

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 920 (Delegate Bozman)
Ways and Means

Budget and Taxation

Maryland Research and Development Tax Credit - Maximum Approved Credit

This bill increases the maximum amount that the Department of Business and Economic Development (DBED) can approve in a calendar year for each component of the State research and development (R&D) tax credit. It allows the unused portion of either component or credit to be transferred to the other credit if the cap for the first credit has been reached. The bill is effective July 1, 2001, and will apply for tax years beginning after December 31, 1999.

Fiscal Summary

State Effect: It is expected that the overall credit amount would not be altered and that the bill would not have a significant impact on State finances.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: The maximum credit allowed for each of the incremental and nonincremental tax credits is \$3 million. If the \$3 million cap is reached for one of the credits, funding cannot be transferred from the other credit to allow additional credits beyond the cap to be issued.

Background: Chapter 515 of 2000 created an R&D income tax credit for Maryland that is modeled after the federal research and development tax credit program. The new tax

credit has two parts: (1) a nonincremental credit based on a taxpayer's R&D expenses up to the base amount of Maryland R&D expenses; and (2) a credit based on incremental spending, or spending above the base amount.

The nonincremental credit is 3% of qualifying R&D expenditures while the incremental credit is 10% of qualifying expenditures. The maximum allowed for each of the credits for all taxpayers is \$3 million annually, for a total of \$6 million. The legislation established a methodology for proportionally reducing credits if the application amounts exceed the annual cap. A 15-year carry forward of any unused credit amount is allowed. The credits are available from tax year 2000 through 2004.

State Fiscal Effect: The Office of the Comptroller advises that, in practice, the bill will likely increase the cap for the nonincremental credit because that cap would be reached more quickly. The Comptroller expects the bill to have no impact unless R&D expenditures stagnate or decline by more than 1.5 – 2%. **Exhibit 1** displays the projected growth of research expenditures from fiscal 2000 to 2005.

Exhibit 1
Growth of R&D Expenditures
(\$ millions)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Taxable Private MD R&D Expenditures	\$1,149.9	\$1,181.7	\$1,214.3	\$1,247.8	\$1,282.2	\$1,317.6
Maryland Base Amount (MBA)	1,035.2	1,092.0	1,134.9	1,166.2	1,198.4	1,231.5
3% of Expenses (to MBA) Nonincremental Credit	31.1	32.8	34.0	35.0	36.0	36.9
10% of Incremental Expenditures (Difference Between Actual and MBA) Incremental Credit	11.5	9.0	7.9	8.2	8.4	8.6

Source: Office of the Comptroller

The Comptroller notes that if expenditures decline to the extent that the \$3 million incremental credit could not be reached, the bill potentially creates a revenue loss by allowing the unused ceiling of the incremental credit to be transferred, although the \$6 million cap as originally envisioned would not be exceeded.

DBED advises that the bill increases the probability that both credits will exceed the cap and will further complicate administration of the tax credits.

Additional Information

Prior Introductions: None.

Cross File: SB 456 (Senator Hogan) – Budget and Taxation.

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

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