



# BUILDING MICHIGAN'S BIOSCIENCES INDUSTRY

## A State Competitiveness Agenda

### ***Michigan's Biosciences Industry - One of the State's Strongest Economic Drivers***

*Michigan is fortunate to have a dynamic, diverse and growing statewide biosciences industry. Almost 42,000 individuals work directly in biosciences and more than 205,000 Michiganders total are impacted by this industry. The number of companies statewide increased by 11% from 2007-12 to 1,760 with an economic impact of over \$15 billion. The bio-industry includes the following sectors: agri-biosciences, medical devices, pharmaceuticals, R&D/testing and biologistics.*

*Michigan must actively work to ensure a supportive environment that enables entrepreneurial ventures and established companies to convert innovative ideas into marketable new bioscience products, services and jobs if we are to remain competitive. All stakeholders - policymakers, elected officials, and industry - need to work together to strategically develop business policies that are relevant, impactful and allow Michigan's bio-industry to once again be a global leader.*

*The following policy issues are a few key areas of opportunity to improve competitiveness of the state's bio-industry for established companies, new start-ups and those we seek to recruit.*

### **R&D Tax Incentive**

Michigan should re-implement an R&D Tax Incentive at a level of 3% or more, similar to what is offered by other bioscience hub states. Bioscience companies, especially in pre-market drug and device development, incur incredibly high costs of R&D activities and a competitive incentive would be advantageous. A premium incentive should be offered to those firms who conduct their R&D activities in Michigan. The R&D Tax Incentive should also be made refundable and transferable.

### **Re-Establish Angel Investor Tax Incentive**

MichBio supports the re-institution of the short-lived Michigan Small Business Investment Tax Incentive (SBITC) Program that provided qualified investors a 25% tax incentive over a two year period on qualified investments in qualified businesses. The SBITC expired in December 2011. Over twenty other states now have this 'angel' tax incentive and six target bioscience companies specifically. The State should adopt a tax incentive of up to 50%, allow a five-year carry-forward and allow immediate tax year effect.

### **Allow State Funds as Match for Angel Investment**

MichBio supports policies that incentivize and leverage angel investments. A recent survey of Michigan bioscience companies indicated that the failure of Michigan to allow state funds to be used as a match for angel investment is counterproductive.

### **Expand Exemption from Michigan Sales and Use Tax**

Michigan currently offers an exemption from the sales and use tax for non-profit entities, churches and property alterations made by industrial processors. However, at least six bioscience hub states have created exemptions for companies purchasing equipment, equipment repair services, raw materials and energy that are used in the manufacture of new processes, products or services. Bioscience companies incur high costs for such business items and an exemption in part or full would be highly beneficial.

### **Increase Matching of SBIR/STTR Funds**

MichBio advocates that Michigan's matching of federal SBIR/STTR awards, i.e., Michigan Emerging Technologies Fund, be increased. Survey respondents viewed current state caps as insufficient. Thus, the match should be increased from 25% (up to \$25,000) to 50% (up to \$50,000) for Phase I grants whose maximum federal award is \$150,000. Matches for Phase II grants whose maximum federal award is \$1,000,000 should be increased from 25% (up to \$125,000) to 50% (up to \$250,000). This would make Michigan much more competitive as some states provide 1:1 matches for SBIR/STTR awards.

### **Assistance for SBIR Applications**

Some states provide financial assistance to offset SBIR/STTR application costs. Such "Phase 0" grants of up to \$10,000 can help companies prepare their grant applications with adequate support.

### **State-Assisted Bank Financing or Lending Products**

A recent survey of Michigan bioscience companies found value in having the state provide some sort of guarantees of private bank loans for operating capital. This can be achieved either by incentivizing private lenders or by developing direct state-level lending programs.

### **Tax Benefits for Equipment Purchase/Facilities Purchase or Improvements**

Favorable tax policies should be developed that enable companies to benefit for buying equipment, purchase facilities and/or make necessary improvements to allow R&D activities. This can take the form of direct investment, grants, tax exemption to a certain cap or a refundable incentive of costs.

### **Adopt Domestic Manufacturing Incentive**

To provide greater support for domestic manufacturing, Michigan should adopt the IRS Section 199 deduction for domestic manufacturing. This provision would allow manufacturers a deduction of 9% of qualifying income.

### **Tax Incentive to Offset Portion of Federal FDA User Fees**

Michigan should consider a tax incentive for a percentage of user fees that device and drug manufacturers pay to the federal Food & Drug Administration for product reviews. Massachusetts adopted such an incentive in 1996! Their law provides that the incentive may be carried forward for up to 5 years and that early-stage companies, without revenues, may sell their incentives.

### **Tax Incentive to Incentivize Sponsored Clinical Trials**

Michigan ranks in the top ten states in the number of clinical trials conducted, and this has created a significant strength in a niche bio-industry sector. Ways must be found to increase the number of sponsored trials. The biggest challenge facing trial coordinators is patient recruitment. Michigan should craft a state tax incentive allowance to potential trial patients that covers their out-of-pocket expenses (lodging, meals, etc.) or those not otherwise covered by the trial sponsor.

### **Talent and Workforce Development Incentive**

Previously Michigan implemented the Pfizer Asset Retention Fund to retain dislocated Pfizer employees in the state and redeploy them to other bioscience companies. The basic premise is still valid today as companies continue to meet challenges in securing suitable talent. Michigan should develop bioscience job incentives as refundable incentives or otherwise fund talent acquisition and retention.