Legislative Analysis

TAX CREDITS FOR IN-STATE RESEARCH AND DEVELOPMENT ON ADVANCED NUCLEAR REACTOR TECHNOLOGIES

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House Bill 4124 as introduced
Sponsor: Rep. Pauline Wendzel
Committee: Energy
Complete to 3-3-25

SUMMARY:

House Bill 4124 would amend the Income Tax Act to provide a credit for taxpayers against the corporate income tax, and a credit for employers against tax withholdings, equal to 15% of the claimant's ***qualified research and development expenses*** incurred in Michigan related to advanced nuclear reactor technologies. The credits would apply for tax years that begin on and after January 1, 2026. An eligible person could claim either credit, or both, but could not claim both credits based on the same expenses. Credit amounts exceeding a claimant's tax liability for the tax year would not be refundable, but could be carried forward for up to 15 tax years. The aggregate amount of both credits would be capped at $2.5 million annually. If claims in a given year exceed that cap, each claimant's credit amount would be prorated accordingly.

> ***Qualified research and development expenses*** would mean ***qualified research expenses*** for research conducted in Michigan related to the design, development, or improvement of ***advanced nuclear reactor technologies*** and to accelerate the availability of ***advanced nuclear reactors*** into domestic and international markets.
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> ***Qualified research expenses*** would mean that term as defined in the federal Internal Revenue Code (where it includes both in-house and contract research expenses).[1]
>
> ***Advanced nuclear reactors*** would mean that term as defined in 42 USC 16271.[2]
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> ***Advanced nuclear reactor technologies*** would mean material improvements to a utilization facility, as defined in 42 USC 2014 and 10 CFR 50.2,[3] that has significant improvements, including additional inherent safety features, compared to reactors operating before January 1, 2016, in the United States. Advanced nuclear reactor technologies would include both of the following:
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> - Advanced nuclear reactors.
> - Existing electricity generating facilities benefiting from research, development, demonstration, and commercialization programs, as described in 42 USC 16272,[4] in Michigan powered by nuclear energy that have completed a life cycle management program.

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[1] https://www.law.cornell.edu/uscode/text/26/41
[2] https://www.law.cornell.edu/uscode/text/42/16271
[3] 42 USC 2014: https://www.law.cornell.edu/uscode/text/42/2014
10 CFR 50.2: https://www.ecfr.gov/current/title-10/chapter-I/part-50/subject-group-ECFR1aad221999377bf/section-50.2
[4] https://www.law.cornell.edu/uscode/text/42/16272

A claimant would have to submit a tentative claim, including at least the amount of qualified expenses they are claiming a credit for, to the Department of Treasury on or before March 15 after the calendar year ending with or within the tax year the claim relates to. The department would have to review all tentative claims and, if total claims exceed $2.5 million, publish a notice on its website about any proration adjustment.

The bill can take effect only if House Bills 4125 to 4129 are also enacted.

Proposed MCL 206.677a and 206.717a

FISCAL IMPACT:

The bill would be expected to reduce state revenue by approximately $2.5 million annually for tax years beginning on and after January 1, 2026.

Although the bill states that the Department of Treasury may not authorize more than $2.5 million of income tax credits in any single calendar year, it is possible that the actual revenue impact of the credits could be more than or less than $2.5 million in a given year, depending on when the credits are actually claimed. To the extent that any of the research and development would not have occurred but for the provisions of the bill, that would mitigate the fiscal impact. However, this cannot be determined with any certainty.

Any revenue loss would be borne by the general fund.

The bill also would increase costs for the Department of Treasury by an indeterminate amount due to the additional administrative duties for the tax credit program under the bill's provisions.

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