



MULTISTATE INCOME/FRANCHISE TAX

Michigan establishes an R&D tax credit for certain authorized businesses

Tax Alert

Overview

Michigan recently enacted legislation establishing a Research and Development (“R&D”) credit for certain authorized businesses. Authorized businesses with 250 or more employees may be eligible for up to \$2,000,000 annually in R&D credits and those with fewer than 250 employees may be eligible for up to \$250,000 annually. These authorized businesses are also entitled to an additional credit for R&D expenses incurred in collaboration with a Michigan research university of up to \$200,000 annually. No more than \$100 million of R&D credits in the aggregate may be claimed by authorized businesses in a single calendar year.

This Tax Alert summarizes some of the relevant provisions related to these R&D credits in House Bills (“H.B.”) [4368](#), [H.B. 5099](#), [H.B. 5100](#), [H.B. 5101](#), and [H.B. 5102](#) and also highlights a newly created program, the Michigan Innovation Fund Program.

Michigan R&D credit

Effective for tax years beginning on and after January 1, 2025:

- “Authorized businesses” may claim an R&D credit against the Michigan employee tax required to be withheld or corporate income tax required to be paid.
- H.B. 4368 generally defines an “authorized business” as:
 - A “flow-through entity” (“FTE”) that is subject to employee compensation withholding tax requirements under Michigan Compiled Laws section 206.703(2) and that has increased its qualifying R&D expenses. An “authorized business” does not include FTEs subject to the Michigan Business Tax Act for the tax year.
 - A “taxpayer”—i.e., a corporation, insurance company, financial institution, or unitary business group—that has increased its qualifying R&D expenses.

- Only employers that are FTEs are only eligible to claim an R&D credit against the Michigan employee withholding tax. Corporate employers may not take the credit against employee withholding tax.
- Authorized businesses are eligible for R&D tax credits based on their employee count.
 - For an authorized business with 250 or more employees, the credit equals:
 - 3% of the authorized business' qualifying R&D expenses incurred during the calendar year ending with or within the tax year, up to the base amount and
 - 10% of the authorized business' qualifying R&D expenses incurred during the calendar year ending with or within the tax year, in excess of the base amount.
 - The maximum credit amount for authorized businesses with 250 or more employees is \$2 million annually per authorized business.
 - For an authorized business with less than 250 employees, the credit equals:
 - 3% of the authorized business' qualifying R&D expenses incurred during the calendar year ending with or within the tax year, up to the base amount and
 - 15% of the authorized business' qualifying R&D expenses incurred during the calendar year ending with or within the tax year, in excess of the base amount.
 - The maximum credit amount for authorized businesses with less than 250 employees is \$250,000 per authorized business.
- In addition to the R&D credit listed above, authorized businesses may claim an additional credit equal to 5% of the qualifying R&D expenses incurred during the calendar year ending with or within the tax year that are in excess of the base amount if the authorized business' qualifying R&D expenses for which the credit is being claimed under the provisions above are incurred in collaboration with a Michigan research university. The maximum amount of this credit is \$200,000 annually per employer or taxpayer.
- Qualifying research and development expenses means qualified research expenses as that term is defined in Internal Revenue Code section 41(b) for research conducted in Michigan.
- To qualify for the R&D credits, authorized businesses must submit specified information to the Department of Treasury ("Department") on or before April 1, 2026, for the 2025 calendar year, and on or before March 15th after the calendar year ending with or within the tax year for which the authorized business intends to submit a claim for the credit.
- The aggregate amount of R&D credits allowed to be claimed by all authorized businesses in a single calendar year must not exceed \$100 million dollars. If credits exceed this threshold, the Department is required to prorate the credits in accordance with H.B. 5100 and 5101.
- For authorized businesses that are employers (i.e., FTEs), a member of such FTE is not allowed to claim any portion of that credit.
- An authorized business also may not assign or transfer all or any portion of the R&D credit.
- H.B. 5099 and H.B. 5102 impose annual reporting requirements on the Department and the Michigan strategic fund regarding the operation and effectiveness of the R&D credits.

Michigan Innovation Fund Program

- [H.B. 5653](#) authorizes the Michigan Strategic Fund to create a \$60 million Michigan Innovation Fund Program to provide support in the state for investments in qualified evergreen venture funds, qualified emerging evergreen funds, qualified venture capital funds, and qualified start-up support services.
- The Michigan Strategic Fund will support the Michigan Innovation Fund Program and outline the allocation of the money for each fiscal year up to and including the fiscal year ending September 30, 2054.
- The Michigan Strategic Fund is authorized to enter into grant agreements to ensure that a qualified evergreen venture fund or qualified emerging evergreen fund complies with requirements in accordance with H.B. 5653. A grant agreement requires an award to be committed within 5 years after its receipt.

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