

## Notice Regarding New Research and Development Credit

For tax years beginning on and after January 1, 2025, Public Acts 186 and 187 of 2024 create a new tax credit for Corporate Income Tax (CIT) taxpayers and certain flow-through entities for qualifying research and development expenses.

This notice describes the new credit and the process for claiming it, which differs depending on whether the claimant is a CIT taxpayer or a flow-through entity. In both cases, the credit is available starting with research and development expenses incurred during the 2025 calendar year, and the first statutory filing deadline is April 1, 2026.

### Eligibility

The new R&D credit is available to CIT taxpayers, and flow-through entities that are employers subject to Michigan income tax withholding but not subject to the CIT or the Michigan Business Tax (MBT), that have increased their qualifying research and development expenses and timely filed a tentative claim (described below).

**Qualifying research and development expenses** (“R&D Expenses”) means, “qualified research expenses as that term is defined in section 41(b) of the Internal Revenue Code...for research conducted in [Michigan].” Expenses incurred for research conducted outside of Michigan cannot be used to calculate the credit or to determine eligibility for the credit.

To qualify for the credit, a claimant must have incurred during the calendar year R&D Expenses in excess of the **base amount**, defined as, “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,” with certain adjustments for claimants that have fewer than 3 years of expenses during that period. *Importantly, both fiscal-year and calendar-year claimants must compute the base amount using R&D Expenses reported on a calendar-year basis.*

Example: A claimant had R&D Expenses in calendar years 2022 through 2024 of \$20,000, \$10,000, and \$30,000, respectively. For the claimant to qualify for a credit based on its calendar year 2025 R&D Expenses, those expenses would have to exceed \$20,000 (i.e., the average of its R&D Expenses for calendar years 2022 through 2024).

*Unitary Business Groups (UBGs):* Under the CIT, where a UBG exists, it is the taxpayer (MCL 206.611). Consequently, where a corporation with R&D Expenses is a member of a unitary business group, the UBG, not the corporation, would claim the credit, and eligibility would be determined based on a calculation of the UBG’s R&D Expenses and base amount.

### Unadjusted Credit Amount

For a qualifying claimant, whether a fiscal-year or calendar-year filer, the unadjusted credit amount is calculated each year based on R&D Expenses incurred during the calendar year (specifically, the calendar year ending with or within the tax year).

The credit is computed as follows:

For a claimant with fewer than 250 employees:

- 3% of R&D Expenses up to the base amount, plus
- 15% of R&D Expenses above the base amount,
- Limited to \$250,000 per taxpayer.

For a claimant with 250 or more employees:

- 3% of R&D Expenses up to the base amount, plus
- 10% of R&D Expenses above the base amount,
- Limited to \$2,000,000 per taxpayer.

**Employee** is defined in the CIT as, “an employee as defined in section 3401(c) of the internal revenue code. A person from whom an employer is required to withhold for federal income tax purposes is prima facie considered an employee.”

Note: For a CIT taxpayer that is a UBG, the taxpayer would make all calculations (e.g., number of employees, total expenses, base amount, maximum credit amount, and any applicable proration) at the UBG level.

*Additional credit amount:* Claimants may claim an additional credit amount equal to 5% of the R&D Expenses used in the above calculation that were incurred in collaboration with a Michigan research university pursuant to a written agreement. This additional credit amount is capped at \$200,000 annually per taxpayer.

**Research university** is defined as, “a public university described in section 4, 5, or 6 of article VIII of the state constitution...or an independent nonprofit college or university in [Michigan].”

Example: A claimant that has fewer than 250 employees, R&D Expenses for the calendar year of \$110,000 (of which \$25,000 were incurred in collaboration with a Michigan research university pursuant to a written agreement), and a base amount of \$50,000 would calculate its unadjusted credit as follows:

$$(\$50,000 \times 0.03) + (\$60,000 \times 0.15) + (\$25,000 \times 0.05) = \$1,500 + \$9,000 + \$1,250 = \$11,750$$

### Tentative Claim Requirement

As noted above, to be eligible for the R&D credit, a claimant must first timely submit, in a form and manner prescribed by Treasury, a tentative claim identifying the unadjusted credit amount and including certain information required for the proper administration of the credit.

For R&D Expenses incurred during the 2025 calendar year, *all claimants with tax years beginning in 2025*, including both calendar-year and fiscal-year CIT taxpayers, and flow-through entities filing withholding tax returns, must submit their tentative claims *no later than April 1, 2026*.

For R&D Expenses incurred in calendar years *after 2025*, *all claimants* must submit their tentative claims for the calendar year *no later than March 15 of the following year* (e.g., for R&D Expenses incurred in calendar year 2026, all claimants with tax years beginning in 2026, including fiscal-year CIT taxpayers, must submit their tentative claims by March 15, 2027.)

Note: A tentative claim must be filed timely to claim the R&D credit, and tentative claims will not be accepted by Treasury after the statutory deadline.

## Adjusted Credit

The total amount of all credits that may be claimed by all claimants for a calendar year is limited to \$100 million. If tentative claims exceed this amount, statutory proration provisions will apply to reduce the allowed credit for all or certain claimants. Treasury will publish a notice on its website notifying claimants whether adjustments are required to the tentative claims for the calendar year and the amount of any such adjustments. Once Treasury has published this notice, taxpayers will be eligible to claim the credit, adjusted as necessary, on their annual returns filed after the end of the taxpayer's tax year.

## Claiming the Credit

A CIT taxpayer must claim the credit with its annual return for the tax year *for which* the credit is claimed, while a flow-through entity filing a withholding tax return must claim the credit with its annual return for the tax year *in which* its tentative claim was filed. A flow-through entity that will claim a credit on its annual withholding return may reduce its periodic withholding payments accordingly for that tax year once Treasury issues its tentative claim adjustment notice (described above). If a liability exists on its annual withholding return, the entity will be subject to penalty and interest for deficiencies in any of the periodic payments that were underpaid.

Example: For R&D Expenses incurred in calendar year 2025:

- A calendar-year CIT taxpayer would claim the credit with its 2025 CIT return.
- A fiscal-year CIT taxpayer would claim the credit with its CIT return for its tax year beginning in 2025 (on 2025 forms).
- A flow-through entity filing a withholding tax return would claim the credit with its 2026 withholding tax return (due February 28, 2027). This entity could begin to reduce its 2026 periodic withholding payments as soon as Treasury issues its tentative claim adjustment notice for 2025 expenses.

The credit is refundable and must be claimed after all nonrefundable credits. A member of a flow-through entity that submits a claim for a credit is not allowed to claim any portion of that credit.

## Prohibition on Assignment or Transfer

A claimant may not assign or transfer any portion of the credit, and assignments or transfers by agreement or operation of law are prohibited.

## Implementation

Treasury is developing forms, instructions, guidance, and procedures for administration of this new credit. A new Revenue Administrative Bulletin (RAB) covering the R&D credit is being developed for publication later this year. More information about the R&D credit will be published on Treasury's website, located at [www.michigan.gov/taxes](http://www.michigan.gov/taxes).