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Re: Support (FAV) for HB 744/ SB 702

To Whom It May Concern:

I am writing to express my support for **HB 744/ SB 702, Income Tax – Biotechnology Investment Incentive Tax Credit Program – Pass-Through Entities.**

The Biotechnology Investment Incentive Tax Credit Program (BIITC) is a very popular tax credit program that supports biotech startups in Maryland. The programs both attracts investment in our most promising biotech startups and bolsters economic growth by supporting and strengthening our life science companies here in the state.

While the BIITC program is successful in many regards, there is an unnecessary administrative burden that hinders the program, and this bill addresses this burden by allowing pass-through entity that pays a certain income tax on behalf of its members to receive and allocate in any manner a credit or refund of a credit. To put it simply, this bill maintains all of the benefits of the BITTC program, while letting the pass-through entity bear the burden of administrative coordination (so that the individual investor does not need to).

This change to the BIITC program is necessary to unlock the potential of institutional investors and increase participant satisfaction – and thus unlock the full potential of the program.

This BIITC's impact will always be stunted, and its value limited, unless we can figure this out, because institutional investors have communicated that they simply will not participate in your investments until the credit can be distributed at the entity level (otherwise, such institutional investors would face the impractical task of requiring their own individual LPs to apply for the credit and this will not happen).

A fix and improvement is required for Maryland's benefit and in the interest of making government work for its people.

Specifically, this bill addresses the following:

1. **Alignment with Venture Capital Industry Standards:** The BIITC program was designed to encourage people to go into venture capital. VC is an industry that operates, like all industries, with a certain set of norms. By collecting the credit at the entity level, we are adhering to the standard operating practices prevalent in the venture capital industry, specifically as it relates to investors receiving returns of capital from entity-level distributions. This approach is instrumental in attracting venture capital investment and supports the fundamental operations of managing investments and distributions, in line with the expectations of both the industry and other states with similar practices. This approach is what would be expected in the industry.
2. **Need for Investor Satisfaction:** It makes for happier investors. Facilitating the BIITC at the entity level significantly enhances investor convenience and satisfaction. Right now, it is incumbent upon the investors themselves to directly claim the from the state and this creates real complexities and challenges. A streamlined approach not only attracts but also retains investors, who are crucial to the long-term success of venture firms and portfolio companies. We need investors to be happy with the process and to want to invest again and to be willing to contribute more capital to our state.
3. **Evidence of Why this Does Not Work As-Is:** We have seen what things are like when we do not get the BIITC at the entity level--2022 was challenging. The challenges encountered in 2022, including issues with tax credit distribution, investors not filing at all or not filing correctly, and communication breakdowns with the Comptroller's office underscore the necessity for a more efficient system. By centralizing the BIITC process at the entity level, we aim to alleviate these administrative burdens and improve overall operational efficiency for everyone involved, including state officials.
4. **Enhanced Venture Capital Efficacy:** Implementing the BIITC at the entity level is pivotal for the business reputation of the venture firms involved, like my own (Ecphora Capital). I want to see this program work and to do that I need to be able to ensure the satisfaction of both investors and the companies we support. A positive experience with the program is essential for its success and sustainability, which, in turn, enables me (and others) to fulfill our responsibilities more effectively. Our firms and the BIITC program itself will not last long if everyone who goes through it ends up being unhappy and disgruntled and no one wants to work with us.
5. **Program Improvement:** As a trailblazer, the first to achieve the Level Two Opportunity Zone designation in Maryland through Ecphora Capital, I am committed to enhancing the BIITC program for the broader venture capital community in Maryland. I know this program better than anyone else, I believe it in, and I would like to improve it so that others can follow in my footsteps and increase venture investment in Maryland innovation. My leadership and process refinement pave the way for future

venture capitalists, contributing to the program's optimization and the state's economic growth.

In conclusion, I would like to thank you for your support of this bill that unlocks the full potential of the Biotechnology Investment Incentive Tax Credit Program.

Sincerely,

A handwritten signature in cursive script that reads "Deborah Hemingway". The signature is written in black ink and is positioned below the word "Sincerely,".

Deborah Hemingway, PhD
Managing Partner
Ecphora Capital