

Michigan NextEnergy Authority

Certification Guidebook

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MICHIGAN NEXTENERGY AUTHORITY CERTIFICATION GUIDEBOOK

I. INTRODUCTION

A. PURPOSE

The “NextEnergy” economic development legislation was designed to promote the research, development, commercialization, and manufacturing of alternative energy technologies through a combination of tax credits and exemptions. The credits and exemptions are administered by a state authority known as the Michigan Next Energy Authority (the “Authority”).

Created under the Michigan Next Energy Authority Act (“MNEAA”), 2002 PA 593, the Authority is a public body corporate, whose board consists of the members of the Michigan Economic Growth Authority. The Authority is subject to the Freedom of Information Act and the Open Meetings Act. As required in PA 593, the Authority is responsible for certifying eligibility and providing proof of certification of eligibility for the various tax credits and exemptions created by the NextEnergy legislation. This document is intended to be a guide for both businesses and Authority staff in interpreting the requirements for certification.

B. CERTIFICATION RESPONSIBILITIES

Under MNEAA, the Authority is responsible for certifying taxpayers and property as being eligible for tax credits or exemptions under the Single Business Tax Act, the General Property Tax Act, or the Renaissance Zone Act. Under the Single Business Tax Act, businesses involved with alternative energy technologies may be eligible for two new SBT credits: a nonrefundable credit for “Qualified Business Activity” and a refundable payroll credit. The Authority is responsible for certification of eligibility for the nonrefundable credit. The Treasury Department administers the refundable payroll credit.

For tax years beginning after December 31, 2002, SBT taxpayers may be eligible to claim a nonrefundable credit equal to the amount by which the taxpayer’s Tax Liability Attributable to Qualified Business Activity for that tax year exceeded the taxpayer’s Baseline Tax Liability for Qualified Business Activity. For the taxpayer to be eligible for this credit, the Authority must certify the taxpayer’s eligibility and the taxpayer’s Qualified Business Activity for the current and baseline years. In all cases, the taxpayer’s baseline year is 2001. The 2001 tax year is the applicant’s tax year that begins in 2001. The nonrefundable SBT credit is discussed in greater detail in Part III A 2 of this Guidebook.

Under the General Property Tax Act, Alternative Energy Personal Property certified by the Authority is exempt from the collection of personal property taxes. This exemption applies to taxes levied after December 31, 2002 and before January 1, 2013. Local school districts and local tax collecting units can adopt resolutions disallowing exemptions for certain taxes. The alternative energy personal property tax exemption is discussed in greater detail in Part III B of this Guidebook.

Finally, amendments to the Renaissance Zone Act (RZA) allowed for the creation of an Alternative Energy Zone, which is a renaissance zone dedicated to promoting and increasing the research, development, and manufacturing of Alternative Energy Technology. Under the RZA, the Authority has a limited role in determining whether businesses located in an Alternative Energy Zone can take advantage of some of the tax benefits of a renaissance zone. The Authority may exclude commercial real property located within the Alternative Energy Zone from renaissance zone tax exemptions, deductions, or credits if it determines (with the concurrence of the assessor of the City of Detroit) that the property is not used to directly promote and increase the research, development, and manufacturing of Alternative Energy Technology.

C. OVERVIEW OF CERTIFICATION PROGRAM

Taxpayers seeking tax credits or exemptions described in this Guidebook are required to apply for certification on a yearly basis. An application for certification from the Authority must be made on forms provided by the Authority. Samples of the forms are at the end of this Guidebook. Certification provided in a preceding tax year is not valid certification for subsequent tax years. Taxpayers are encouraged to apply to the Authority in a timely manner.

Taxpayers should be aware that the Authority may refuse to certify personal property or business activities in subsequent years if it determines that the property or activities no longer meet the definitions contained within this Guidebook. For example, property that was once solely used for the research, development, or manufacturing of Alternative Energy Technology (“AET”), and therefore qualified for a personal property tax exemption, would not be eligible for the exemption in subsequent years if it was used for non-AET-related activities. Similarly, a business that qualifies as an Alternative Energy Technology Business in one year would not be certified in a later year if its business activities were expanded to include activities other than the research, development, or manufacturing of an Alternative Energy Technology.

The Authority will certify businesses, activities, and property based on the information provided by applicants. Applications for certification will not be reviewed unless filled out completely. Applicants should be aware that the Authority and the Department of Treasury reserve the right to conduct audits of the applications for certification to verify that the information provided in the applications is true and correct. The Authority further reserves the right to seek additional information from applicants prior to issuing proof of certification. The Authority may also conduct on-site inspections of businesses and property for which certification has been requested or issued, and may revoke certification if it determines that certification was improperly granted or that information contained in an application is no longer valid.

Taxpayers claiming an SBT credit must attach proof of the Authority’s certification to their annual tax returns.

II. GENERAL PROVISIONS

A. AUTHORITY FOR ADOPTION OF GUIDEBOOK

This Certification Guidebook was published pursuant to Section 5 of the Michigan Next Energy Authority Act (MNEAA), 2002 PA 593, MCL 207.821 to 207.827. The MNEAA requires the Authority to certify and provide proof of certification for Alternative Energy Personal Property, Alternative Energy Technology Businesses and the Qualified Business Activity of taxpayers eligible for a Single Business Tax credit pursuant to the Single Business Tax Act, 1975 PA 228, MCL 208.39e. *See* MCL 207.825(3), (4).

B. APPLICATION AND USE OF THE GUIDEBOOK

This Guidebook is a guide for businesses interested in certification for single business tax credits and alternative energy personal property tax exemptions. The Guidebook is not intended to replace statutory authority; but is intended to be consistent with all relevant statutory and regulatory requirements. The Authority has adopted this Guidebook to implement the NextEnergy certification requirements pursuant to Section 5 of MNEAA. This Guidebook describes how the certification program will be administered and includes information and requirements that apply to all elements of the AET certification program.

This Guidebook focuses solely on those credits and exemptions for which the Authority must provide proof of certification.

C. INTERPRETATION

This Guidebook is a living document. MNEA intends to review and update provisions on a periodic basis to incorporate policy, process, or legislative changes.

D. CHANGES

Revisions to this Guidebook and the forms included in it will be made from time-to-time and will be effective as indicated at the time of the revision.

E. DEFINITIONS/KEY TERMS

“Adjusted qualified business activity performed in this state outside of a renaissance zone” means either of the following:

- (i) Except as provided in subparagraph (ii), the taxpayer’s payroll for qualified business activity performed in this state outside of a renaissance zone.
- (ii) For a partnership, limited liability company, S corporation, or individual, the amount determined under subparagraph (i) plus the product of the following as related to the taxpayer.
 - a. Business income

- b. The apportionment factor as determined under chapter 3
- c. The alternative energy business activity factor.

“Advanced battery cell” means a rechargeable battery cell with a specific energy of not less than 80 watt hours per kilogram.

“Alternative energy business activity factor” means a fraction the numerator of which is the ratio of the value of the taxpayer’s property used for qualified business activity and located in this state outside of a renaissance zone for the year for which the factor is being calculated to the value of all of the taxpayer’s property located in this state for that year plus the ratio of the taxpayer’s payroll for qualified business activity performed in this state outside of a renaissance zone for that year to all of the taxpayer’s payroll in this state for that year and the denominator of which is 2.

“Alternative energy marine propulsion system” means an onboard propulsion system or detachable outboard propulsion system for a watercraft that is powered by a fuel cell energy system, photovoltaic energy system, or advanced battery cell energy system and that is the singular propulsion system for the watercraft. Alternative energy marine propulsion system does not include battery powered motors designed to assist in the propulsion of the watercraft during fishing or other recreational use.

“Alternative energy personal property” means all of the following:

- (i) An alternative energy system
- (ii) An alternative energy vehicle
- (iii) All personal property of an alternative energy technology business
- (iv) The personal property of a business that is not an alternative energy technology business that is used solely for the purpose of researching, developing, or manufacturing an alternative energy technology.

“Alternative energy system” means the small-scale generation or release of energy from 1 or any combination of the following types of energy systems:

- (i) A **fuel cell energy system.**
- (ii) A **photovoltaic energy system.**
- (iii) A **solar-thermal energy system.**
- (iv) A **wind energy system.**
- (v) A **CHP energy system.**
- (vi) A **microturbine energy system.**

- (vii) A **miniturbine energy system**.
- (viii) A **Stirling cycle energy system**.
- (ix) A **battery cell energy system**.
- (x) A **clean fuel energy system**.
- (xi) An **electricity storage system**.

“Alternative energy technology” means equipment, component parts, materials, electronic devices, testing equipment, and related systems that are solely related to the following:

- (i) The storage or generation of hydrogen for use in an alternative energy system.
- (ii) The process of generating and putting into a usable form the energy generated by an alternative energy system. Alternative energy technology does not include those component parts of an alternative energy system that are required regardless of the energy source.
- (iii) A microgrid. As used in this subparagraph, “microgrid” means the lines, wires, and controls to connect 2 or more alternative energy systems.

“Alternative energy technology business” means a business engaged solely in the research, development, or manufacturing of alternative energy technology.

“Alternative energy vehicle” means a motor vehicle manufactured by an original equipment manufacturer that fully warrants and certifies that the motor vehicle meets federal motor vehicle safety standards for its class of vehicles as defined by the Michigan vehicle code, 1949 PA 300, MCL 257.1 to 257.923, and certifies that the motor vehicle meets local emissions standards, that is propelled by an alternative energy system. Alternative energy vehicle includes the following:

- (i) An alternative fueled vehicle. As used in this subparagraph, “alternative fueled vehicle” means a motor vehicle that can only be powered by a clean fuel energy system and can only be fueled by a clean fuel.
- (ii) A fuel cell vehicle. As used in this subparagraph, “fuel cell vehicle” means a motor vehicle powered solely by a fuel cell energy system.
- (iii) An electric vehicle. As used in this subparagraph, “electric vehicle” means a motor vehicle powered solely by a battery cell energy system.
- (iv) A hybrid vehicle. As used in this subparagraph, “hybrid vehicle” means a motor vehicle that can only be powered by 2 or more alternative energy systems.
- (v) A solar vehicle. As used in this subparagraph, “solar vehicle” means a motor vehicle powered solely by a photovoltaic energy system.

- (vi) A hybrid electric vehicle. As used in this subparagraph, “hybrid electric vehicle” means a motor vehicle powered by an integrated propulsion system consisting of an electric motor and combustion engine. Hybrid electric vehicle does not include a retrofitted conventional diesel or gasoline engine. A hybrid electric vehicle obtains the power necessary to propel the motor vehicle from a combustion engine and 1 of the following:
 - (a) A battery cell energy system.
 - (b) A fuel cell energy system.
 - (c) A photovoltaic energy system.

“**Alternative energy zone**” means a renaissance zone designated as an alternative energy zone by the board of the Michigan Strategic Fund under section 8a of the Michigan renaissance zone act, 1996 PA 376, MCL 125.2688a.

“**Authority**” means the Michigan next energy authority.

“**Baseline tax liability attributable to qualified business activity**” means the taxpayer's tax liability for the 2001 tax year multiplied by the taxpayer's alternative energy business activity factor for the 2001 tax year. The taxpayer's 2001 tax year must begin in calendar year 2001. A taxpayer with a 2001 tax year of less than 12 months shall annualize the amount calculated under this subdivision as necessary to determine baseline tax liability attributable to qualified business activity that reflects a 12-month period.

“**Battery cell**” means a closed electrochemical system that converts chemical energy from oxidation and reduction reactions directly into electric energy without combustion and without external fuel and consists of an anode, a cathode, and an electrolyte.

“**Battery cell energy system**” means 1 or more battery cells and an inverter or other power conditioning unit used to perform 1 or more of the following functions:

- (i) Propel a motor vehicle or an alternative energy marine propulsion system.
- (ii) Provide electricity that is distributed within a dwelling or other structure.
- (iii) Provide electricity to operate a portable electronic device including, but not limited to, a laptop computer, a personal digital assistant, or a cell phone. For purposes of this subparagraph only, a battery cell energy system shall only use advanced battery cells.

“**Board**” means the governing body of an authority.

“**CHP energy system**” means an integrated unit that generates power and either cools, heats, or controls humidity in a building or provides heating, drying, or chilling for an industrial process that includes and is limited to both of the following:

- (i) An absorption chiller, a desiccant dehumidifier, or heat recovery equipment.
- (ii) One of the following:
 - (a) An internal combustion engine, an external combustion engine, a microturbine, or a miniturbine, fueled solely by a clean fuel.
 - (b) A fuel cell energy system.

“Clean fuel” means 1 or more of the following:

- (i) Methane.
- (ii) Natural gas.
- (iii) Methanol neat or methanol blends containing at least 85% methanol.
- (iv) Denatured ethanol neat or ethanol blends containing at least 85% ethanol.
- (v) Compressed natural gas.
- (vi) Liquefied natural gas.
- (vii) Liquefied petroleum gas.
- (viii) Hydrogen.

“Clean fuel energy system” means a device that is designed and used solely for the purpose of generating power from a clean fuel. Clean fuel energy system does not include a conventional gasoline or diesel fuel engine or a retrofitted conventional diesel or gasoline engine.

“Department” means the department of management and budget.

“Electricity storage device” means a device, including a capacitor, that directly stores electrical energy without conversion to an intermediary medium.

“Electricity storage system” means 1 or more electricity storage devices and inverters or other power conditioning equipment.

“Eligible taxpayer” means a taxpayer that has proof of certification of qualified business activity under the Michigan next energy authority act, 2002 PA 593, MCL 207.821 to 207.827.

“Fuel cell energy system” means 1 or more fuel cells or fuel cell stacks and an inverter or other power conditioning unit. A fuel cell energy system may also include a fuel processor. As used in this subdivision:

- (i) **“Fuel cell”** means an electrochemical device that uses an external fuel and continuously converts the energy released from the oxidation of fuel by oxygen

directly into electricity without combustion and consists of an anode, a cathode, and an electrolyte.

- (ii) **“Fuel cell stack”** means an assembly of fuel cells.
- (iii) **“Fuel processor”** means a device that converts a fuel, including, but not limited to, methanol, natural gas, or gasoline, into a hydrogen rich gas, without combustion for use in a fuel cell.

“Microturbine energy system” means a system that generates electricity, composed of a compressor, combustor, turbine, and generator, fueled solely by a clean fuel with a capacity of not more than 250 kilowatts. A microturbine energy system may include an alternator and shall include a recuperator if the use of the recuperator increases the efficiency of the energy system.

“Miniturbine energy system” means a system that generates electricity, composed of a compressor, combustor, turbine, and generator, fueled solely by a clean fuel with a capacity of not more than 2 megawatts. A miniturbine energy system may also include an alternator and a recuperator.

“Payroll” means total salaries and wages before deducting any personal or dependency exemptions.

“Person” means an individual, partnership, corporation, limited liability company, association, governmental entity, or other legal entity.

“Photovoltaic energy system” means a solar energy device composed of 1 or more photovoltaic cells or photovoltaic modules and an inverter or other power conditioning unit. A photovoltaic system may also include batteries for power storage or an electricity storage device. As used in this subdivision:

- (i) **“Photovoltaic cell”** means an integrated device consisting of layers of semiconductor materials and electrical contacts capable of converting incident light directly into electricity.
- (ii) **“Photovoltaic module”** means an assembly of photovoltaic cells.

“Qualified business activity” means research, development, or manufacturing of an alternative energy marine propulsion system, an alternative energy system, an alternative energy vehicle, alternative energy technology, or renewable fuel.

“Renaissance zone” means a renaissance zone designated under the Michigan renaissance zone act, 1996 PA 376, MCL 125.2681 to 125.2696.

“Renewable fuel” means 1 or more of the following:

- (i) Biodiesel or biodiesel blends containing at least 20% biodiesel. As used in this subparagraph, “biodiesel” means a diesel fuel substitute consisting of methyl or

ethyl esters produced from the transesterification of animal or vegetable fats with methanol or ethanol.

- (ii) Biomass. As used in this subparagraph, “biomass” means residues from the wood and paper products industries, residues from food production and processing, trees and grasses grown specifically to be used as energy crops, and gaseous fuels produced from solid biomass, animal wastes, municipal waste, or landfills.

“**Small-scale**” means a single energy system with a generating capacity of not more than 2 megawatts or an integrated energy system with a generating capacity of not more than 10 megawatts.

“**Solar thermal energy system**” means an integrated unit consisting of a sunlight collection device, a system containing a heat transfer fluid to receive the collected sunlight, and heat exchangers to transfer the solar energy to a thermal storage tank to heat or cool spaces or water or to generate electricity.

“**Stirling cycle energy system**” means a closed-cycle, regenerative heat engine that is fueled solely by a clean fuel and uses an external combustion process, heat exchangers, pistons, a regenerator, and a confined working gas, such as hydrogen or helium, to convert heat into mechanical energy. A Stirling cycle energy system may also include a generator to generate electricity.

“**Tax liability attributable to qualified business activity**” means the taxpayer's tax liability multiplied by the taxpayer's alternative energy business activity factor for the tax year.

“**Total salaries and wages**” means wages, tips, and other compensation as reported in Box 1 of the W-2 form.

“**Wind energy system**” means an integrated unit consisting of a wind turbine composed of a rotor, an electrical generator, a control system, an inverter or other power conditioning unit, and a tower, which uses moving air to produce power.

III. CERTIFICATION COMPONENTS

A. SINGLE BUSINESS TAX ACT CREDITS

Under the Single Business Tax Act (SBTA), certain taxpayers may claim refundable and nonrefundable tax credits. Either credit requires the taxpayer to have some liability under the Single Business Tax Act.

Effective for tax years beginning after December 31, 2002, a person whose apportioned or allocated gross receipts are less than \$350,000 for the tax year is not required to file a return or pay the single business tax. *See* MCL 208.39e(8).

1. Refundable Payroll Credit

Pursuant to Section 39e of the Single Business Tax Act, certain businesses located within an Alternative Energy Zone may be eligible for a refundable tax credit on its Qualified Payroll. Under this section, a Qualified Alternative Energy Entity can claim a credit for its Qualified Payroll amount. This credit is allowable after all nonrefundable credits under the SBTA. The portion of this credit, if any, that exceeds the tax liability of the entity for the current tax year shall be refunded to the entity. The refundable payroll credit is administered by the Department of Treasury. Forms and instructions can be obtained by contacting that Department.

2. Nonrefundable Business Activity Credit

A taxpayer that claims a tax credit must attach a copy of each of the following to its annual SBT return, as issued pursuant to the Michigan Next Energy Authority Act: (a) Proof of certification that the taxpayer is an Eligible Taxpayer for the tax year; (b) Proof of certification of the taxpayer's Tax Liability Attributable to Qualified Business Activity for the tax year; (c) Proof of certification of the taxpayer's Baseline Tax Liability Attributable to Qualified Business Activity.

Qualified business activities of an affiliated group, a controlled group of corporations as defined in section 1563 of the Internal Revenue Code, or an entity under common control as defined in the Internal Revenue Code must be consolidated for any of the taxpayers in the group to be eligible for the credit.

For the nonrefundable tax credit, a taxpayer may claim an amount equal to the lesser of the following: 1) the amount by which the taxpayer's "Tax Liability Attributable to Qualified Business Activity" for the tax year exceeded the taxpayer's "Baseline Tax Liability Attributable to Qualified Business Activity", or 2) 10% of the amount by which the taxpayer's Adjusted Qualified Business Activity performed in Michigan, outside of a renaissance zone, for a tax year exceeded such activity for the 2001 tax year. In either case, the Authority must certify the taxpayer as "eligible". The Authority must also provide proof of certification of 1) the taxpayer's Tax Liability Attributable to Qualified Business Activity for the tax year, and 2) the taxpayer's Baseline Tax Liability Attributable to Qualified Business Activity.

Under either formula, a taxpayer cannot claim the credit for any tax year in which its Tax Liability Attributable to Qualified Business Activity did not exceed the Baseline Tax Liability Attributable to Qualified Business Activity in 2001. A taxpayer with a 2001 tax year of less than 12 months must annualize the amount calculated to determine Baseline Tax Liability. For example, a taxpayer that began operations in December of 2001, and had a tax liability of \$4,000 for that month only would need to multiply that number by 12 to achieve a Baseline Tax Liability Attributable to Qualified Business Activity of \$48,000 for 2001. If the taxpayer actually began operations on November 12, 2001, and had a total tax liability of \$5,000, its Baseline Tax Liability Attributable to Qualified Business Activity would be \$36,500 (\$100 per day tax liability [$\$5,000/50 \text{ days}$] x 365 days).

To be an “Eligible Taxpayer”, a business must have certified proof of Qualified Business Activity. “Qualified Business Activity” is defined as the research, development, or manufacturing of an Alternative Energy Marine Propulsion System, an Alternative Energy System, an Alternative Energy Vehicle, Alternative Energy Technology, or Renewable Fuel. The research, development, or manufacturing of equipment, component parts, materials, testing devices, etc. related to AET will not be considered “Qualified Business Activity” unless the materials are solely related to the following: (1) the storage or generation of hydrogen for use in an Alternative Energy System; (2) the process of generating and putting into a usable form the energy generated by an Alternative Energy System; or (3) a microgrid.

Equipment cannot be tangentially related to Alternative Energy Technology, or generally used in non-AET capacities, if it is to qualify. For example, Business A, a company that delivers hydrogen to Business B, is not conducting Qualified Business Activities. If Business B uses the hydrogen to manufacture fuel cells, Business B would be conducting Qualified Business Activity. Similarly, Business C, a manufacturer of copper wire that is sold to and used by another business in building microgrids, is not engaged in a Qualified Business Activity if its copper wire may also be used for non-AET applications. A taxpayer is not required to conduct a minimum percentage of Qualified Business Activity in order to be considered “eligible.” If, for example, a business’s AET activities were only 5% of its total operations, it could still be considered an “Eligible Taxpayer”.

a) Qualified Business Activity Method

The credit to which an Eligible Taxpayer is entitled is the lesser of the amounts calculated by two different methods. The methods are 1) the “Qualified Business Activity” method and 2) the “Adjusted Qualified Business Activity” method. Every taxpayer must calculate the credit using both methods so that the results can be compared.

The qualified business activity method requires calculation of the taxpayer’s tax liability for two years: the baseline (2001) year and the tax year for which the taxpayer is seeking a credit.

To calculate either current or baseline tax liability, the taxpayer must multiply its tax liability by the Alternative Energy Business Activity Factor (the “Factor”) for the tax year. The Factor is a fraction, the denominator of which is 2 and the numerator of which is the ratio of the value of the taxpayer’s property that is used for Qualified Business Activity (located in this state but outside of a renaissance zone), to the value of all of the taxpayer’s property located in this state, plus the ratio of the taxpayer’s Payroll for Qualified Business Activity in this state outside of a renaissance zone to the taxpayer’s total payroll in this state. The calculation of the Factor is represented by the following equation:

$$\frac{\text{taxpayer's property that is used for qualified business activity (in MI – no ren zone) / value of all of the taxpayer's property located in the state} + \text{taxpayer's payroll for qualified business activity (in MI – no ren zone) / taxpayer's total payroll in this state}}{2}$$

Payroll means Total Salaries and Wages before deducting any personal or dependency exemptions. Total Salaries and Wages means wages, tips, and other compensation as reported in Box 1 of the W-2 form. A Renaissance Zone is a renaissance zone as designated by the Michigan Renaissance Zone Act.

For example: Business A has property located in Michigan, both inside and outside of renaissance zones. In 2003, the value of the non-renaissance zone property used for Qualified Business Activity is \$500,000, while the total value of Business A's property is \$1,000,000. Business A pays \$500,000 in salaries and wages to employees for Qualified Business Activity outside of a renaissance zone, but pays \$5,000,000 in total payroll in the state. Using the above formula, Business A's alternative energy business activity factor for 2003 is .30.

$$\frac{\frac{\$500,000}{\$1,000,000} + \frac{\$500,000}{\$5,000,000}}{2} = \frac{0.5 + 0.1}{2} = \mathbf{0.3}$$

If Business A had a tax liability of \$200,000 for 2003, its Tax Liability Attributable to Qualified Business Activity for the year would be the Factor (0.30) times the tax liability (\$200,000) or \$60,000.

Business A must also calculate its Baseline Tax Liability Attributable to Qualified Business Activity. The Baseline Tax Liability Attributable to Qualified Business Activity is its tax liability for 2001 multiplied by its Alternative Energy Business Activity Factor for 2001.

For example:

In 2001, Business A also had property located in Michigan, both inside and outside of renaissance zones. In 2001 the value of non-renaissance zone property used for Qualified Business Activity was \$200,000, while the total value of all property in the state was \$800,000. Business A paid \$200,000 in salaries and wages to employees for Qualified Business Activity outside of a renaissance zone. Its total payroll in the state for all activities was \$4,000,000. Inserting those values in the Factor formula yields the following:

$$\frac{\frac{\$200,000}{\$800,000}}{2} = \frac{\frac{\$200,000}{\$4,000,000}}{2} = \frac{0.25 + 0.05}{2} = 0.15$$

If Business A had a tax liability of \$100,000 for 2001, its Baseline Tax Liability Attributable to Qualified Business Activity would be the Factor (0.15) times its tax liability (\$100,000) or \$15,000.

It is the taxpayer's responsibility to calculate its tax credit by subtracting the Baseline Tax Liability Attributable to Qualified Business Activity from the Tax Liability Attributable to Qualified Business Activity for the current year. The tax liability that is used in calculating this credit is that liability which remains after all other available credits have been taken.

In this example, Business A's tax credit, using the qualified business activity method, is equal to the difference between its Tax Liability Attributable to Qualified Business Activity for 2003, \$60,000, and its Baseline Tax Liability Attributable to Qualified Business Activity, \$15,000, or \$45,000 .

b) Adjusted Qualified Business Activity Method - Corporations

The second method of calculating the credit is the adjusted qualified business activity method. The calculation is different for corporations than it is for other taxpayers. Corporations calculate the credit by taking 10% of the difference between the Payroll for Qualified Business Activity in the state outside of a renaissance zone for the current tax year, and the Payroll for Qualified Business Activity in the state outside of a renaissance zone in the 2001 tax year.

Using Business A as an example, the payroll numbers are the same ones used in calculating the credit by the qualified business activity method. The Payroll for Qualified Business Activity for the current tax year is \$500,000. The Payroll for Qualified Business Activity in 2001 is \$200,000. If Business A is a corporation, the credit using the adjusted qualified business activity method is:

$$0.10 \times (\$500,000 - \$200,000) = 0.10 \times (\$300,000) = \$30,000.$$

To determine its credit a corporation must compare the results of the qualified business activity method to the amount determined by the adjusted qualified business activity method. The lesser amount is the credit. In Business A's case, the credit using the qualified business activity method was determined to be \$60,000. The credit determined using the adjusted qualified business activity method is \$30,000. The lesser amount, \$30,000, is the credit.

c) Adjusted Qualified Business Activity Method – Other Taxpayers

Partnerships, limited liability companies, S corporations, and individuals calculate their Adjusted Qualified Business Activity in a different manner. The taxpayer must first calculate its adjusted payroll for Qualified Business Activity in the state outside of a renaissance zone for both 2001 and the current tax year.

The formula is:

$$AP = P + (BI \times A \times F)$$

where: AP = Adjusted payroll for qualified business activity for the year
P = Payroll for qualified business activity for the year
BI = Business income for the year
A = the apportionment factor for the year, and
F = the alternative energy business activity factor for the year.

For example, assuming Business A is a partnership, its payroll for Qualified Business Activity in 2001 is \$200,000. Its Alternative Energy Business Activity Factor for 2001 is 0.15. Assuming that Business A has business income of \$800,000 and an apportionment factor of 0.85 in 2001, its adjusted payroll for Qualified Business Activity would be:

$$\begin{aligned} \text{AP for 2001} &= \$200,000 + [\$800,000 \times 0.85 \times 0.15] = \\ &= \$200,000 + \$102,000 = \\ &= \$302,000 \end{aligned}$$

For the current year, Business A's Payroll for Qualified Business Activity is \$500,000. Its Alternative Energy Business Activity Factor is 0.30. Assuming that Business A has business income of \$1,600,000 and an apportionment factor of 0.80 in the current year, its adjusted payroll for Qualified Business Activity would be:

$$\begin{aligned} \text{AP for the current year} &= \$500,000 + [\$1,600,000 \times 0.80 \times 0.30] = \\ &= \$500,000 + \$384,000 = \\ &= \$884,000 \end{aligned}$$

The partnership's Adjusted Qualified Business Activity is the adjusted payroll for the current year minus the adjusted payroll for 2001, or;

$$\begin{aligned} &= \$884,000 - \$302,000 = \\ &= \$582,000 \end{aligned}$$

Finally, to determine its credit, the partnership must compare the results of calculating the credit by the qualified business activity method to 10% of the amount determined by the adjusted qualified business activity method. The lesser amount is the credit. In this case, the credit using the qualified business activity method was determined to be \$60,000. The credit determined using 10% of the adjusted qualified business activity method is .10 X \$582,000, or \$58,200. The lesser amount, \$58,200, is the partnership's credit.

The Authority will certify the taxpayer's Tax Liability Attributable to Qualified Business Activity each year and its Baseline Tax Liability Attributable to Qualified Business Activity in 2001. Any taxpayer that has any Qualified Business Activity will also be certified as an Eligible Taxpayer.

B. ALTERNATIVE ENERGY PERSONAL PROPERTY TAX EXEMPTION

Another component of the certification program involves personal property. Under the General Property Tax Act, “Alternative Energy Personal Property” is exempt from the collection of personal property taxes. The Alternative Energy Personal Property tax exemption does not apply to real property (i.e., land, buildings). To be considered Alternative Energy Personal Property, property must be certified by the Authority as belonging to one of the following four categories:

1. Types of Property

(i) an “**Alternative Energy System**”;

(ii) an “**Alternative Energy Vehicle**”;

(iii) the personal property of an “**Alternative Energy Technology Business**”; or

(iv) The personal property of a business, which is not an alternative energy technology business, that is used solely for the purpose of researching, developing, or manufacturing an “**Alternative Energy Technology**”.

*The terms in **bold** above have specific definitions. Please review the Definitions section of this Guidebook for clarification on the meaning of those terms.*

An Alternative Energy Technology Business is a business that is engaged solely in the research, development, or manufacturing of Alternative Energy Technology. Thus, businesses that engage in activities other than AET are not eligible for certification as Alternative Energy Technology Businesses. If a business is an Alternative Energy Technology Business, all of its personal property is eligible for exemption from personal property taxation subject to Section 2 below. An exemption from all personal property taxes for property of an Alternative Energy Technology Business would, however, be subject to the actions of the governing body of the local tax collecting unit (*see Section 3(c)*).

The Next Energy Authority must certify and provide proof of certification of Alternative Energy Technology Businesses. The authority must also provide proof of certification to the assessor of the local tax unit in which the Alternative Energy Technology Business is located.

If the business is not an Alternative Energy Technology Business, only its property that is used solely to research, develop or manufacture an AET is eligible for the exemption. For example, if a company had a drill press that was only used for the manufacture of Stirling cycle energy systems, the drill press would qualify for the personal property tax exemption. However, if the drill press was also used in the manufacture of internal combustion engines, it would not be eligible for the exemption.

2. **No Previous Tax Status.** The personal property tax exemption is intended for property new to Michigan. Specifically, to be eligible for the exemption, the property at issue must:

- (i) not have been previously taxed; and
- (ii) not have been previously subjected to, nor exempted from, taxation.

Other than property classified as inventory or property that has been certified as Alternative Energy Personal Property, property that was previously exempted from taxes by statute (such as PA 198) would not be eligible for the exemption. Likewise, Alternative Energy Personal Property that was owned by a company before January 1, 2003 is not eligible for the exemption, as it would have been subject to taxes. Property owned by a company may also be ineligible for this exemption if it was bought used, or if it is moved from one taxing jurisdiction to another. For example, property that is new to Ingham County and is exempt from taxes in that jurisdiction would not be exempt if the property was subsequently moved to Wayne County unless certified by MNEA at its new location.

3. **Certification of Personal Property for Tax Exemption**

a. **Certification Requirement.** Property must be certified by the Next Energy Authority to be exempt from taxation as Alternative Energy Personal Property.

b. **Certification Application.** To obtain certification of Alternative Energy Personal Property by the Next Energy Authority, a taxpayer must submit the Alternative Energy Personal Property Tax Exemption Request (See Appendix). As part of the application, the applicant must submit an affidavit certifying that the property at issue meets the eligibility requirements discussed in Section B(2) above. For property that is leased, the actual owner of the property will need to apply for the exemption.

If the Next Energy Authority certifies property as Alternative Energy Personal Property, it will forward a copy of the certification to: (i) the secretary of the local school district in which the property is located; (ii) the treasurer of the local tax collecting unit in which the property is located; and (iii) the assessor of the local tax collecting unit in which the personal property is located.

c. **Opt-Out Provision for the Local School or Taxing Unit.** Within 60 days after receiving notification of certification of Alternative Energy Personal Property, the local school district or local tax collecting unit may adopt a resolution to not exempt the property from certain taxes. Specifically, the school board for the local school district in which certified property is located can, with the district superintendent's consent, adopt a resolution to not exempt property from taxes levied in the district under the Revised School Code for a sinking fund to acquire, construct or repair buildings or sites, or to retire outstanding bonded indebtedness. Any resolutions adopted by a school district must be forwarded to the Authority, the treasurer of the local tax collecting unit, and the state treasurer. The Authority, upon receipt

of such a resolution, will notify the taxpayer of the school district's action and that the property is not exempt.

The governing body of a local tax collecting unit can adopt an opt-out resolution that any taxes collected in the unit, other than those levied under the Revised School Code and described above, or those levied by the state under the State Education Tax Act can be excluded from exemption. Copies of any adopted resolution must be forwarded to the Authority and the state treasurer. The Authority, upon receipt of such a resolution, will notify the taxpayer of the local tax collecting unit's action and that the property is not exempt.

d. Length of Exemption. Under law, the exemption from taxation of Alternative Energy Personal Property applies to taxes levied after December 31, 2002, and before January 1, 2013. Property acquired in 2002 is not eligible for the exemption. An exemption, once certified, is effective through December 31, 2012 provided there is no change in the use, location, or ownership of the personal property and that the taxpayer annually certifies to the Authority that there has been no change in the use, location, or ownership of the exempted property. Any change in the use, location, or ownership of personal property will require reevaluation by the Authority.

C. ALTERNATIVE ENERGY ZONE

Through an amendment to the Renaissance Zone Act, the Michigan Strategic Fund was allowed to designate a renaissance zone as an Alternative Energy Zone, in order to promote the research, development, and manufacturing of Alternative Energy Technology. In late 2002, the Michigan Strategic Fund dedicated an area located within Wayne State University's Research and Technology Park in Detroit as an Alternative Energy Zone.

Businesses located within the Alternative Energy Zone generally enjoy a wide range of tax benefits. However, to determine if it is eligible for those benefits, a taxpayer must file a Renaissance Zone Application with the City of Detroit's Renaissance Zone Processing Center at 607 CAY Municipal Center, Detroit, MI 48226. The City will review the application and consult with the Authority. If the Authority, with the concurrence of the City of Detroit, determines that the commercial real property located in the Zone is not used to directly promote and increase the research, development, and manufacturing of Alternative Energy Technology, the taxpayer will not be eligible for the renaissance zone tax exemptions, deductions, or credits.

Businesses interested in locating in the Alternative Energy Zone should contact the NextEnergy Center at (313) 873-9260.

IV. FREQUENTLY ASKED QUESTIONS

1. I am a homeowner that is interested in using alternative energy equipment for home use. Are any tax credits available?

No, the tax credits are aimed at businesses that file a single business tax return.

2. What are the borders of the alternative energy renaissance zone?

The Alternative Energy Zone is located in the Wayne State University Research and Technology Park. Questions about locating in the Zone and the borders of the Zone should be directed to the NextEnergy Center at (313) 873-9260.

3. How does the process work if my local government adopts a resolution blocking my personal property tax exemption? Is there an appeal process? Can I reapply next year?

Please review section III(B)(3)(c) of this Guidebook. Local units of government may or may not have an appeal process for denials of tax exemption. Contact your local government to determine whether an appeal process is in place. If an exemption is denied in one year, a taxpayer cannot reapply for an exemption in a subsequent year as the property will have been previously on the tax rolls (and therefore ineligible for an exemption).

4. If my company spins off an alternative energy division/start-up, what is the baseline tax for 2001?

This requires a case-by-case factual analysis and is not capable of being answered in this guidebook. If the parent company was involved in Qualified Business Activity prior to the spin-off, that activity would be a consideration in figuring the baseline. If the parent company was not involved in any alternative energy technology activity prior to the spin-off, it would likely have a zero baseline. Please keep in mind that the law requires that if any member of a group of affiliated companies is seeking a tax credit, the alternative energy technology activity of all other members of the group must be considered.

5. If my existing Michigan business moves into the alternative energy zone, is our old equipment now eligible for a personal property tax exemption?

Property located within the alternative energy zone is generally exempt from the collection of personal property taxes. To be eligible for benefits, the taxpayer must file a Statement of Eligibility with the City of Detroit. Additional information on this subject can be obtained from the Assessor's Office of the City of Detroit. Your business must also promote and increase the research, development or manufacturing of alternative energy technology. Businesses located in the alternative energy zone may also be eligible for a refundable employment credit as described in Section III(A)(2) of the Guidebook.

6. I purchased equipment from another Michigan company. The equipment will be used for R&D or manufacturing an alternative energy system. Is this equipment eligible for property tax exemptions?

To be eligible for an alternative energy personal property tax exemption, property used for research, development, or manufacturing of an alternative energy system or alternative energy technology must not have previously been on the tax rolls. Used equipment generally has been on the tax rolls. If the property was previously exempt from taxation, it does not qualify for the alternative energy personal property tax exemption unless it was previously certified as AEPP by the Michigan NextEnergy Authority.

7. My company belongs to a consortium of companies with a focus on alternative energy vehicles? How does this affect the certification of qualified business activity for an STB credit?

The certification process applies to a particular taxpayer. When a particular taxpayer is part of an affiliated group, a controlled group of corporations as defined in section 1563 of the Internal Revenue Code, or an entity under common control as defined in the Code, the qualified business activity of the group must be consolidated.

8. Do I include property and payroll in a Renaissance Zone in my calculation of the SBT credit?

Please review Section III(A)(2) of this Guidebook and the Sample Forms which explain when Renaissance Zone property and payroll are included in the calculation.

9. My business was started in 2002. Is my baseline zero?

Your baseline tax liability may be zero. However, if you are an affiliate or spin-off of another company, the calculation of your baseline tax liability would need to take these relationships into account.

10. What is a “qualified alternative energy entity” for purposes of the refundable payroll credit?

A Qualified Alternative Energy Entity means a taxpayer that is located within the alternative energy zone in Detroit. This payroll credit is administered by Treasury.

11. I bought alternative energy technology personal property in 2003, but before this Guidebook was issued. Will the property qualify for a personal property tax exemption?

Yes. Alternative Energy Personal Property that was not on the tax rolls before January 1, 2003 can qualify for the personal property tax exemption. The date on which the Guidebook was issued does not matter for purposes of determining a property’s eligibility for tax credits or exemptions.

12. We have a fleet of vehicles that have been reconfigured to allow for the use of “clean fuels”. Will these vehicles qualify for the personal property tax exemption?

Generally, no. However, if your company qualifies as an alternative energy technology business and the vehicles were bought new in 2003, they could qualify. Vehicles that have been “retrofitted” to allow for clean fuels or the integration of an alternative energy technology system (such as an electric motor) do not qualify as alternative energy vehicles.

13. My company previously received an exemption from ad valorem taxes under PA 198. We believe that our property meets the definition of alternative energy personal property. Is this property eligible for a personal property tax exemption?

No. The property you are referring to was previously exempt from the collection of taxes under another statute. Even if the property otherwise meets the definition of alternative energy technology property, it is not eligible for this exemption.

14. Our business is currently researching and developing a new alternative energy technology that is not listed in this Guidebook. Will we qualify for the tax credits and/or exemptions described in the Guidebook?

MNEA will only certify property and/or activities that fit within the definitions contained in the legislation and this Guidebook. If legislation is passed in the future that expands the eligible property and activities, the Guidebook will be updated to reflect those changes.

15. How does a taxpayer apply for certification as an Alternative Energy Technology Business?

The application form can be obtained by writing to the MNEA at the address on the sample forms or by calling (517) 373-9808. A sample of the application can be found in the Appendix.

16. Does the Michigan Next Energy Authority Act limit the number of businesses that can be certified as Alternative Energy Technology Businesses?

No. All eligible and qualified businesses will be certified.

17. How does a taxpayer apply for certification that it is conducting Qualified Business Activities?

The application form can be obtained by writing to the MNEA at the address on the sample forms or by calling (517) 373-9708. A sample of the application can be found in the Appendix.

18. Does the Next Energy Authority Act limit the amount of total tax credits that can be granted to businesses that are certified as conducting Qualified Business Activities?

No. The amount of tax credit that may be claimed by a business conducting qualified business activities is limited only by the formulas for calculating the credit in the SBT Act. The formulas are provided in Section III(A)(2) of this Guidebook and in the sample application forms and instructions.

19. I have personal property that is used in developing renewable fuels. Does this property qualify for the personal property tax exemption?

No. Renewable fuel is not considered an alternative energy technology under the General Property Tax Act. Personal property used in developing these fuels would therefore not be exempt from personal property taxes. However, the research, development or manufacture of a renewable fuel is a qualified business activity that may allow your business to claim an SBT credit.

20. My company is interested in purchasing alternative energy marine propulsion systems. Will these systems be eligible for a personal property tax exemption?

No. An alternative energy marine propulsion system is not eligible for a personal property tax exemption. Personal property used in developing an alternative marine propulsion system would, therefore, not be exempt from personal property taxes. However, a company engaging in the research, development, or manufacturing of an alternative energy marine propulsion system could be eligible for a tax credit under the Single Business Tax Act.

21. If I get property certified as alternative energy personal property, does my exemption run back to 2003 and 2004 or only begin for tax year 2005?

Your exemption will apply to the tax year in which you are first certified and will last until December 31, 2012 unless the use, ownership, or location of the property changes.

22. How will I know if the local school or tax unit non-exempts my otherwise qualified alternative energy personal property?

The Authority will notify you if your exemption has been disallowed.