the tax year for which a credit is being claimed under this section qualifying research and development expenses in excess of the base amount. Authorized business does not include a flow-through entity that is subject to the Michigan business tax act, 2007 PA 36, MCL 208.1101 to 208.1519, or part 2, for the tax year.

(b) "Base amount" means the average annual amount of qualifying research and development expenses incurred during the 3 calendar years immediately preceding the calendar year ending with or within the tax year for which a credit is being claimed under this section. An authorized business with no prior qualifying research and development expenses has a base amount of zero. If qualifying research and development expenses were incurred in only 1 or 2 of the immediately preceding 3 calendar years, the average annual amount must be based on the number of calendar years during which qualifying research and development expenses were incurred.

(c) "Qualifying research and development expenses" means qualified research expenses as that term is defined in section 41(b) of the internal revenue code of 1986, 26 USC 41, for research conducted in this state. Qualifying research and development expenses do not include qualified research expenses for research conducted outside of this state.

(d) "Research university" means a public university described in section 4, 5, or 6 of article VIII of the state constitution of 1963 or an independent nonprofit college or university in this state.

History: Add. 2024, Act 187, Eff. Apr. 2, 2025