

Department of Legislative Services
2013 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 482

(Senator Manno)

Budget and Taxation

Ways and Means

Income Tax Credit - Security Clearances - Employer Costs

This bill expands the employer security clearance costs tax credit by (1) doubling the maximum value of the credit and (2) specifying that certain rental payments incurred by a small business that performs security-based contracting qualify for the credit.

The bill takes effect July 1, 2013.

Fiscal Summary

State Effect: Doubling the maximum value of the credit and allowing additional types of expenses to qualify for the credit is not expected to alter the fiscal impact of the tax credit program beyond that provided under current law.

Local Effect: None.

Small Business Effect: Minimal overall. The limited number of small businesses who qualify for the credit will benefit.

Analysis

Bill Summary/Current Law: Chapter 478 of 2012 (SB 296) established the employer security clearance costs tax credit program. The program allows a tax credit against the State income tax for certain security clearance administrative expenses and for the costs to construct or renovate a sensitive compartmented information facility located in the State as required by the federal government. In order to qualify, the security clearance administrative expenses must be incurred with regard to an employee in the State and include (1) processing application requests for clearances; (2) maintaining, upgrading, or

installing computer systems in the State that are required for obtaining federal security clearances; and (3) training employees to administer the application process.

The amount of the credit for security clearance administrative expenses is equal to 100% of eligible expenses, not to exceed \$100,000; the bill proposes to increase the maximum amount to \$200,000. The amount of the credit for sensitive compartmented information facility expenses is equal to 50% of eligible expenses, not to exceed \$100,000 for a single qualifying facility or \$250,000 for multiple qualifying facilities. These amounts are \$200,000 and \$500,000 under the bill, respectively. Any unused amount of the credit can be carried forward until the full amount of the excess is used.

The bill also specifies that expenses incurred for rental payments owed during the first year of a rental agreement for spaces leased in the State qualify for the credit, if the company qualifies as a small business and performs security-based contracting. The maximum amount of these expenses that qualify for the credit is also limited to \$200,000.

DBED is authorized to award a maximum of \$2.0 million in total credits each year. Credits may be claimed in tax years 2013 through 2016; the program terminates June 30, 2016.

State Fiscal Effect: The bill allows additional expenses to qualify for the tax credit and doubles the maximum value of the credit. DBED advises that based on preliminary interest expressed by companies, it anticipates awarding the maximum amount of credits under current law. As a result, these provisions are not expected to impact State finances as it is anticipated that DBED will continue to award the maximum amount of credits in each calendar year. The Department of Legislative Services advises that given that DBED has yet to actually award credits under the program, there is uncertainty over whether the maximum amount of credits would have been claimed under current law.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, Department of Legislative Services

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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510