
By: **Delegates Barve, Hixson, and Shriver (Montgomery County Administration)**

Introduced and read first time: February 9, 2001

Assigned to: Ways and Means

A BILL ENTITLED

1 AN ACT concerning

2 **Maryland Biotechnology Companies - Tax Benefit Certificate Program**

3 FOR the purpose of creating the Maryland Biotechnology Tax Benefit Certificate
4 Program; defining certain terms; establishing a certain application process for
5 the transfer of certain tax benefits by certain biotechnology companies;
6 establishing certain criteria for approval of certain applications; providing that
7 certain companies may surrender certain tax benefits in exchange for private
8 financial assistance; providing that certain companies are not eligible for the
9 program; requiring the Department of Business and Economic Development to
10 issue a certain certificate; providing for the computation of transferable tax
11 benefits; allowing a corporation that acquires certain tax benefits under the
12 program to claim a certain credit against the State income tax; providing that a
13 certain credit must be claimed in a certain taxable year; requiring a certain
14 addition modification under the corporate income tax; requiring the Department
15 of Business and Economic Development and the Comptroller to adopt certain
16 regulations; providing for the termination of this Act; and generally relating to
17 the Maryland Biotechnology Tax Benefit Certificate Program.

18 BY adding to

19 Article 83A - Department of Business and Economic Development
20 Section 5-1701 through 5-1707 to be under the new subtitle "Subtitle 17.
21 Maryland Biotechnology and Emerging Technology Financial Assistance
22 Program"
23 Annotated Code of Maryland
24 (1998 Replacement Volume and 2000 Supplement)

25 BY repealing and reenacting, with amendments,

26 Article - Tax - General
27 Section 10-721(d)
28 Annotated Code of Maryland
29 (1997 Replacement Volume and 2000 Supplement)

30 BY adding to

1 Article - Tax - General
2 Section 10-305(e) and 10-722
3 Annotated Code of Maryland
4 (1997 Replacement Volume and 2000 Supplement)

5 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
6 MARYLAND, That the Laws of Maryland read as follows:

7 **Article 83A - Department of Business and Economic Development**

8 SUBTITLE 17. MARYLAND BIOTECHNOLOGY TAX BENEFIT CERTIFICATE PROGRAM.
9 5-1701.

10 (A) IN THIS SUBTITLE THE FOLLOWING WORDS HAVE THE MEANINGS
11 INDICATED.

12 (B) "BIOTECHNOLOGY" MEANS THE BODY OF KNOWLEDGE ABOUT THE
13 FUNCTIONING OF BIOLOGICAL SYSTEMS FROM THE MACRO LEVEL TO THE
14 MOLECULAR AND SUBATOMIC LEVELS, AND THE NOVEL PRODUCTS, SERVICES,
15 TECHNOLOGIES, AND SUBTECHNOLOGIES DEVELOPED AS A RESULT OF INSIGHTS
16 GAINED FROM RESEARCH ADVANCES THAT ADD TO THAT BODY OF KNOWLEDGE.

17 (C) "NEW OR EXPANDING BIOTECHNOLOGY COMPANY" MEANS A
18 CORPORATION THAT:

19 (1) HAS SIGNIFICANT OPERATIONS IN THIS STATE;

20 (2) HAS FEWER THAN 225 EMPLOYEES, OF WHOM AT LEAST 75%
21 ARE MARYLAND BASED EMPLOYEES FILLING A POSITION OR JOB IN THIS STATE; AND

22 (3) IS ENGAGED IN THE RESEARCH, DEVELOPMENT, PRODUCTION,
23 OR PROVISION OF BIOTECHNOLOGY FOR THE PURPOSE OF DEVELOPING OR
24 PROVIDING PRODUCTS OR PROCESSES FOR SPECIFIC COMMERCIAL OR PUBLIC
25 PURPOSES, INCLUDING:

26 (I) MEDICAL, PHARMACEUTICAL, GENOMICS,
27 BIOINFORMATICS, PROTEOMICS, NUTRITIONAL, AND OTHER HEALTH-RELATED
28 PURPOSES;

29 (II) AGRICULTURE PURPOSES; OR

30 (III) ENVIRONMENTAL PURPOSES.

31 (D) "PROGRAM" MEANS THE MARYLAND BIOTECHNOLOGY TAX BENEFIT
32 CERTIFICATE PROGRAM.

33 (E) "TAX BENEFIT" MEANS:

1 (1) IN THE CASE OF AN UNUSED RESEARCH AND DEVELOPMENT
2 CREDIT, THE AMOUNT OF THE CREDIT THAT HAS NOT BEEN USED TO OFFSET STATE
3 INCOME TAX; OR

4 (2) IN THE CASE OF AN UNUSED NET OPERATING LOSS, THE STATE
5 INCOME TAX RATE FOR A CORPORATION UNDER § 10-105(B) OF THE TAX - GENERAL
6 ARTICLE MULTIPLIED TIMES THE PRODUCT OF MULTIPLYING THE AMOUNT OF THE
7 NET OPERATING LOSS THAT HAS NOT BEEN CARRIED BACK OR CARRIED OVER TO
8 OFFSET TAXABLE INCOME FOR ANOTHER TAXABLE YEAR TIMES THE
9 APPORTIONMENT FRACTION UNDER § 10-402(C) OF THE TAX - GENERAL ARTICLE
10 THAT IS APPLICABLE TO THE CORPORATION TRANSFERRING THE UNUSED NET
11 OPERATING LOSS FOR THE TAX YEAR IN WHICH THE NET OPERATING LOSS
12 OCCURRED.

13 5-1702.

14 (A) THERE IS A MARYLAND BIOTECHNOLOGY TAX BENEFIT CERTIFICATE
15 PROGRAM.

16 (B) THE PURPOSES OF THE PROGRAM ARE TO:

17 (1) ENCOURAGE THE EXTENSION OF PRIVATE FINANCIAL ASSISTANCE
18 TO THE BIOTECHNOLOGY INDUSTRY; AND

19 (2) ALLOW NEW OR EXPANDING BIOTECHNOLOGY COMPANIES IN THIS
20 STATE WITH UNUSED AMOUNTS OF RESEARCH AND DEVELOPMENT TAX CREDITS
21 AND UNUSED NET OPERATING LOSSES TO SURRENDER THOSE BENEFITS FOR USE BY
22 OTHER CORPORATE TAXPAYERS IN THIS STATE.

23 5-1703.

24 (A) (1) A NEW OR EXPANDING BIOTECHNOLOGY COMPANY MAY APPLY TO
25 THE DEPARTMENT, ON A FORM SUPPLIED BY THE DEPARTMENT, TO TRANSFER TAX
26 BENEFITS UNDER THE PROGRAM.

27 (2) A CORPORATION MAY APPLY TO THE DEPARTMENT, ON A FORM
28 SUPPLIED BY THE DEPARTMENT, TO RECEIVE TRANSFERABLE TAX BENEFITS.

29 (3) ALL APPLICATIONS MUST BE RECEIVED ON OR BEFORE JUNE 30 FOR
30 THE NEXT SUCCEEDING STATE FISCAL YEAR.

31 (B) THE DEPARTMENT SHALL EVALUATE APPLICATIONS FOR THE TRANSFER
32 OF TAX BENEFITS UNDER THE PROGRAM IN A MANNER THAT WILL BEST STIMULATE
33 AND ENCOURAGE THE EXTENSION OF PRIVATE FINANCIAL ASSISTANCE TO NEW OR
34 EXPANDING BIOTECHNOLOGY COMPANIES IN THIS STATE.

35 (C) (1) THE DEPARTMENT SHALL DEVELOP CRITERIA FOR THE APPROVAL
36 OR DISAPPROVAL OF APPLICATIONS.

37 (2) CRITERIA FOR APPROVAL OF AN APPLICATION SHALL INCLUDE:

1 (I) AN EVALUATION OF THE NEW OR EXPANDING
2 BIOTECHNOLOGY COMPANY'S ACTUAL OR POTENTIAL SCIENTIFIC AND
3 TECHNOLOGICAL VIABILITY;

4 (II) A DETERMINATION THAT THE NEW OR EXPANDING
5 BIOTECHNOLOGY COMPANY'S PRINCIPAL PRODUCTS OR SERVICES ARE
6 SUFFICIENTLY INNOVATIVE TO PROVIDE A COMPETITIVE ADVANTAGE;

7 (III) A DETERMINATION THAT THE NEW OR EXPANDING
8 BIOTECHNOLOGY COMPANY DOES NOT HAVE SUFFICIENT RESOURCES TO OPERATE
9 IN THE SHORT TERM OR CANNOT SECURE FINANCIAL ASSISTANCE FROM VENTURE
10 CAPITAL, STOCK ISSUANCE, PRODUCT SALES REVENUE, A PARENT CORPORATION OR
11 OTHER AFFILIATES, A BANK, OR ANY OTHER METHOD OF OBTAINING CAPITAL; AND

12 (IV) A DETERMINATION THAT THE FINANCIAL ASSISTANCE
13 PROVIDED UNDER THIS SUBTITLE DEMONSTRATES THE PROSPECT OF A
14 SIGNIFICANT POSITIVE CHANGE IN THE NEW OR EXPANDING BIOTECHNOLOGY
15 COMPANY'S NET INCOME.

16 (D) THE DEPARTMENT SHALL ESTABLISH THE WEIGHT OF IMPORTANCE TO
17 BE GIVEN EACH CRITERION USED IN ITS APPLICATION APPROVAL PROCESS.

18 (E) (1) SUBJECT TO PARAGRAPH (2) OF THIS SUBSECTION, A NEW OR
19 EXPANDING BIOTECHNOLOGY COMPANY THAT HAS HAD ITS APPLICATION
20 APPROVED MAY SURRENDER THE TAX BENEFITS THAT ARE REQUESTED IN THE
21 APPLICATION REGARDLESS OF WHETHER THE APPLICANT CONTINUES TO MEET THE
22 ELIGIBILITY CRITERIA ESTABLISHED UNDER THIS SUBTITLE IN SUBSEQUENT YEARS.

23 (2) AN APPLICANT'S TRANSFERABLE TAX BENEFITS:

24 (I) SHALL BE LIMITED TO TAX BENEFITS THAT THE APPLICANT
25 REQUESTS TO SURRENDER IN ITS APPLICATION TO THE DEPARTMENT; AND

26 (II) MAY NOT, IN TOTAL, EXCEED THE MAXIMUM AMOUNT OF TAX
27 BENEFITS THAT THE APPLICANT IS ELIGIBLE TO SURRENDER.

28 (F) A NEW OR EXPANDING BIOTECHNOLOGY COMPANY IS NOT ELIGIBLE TO
29 PARTICIPATE IN THE PROGRAM IF THE NEW OR EXPANDING BIOTECHNOLOGY
30 COMPANY:

31 (1) HAS DEMONSTRATED POSITIVE NET INCOME IN ANY OF THE 2
32 PREVIOUS FULL TAXABLE YEARS OF ONGOING OPERATIONS AS DETERMINED ON ITS
33 FINANCIAL STATEMENTS;

34 (2) HAS DEMONSTRATED A RATIO IN EXCESS OF 110% OF OPERATING
35 REVENUES DIVIDED BY OPERATING EXPENSES IN ANY OF THE 2 PREVIOUS FULL
36 TAXABLE YEARS OF OPERATIONS AS DETERMINED ON ITS FINANCIAL STATEMENTS;

37 (3) IS DIRECTLY OR INDIRECTLY AT LEAST 50% OWNED OR CONTROLLED
38 BY ANOTHER CORPORATION THAT HAS DEMONSTRATED POSITIVE NET TAXABLE

1 INCOME IN ANY OF THE 2 PREVIOUS FULL TAXABLE YEARS OF ONGOING
2 OPERATIONS AS DETERMINED ON ITS FINANCIAL STATEMENTS; OR

3 (4) IS PART OF A CONSOLIDATED GROUP OF AFFILIATED
4 CORPORATIONS, AS FILED FOR FEDERAL INCOME TAX PURPOSES, THAT IN THE
5 AGGREGATE HAS DEMONSTRATED POSITIVE NET TAXABLE INCOME IN ANY OF THE 2
6 PREVIOUS FULL TAXABLE YEARS OF ONGOING OPERATIONS AS DETERMINED ON ITS
7 COMBINED FINANCIAL STATEMENTS.

8 (G) THE DEPARTMENT SHALL ISSUE A CORPORATION BUSINESS TAX BENEFIT
9 CERTIFICATE TO AN APPLICANT THAT IS APPROVED TO PARTICIPATE IN THE
10 PROGRAM.

11 5-1704.

12 (A) (1) A NEW OR EXPANDING BIOTECHNOLOGY COMPANY THAT HAS HAD
13 ITS APPLICATION APPROVED MAY SURRENDER TAX BENEFITS IN EXCHANGE FOR
14 PRIVATE FINANCIAL ASSISTANCE TO BE MADE BY A CORPORATION THAT IS THE
15 RECIPIENT OF THE CORPORATION BUSINESS TAX BENEFIT CERTIFICATE IN AN
16 AMOUNT EQUAL TO AT LEAST 75% OF THE AMOUNT OF THE SURRENDERED TAX
17 BENEFIT.

18 (2) (I) THE AMOUNT OF THE SURRENDERED TAX BENEFIT FOR A
19 SURRENDERED UNUSED RESEARCH AND DEVELOPMENT TAX CREDIT SHALL BE THE
20 AMOUNT OF THE CREDIT.

21 (II) THE AMOUNT OF THE SURRENDERED TAX BENEFIT FOR A
22 SURRENDERED NET OPERATING LOSS SHALL BE THE AMOUNT OF THE NET
23 OPERATING LOSS THAT HAS NOT BEEN CARRIED BACK OR CARRIED OVER TO OFFSET
24 TAXABLE INCOME FOR ANOTHER TAXABLE YEAR MULTIPLIED BY THE NEW OR
25 EXPANDING BIOTECHNOLOGY COMPANY'S APPORTIONMENT FRACTION, AS
26 DETERMINED UNDER § 10-402 OF THE TAX - GENERAL ARTICLE, FOR THE TAXABLE
27 YEAR IN WHICH THE NET OPERATING LOSS OCCURRED AND SUBSEQUENTLY
28 MULTIPLIED BY THE CORPORATE TAX RATE UNDER § 10-105(B) OF THE TAX -
29 GENERAL ARTICLE.

30 (B) THE DEPARTMENT MAY NOT APPROVE THE TRANSFER OF MORE THAN
31 \$20,000,000 OF TAX BENEFITS FOR ANY FISCAL YEAR.

32 (C) THE MAXIMUM LIFETIME VALUE OF TAX BENEFITS THAT A CORPORATION
33 MAY SURRENDER UNDER THE PROGRAM IS \$4,000,000.

34 5-1705.

35 (A) A NEW OR EXPANDING BIOTECHNOLOGY COMPANY THAT TRANSFERS TAX
36 BENEFITS UNDER THE PROGRAM MAY USE THE PRIVATE FINANCIAL ASSISTANCE
37 RECEIVED FROM THE CORPORATION THAT RECEIVES THE TRANSFERRED TAX
38 BENEFITS, AS EVIDENCED BY THE CORPORATION BUSINESS TAX BENEFIT
39 CERTIFICATE, IN THE FUNDING OF OPERATION AND DEVELOPMENT COSTS,
40 INCLUDING:

1 (1) CONSTRUCTION, ACQUISITION, AND DEVELOPMENT OF REAL
2 ESTATE;

3 (2) ACQUISITION OF MATERIALS;

4 (3) START-UP COSTS;

5 (4) TENANT FIT-OUT;

6 (5) WORKING CAPITAL;

7 (6) SALARIES;

8 (7) RESEARCH AND DEVELOPMENT EXPENDITURES; AND

9 (8) ANY OTHER EXPENSES DETERMINED BY THE DEPARTMENT BY
10 REGULATION.

11 (B) THE DEPARTMENT AND THE COMPTROLLER MAY REQUIRE
12 CERTIFICATIONS OR AUDITS TO DETERMINE COMPLIANCE WITH SUBSECTION (A) OF
13 THIS SECTION.

14 (C) A CORPORATION THAT ACQUIRES A CORPORATION BUSINESS TAX
15 BENEFIT CERTIFICATE SHALL ENTER INTO A WRITTEN AGREEMENT WITH THE NEW
16 OR EXPANDING BIOTECHNOLOGY COMPANY CONCERNING THE TERMS AND
17 CONDITIONS OF THE PRIVATE FINANCIAL ASSISTANCE MADE IN EXCHANGE FOR THE
18 CERTIFICATE AUTHORIZED UNDER THIS SUBTITLE.

19 (D) A CORPORATION THAT RECEIVES SURRENDERED TAX BENEFITS UNDER
20 THIS SUBTITLE MAY NOT, DIRECTLY OR INDIRECTLY, OWN OR CONTROL 5% OR MORE
21 OF THE VOTING RIGHTS OR 5% OR MORE OF THE VALUE OF CLASSES OF STOCK OF
22 THE CORPORATION THAT IS SURRENDERING THE SAME TAX BENEFITS UNDER THIS
23 SUBTITLE.

24 5-1706.

25 (A) (1) A CORPORATION THAT RECEIVES SURRENDERED TAX BENEFITS
26 UNDER THE PROGRAM MAY CLAIM A CREDIT AGAINST THE STATE INCOME TAX IN
27 THE AMOUNT OF THE SURRENDERED TAX BENEFITS.

28 (2) A CORPORATION THAT CLAIMS A CREDIT UNDER THIS SUBSECTION
29 MAY APPLY THE CREDIT ONLY IN THE TAXABLE YEAR IN WHICH THE CREDIT IS
30 ACQUIRED.

31 (3) A TAX BENEFIT SURRENDERED UNDER THE PROGRAM MAY BE
32 ACQUIRED BY ONLY ONE CORPORATION.

33 (B) A CORPORATION THAT RECEIVES SURRENDERED TAX BENEFITS UNDER
34 THE PROGRAM SHALL ATTACH A COPY OF THE CORPORATION BUSINESS TAX
35 BENEFIT CERTIFICATE TO ANY RETURN THE CORPORATION IS REQUIRED TO FILE
36 UNDER TITLE 10, SUBTITLE 8 OF THE TAX - GENERAL ARTICLE.

1 (C) A NEW OR EXPANDING BIOTECHNOLOGY COMPANY THAT TRANSFERS TAX
2 BENEFITS UNDER THE PROGRAM SHALL ATTACH A COPY OF THE CORPORATION
3 BUSINESS TAX BENEFIT CERTIFICATE TO ANY RETURN THE NEW OR EXPANDING
4 BIOTECHNOLOGY COMPANY IS REQUIRED TO FILE UNDER TITLE 10, SUBTITLE 8 OF
5 THE TAX - GENERAL ARTICLE.

6 5-1707.

7 (A) THE DEPARTMENT AND THE COMPTROLLER SHALL ADOPT REGULATIONS
8 TO CARRY OUT THE PROVISIONS OF THIS SUBTITLE.

9 (B) REGULATIONS ADOPTED UNDER SUBSECTION (A) OF THIS SECTION MAY
10 INCLUDE:

11 (1) PAYMENT OF PROCESSING FEES;

12 (2) ALLOCATION ON APPORTIONMENT OF TRANSFERABLE TAX
13 BENEFITS IF THE TOTAL AMOUNT OF TRANSFERABLE TAX BENEFITS REQUESTED TO
14 BE SURRENDERED BY APPROVED APPLICANTS EXCEEDS \$20,000,000, AS PROVIDED IN
15 § 5-1704(B) OF THIS SUBTITLE; AND

16 (3) THE TRANSFER OF BUNDLED TAX BENEFITS.

17 **Article - Tax - General**

18 10-305.

19 (E) THE ADDITION UNDER SUBSECTION (A) OF THIS SECTION INCLUDES THE
20 AMOUNT OF ANY NET OPERATING LOSS DEDUCTION, TO THE EXTENT THAT THE TAX
21 BENEFIT FOR ANY NET OPERATING LOSS ON WHICH THE DEDUCTION IS BASED HAS
22 BEEN SURRENDERED UNDER THE MARYLAND BIOTECHNOLOGY TAX BENEFIT
23 CERTIFICATE PROGRAM UNDER ARTICLE 83A, TITLE 5, SUBTITLE 17 OF THE CODE.

24 10-721.

25 (d) (1) [If] EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS SUBSECTION,
26 IF the credit allowed under this section in any taxable year exceeds the State income
27 tax for that taxable year, an individual or corporation may apply the excess as a credit
28 against the State income tax for succeeding taxable years until the earlier of:

29 [(1)] (I) the full amount of the excess is used; or

30 [(2)] (II) the expiration of the 15th taxable year after the taxable year in
31 which the Maryland qualified research and development expense was incurred.

32 (2) ANY UNUSED CREDIT THAT HAS BEEN SURRENDERED UNDER THE
33 MARYLAND BIOTECHNOLOGY TAX BENEFIT CERTIFICATE PROGRAM UNDER ARTICLE
34 83A, TITLE 5, SUBTITLE 17 OF THE CODE MAY NOT BE CARRIED FORWARD UNDER
35 PARAGRAPH (1) OF THIS SUBSECTION.

1 10-722.

2 A CORPORATION THAT HAS ACQUIRED A CORPORATION BUSINESS TAX BENEFIT
3 CERTIFICATE UNDER THE MARYLAND BIOTECHNOLOGY TAX BENEFIT CERTIFICATE
4 PROGRAM UNDER ARTICLE 83A, TITLE 5, SUBTITLE 17 OF THE CODE MAY CLAIM A
5 CREDIT AGAINST STATE INCOME TAX AS PROVIDED UNDER ARTICLE 83A, § 1706(A) OF
6 THE CODE.

7 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
8 July 1, 2001. It shall remain effective for a period of 5 years and, at the end of June
9 30, 2006, with no further action required by the General Assembly, this Act shall be
10 abrogated and of no further force and effect.