



What's News in Tax

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Michigan Research Tax Credit

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Did you know there is a research and development tax credit for increasing research activities in Michigan?

Michigan R&D Tax Credit

For tax years beginning on or after January 1, 2025, eligible taxpayers may claim a tax credit against the Michigan corporate income tax or against Michigan withholding tax for flow-through entities.¹ The credit is equal to three percent of a taxpayer's qualified research expenses ("MQRE") up to the base amount, plus an additional:

- 10 percent of QREs above the base amount for taxpayers with 250 or more employees ("large businesses") or
- 15 percent of QREs above the base amount for taxpayers with fewer than 250 employees ("small businesses")

Taxpayers may also claim an additional five percent credit, up to \$200,000 per year, for QREs that are related to research conducted in collaboration with a Michigan public university or independent nonprofit college or university, provided the collaboration is documented by a written agreement.

Michigan follows the federal definition of QREs as prescribed in Internal Revenue Code section 41(b),² but only expenses incurred for research activities conducted within Michigan are eligible. QREs typically include wages, supplies, and contract research costs directly related to technological innovation.

For purposes of calculating the credit, the "base amount" is defined as the average of the taxpayer's QREs incurred in the three immediately preceding calendar years. Additional QREs are those incurred in the current tax year that exceed this base amount. Unlike the federal Alternative Simplified Credit, Michigan does not apply a 50 percent reduction to the base amount in its calculation.

¹ See [Michigan Research and Development Tax Credit](#), [Public Act 186 of 2024](#), and [Public Act 187 of 2024](#).

² Unless otherwise indicated, section references are to the Internal Revenue Code of 1986, as amended (the "Code") or the applicable regulations promulgated pursuant to the Code (the "regulations").

Tentative Claim

Taxpayers must submit tentative claims to the department for qualifying research and development expenses incurred during the calendar year. For expenses incurred in 2025, the tentative claim must be submitted by April 1, 2026. For subsequent years, the tentative claim must be submitted by March 15 following the end of the calendar year. The tentative claim must include the type of credit being claimed, the amount of qualifying expenses, and whether an additional credit for university collaboration is being claimed.

Limitations

The maximum credit amount a taxpayer can receive during the tax year for the standard credit and Michigan research university credit is the following:

- For large businesses, the total maximum credit is \$2.2 million with up to \$2 million for the standard credit plus up to \$200,000 for the Michigan research university credit.
- For small businesses, the total maximum credit is \$450,000 with up to \$250,000 for the standard credit plus up to \$200,000 for the Michigan research university credit.

The aggregate of all tax credits claims in Michigan cannot exceed \$100 million in any tax year. If the total tentative claims submitted in a tax year exceed the cap, the credit claims will be prorated. If proration is required, the Michigan Department of Treasury plans to notify taxpayers of their final allowed credit amount prior to the filing deadline, April 30.

Filing

Corporate income taxpayers must claim the credit with their annual returns for the tax year the credit was claimed (e.g., if MQREs were incurred in 2025, the credit will go on the taxpayer's 2025 corporate income tax return). Flow-through entities filing withholding returns must claim the credit with annual returns for the year in which the tentative claim was filed (e.g., if MQREs were incurred in 2025, the credit will go on the 2026 withholding tax return due February 28, 2027). That said, once the flow-through entity receives notice of its final credit it may reduce periodic withholding payments for the relevant withholding tax return accordingly.

Refundability and Transferability

If the amount of the allowed credit exceeds the tax liability of the taxpayer for the tax year, the excess portion of the credit will be refunded to the business. The excess credit cannot be carried forward. Credits cannot be assigned or transferred to another party, by agreement or by law.

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