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TAX CREDITS · INCENTIVES · COST RECOVERY

KBKG TAX INSIGHT: RESEARCH & DEVELOPMENT TAX CREDITS FOR MICHIGAN TAXPAYERS UNDER HOUSE BILL 5601

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As the technology in the automobile manufacturing industry increases, the popularity of automated driving vehicles has caused many manufacturers to devote resources to improving this technology.

Michigan taxpayers may soon be able to significantly reduce their Michigan state tax liability due to a bill introduced by Rep. Matt Hall. House Bill 5601 provides a state research and development tax credit equal to 15% of the qualified research expenditures (QREs) incurred by Michigan companies within the state. The QREs incurred must meet the requirements of IRC §41 (to be eligible for [R&D Tax Credits](#), research activities must meet the criteria in the [IRS Four-Part Test](#)). The tax credits are available for expenditures related to activities occurring in Michigan, including:

- Wages paid to an employee performing research activities
- Wages paid to any employees directly supporting or directly supervising an employee performing research activities
- Supplies used or consumed while performing research activities

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- Fixed Asset Review
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- 179D Incentive for Energy Efficient Commercial Buildings
- Transfer Pricing
- IC-DISC
- Employee Retention Tax Credits

- A portion of 3rd party research performed on the taxpayer's behalf
- Fees paid for cloud hosting dedicated to software development

KBKG INSIGHT

Qualifying research activities are designated for targeted industries, including semiconductor manufacturing, automated driving vehicles, life sciences, and related products, processes, software, formulas, and inventions related to these industries.

OPPORTUNITY

As the technology in the automobile manufacturing industry increases, the popularity of automated driving vehicles has caused many manufacturers to devote resources to improving this technology. Michigan businesses choosing to pursue the design, development, or improvement of this technology and the devices and equipment related to this technology could see an immediate state tax benefit. Any unutilized credits would carry forward up to 15 years or until fully utilized, whichever comes first. These state credits are in addition to any federal R&D credits Michigan taxpayers may already be claiming.

For example, a manufacturer operating in Lansing has a state tax liability of \$40,000. The manufacturer generates a research credit of \$50,000. The credit would eliminate its state tax liability, and the remaining \$10,000 of unutilized credits would carry forward to the next tax year.

This is exciting news for companies innovating in Michigan, but remember, a very lucrative federal credit is already in place. We can help qualify, quantify, document, and defend in lockstep with the recently released [IRS Chief Counsel Memorandum](#) that is changing the industry.

To learn more about the R&D Tax Credit, [contact our experts](#).

About the Authors



Lester Cook, CCSP – Principal

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Lester has nearly 20 years of experience in the tax specialty service industry. He is a Principal and leads KBKG's [Fixed Asset Review Practice](#) from our [Chicago, IL office](#). Throughout his career, Lester has completed cost segregation analyses on thousands of properties ranging from office space leasehold improvements to multi-billion dollar industrial complexes. [» Full Bio](#)



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Michael Maroney is a Director with KBKG at our [Chicago, IL office](#). He advises clients on tax matters related to federal and state [R&D tax credits](#). He has advised numerous Fortune 1000 clients across a variety of industries. He has successfully defended his client's R&D claims before the IRS and state taxing authorities. He has been an instructor on these topics for numerous CPA and industry associations and has authored articles related to federal and state R&D tax credits. [» Full Bio](#)