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Michigan Enacts Research and Development Tax Credit

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On January 13, 2025, Michigan Governor Gretchen Whitmer signed legislation ([Michigan House Bill No. 5100](#)) establishing a research and development tax credit (the “Michigan R&D Tax Credit”) in Michigan effective for tax years beginning on or after January 1, 2025.

From a macro perspective, this legislation (a) aims to provide significant financial relief to Michigan taxpayers, particularly small businesses and startups, and (b) will enable Michigan businesses to reinvest in their operations, hire new employees, and expand their facilities. Regardless of usage, this should be considered a big win for Michigan businesses!

The Michigan R&D Tax Credit is separate from the federal credit for increasing research activities (26 U.S.C. Section 41) (the “Federal R&D Credit”) and is meant to further incentive and offset research expenses incurred within Michigan. The Michigan R&D Tax Credit offers a credit to Michigan taxpayers engaged in qualified research activities within the state. For businesses with 250 or more employees, the credit equals 10% of qualified research expenditures (“QRE”) exceeding the base amount, capped at \$2,000,000. For smaller businesses (i.e., less than 250 employees), the credit is 15% of QRE exceeding the base amount, with a cap of \$250,000. An additional 5% credit, up to \$200,000, is available for taxpayers collaborating with a Michigan-based research university.

The annual cap for the Michigan R&D Tax Credit program is set at \$100 million, with \$25 million reserved for small businesses. The Michigan R&D Tax Credit becomes refundable if the program's annual caps are not reached and if the taxpayer's nonrefundable credits have been fully utilized within the credit year. Should the total Michigan R&D Tax Credit claims for all taxpayers exceed the \$100 million annual cap, the awarded credits will be prorated among taxpayers based on their credit claimed for such year.

Eligible QREs are defined consistent with Internal Revenue Code Section 41, including wages for employees conducting or supporting research, supplies used in research, and a portion of third-party research conducted in Michigan.

The Michigan R&D Tax Credit is in addition to any Federal R&D Credit, potentially offering Michigan taxpayers a combined credit of approximately 20% of their total QRE. The Michigan R&D Tax Credit is reported on such taxpayer's state-level return. Taxpayers will need to submit tentative claims by April 1, 2026 to apply for the 2025 tax year. The deadline will be moved up to March 15 in later years.

If you have any questions about Federal R&D Credit or the newly enacted Michigan R&D Tax Credit, please contact your Bodman attorney or one of the authors, Matthew Slipchuk or Ryan Riehl of Bodman's [Business Practice Group](#) and [Tax Practice Group](#). Bodman cannot respond to your questions or receive information from you without first clearing potential conflicts with other clients. Thank you for your patience and understanding.

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