

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1197

(Chair, Ways and Means Committee) (By Request –
Departmental – Business and Economic Development)

Ways and Means

Budget and Taxation

**Business and Economic Development - Maryland Research and Development
Tax Credit**

This departmental bill clarifies that Maryland Research and Development Tax Credits would still be available if the federal Research and Development Tax Credit Program is repealed or terminated.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: None. The bill codifies existing practice/procedure.

Local Effect: None.

Small Business Effect: The Department of Business and Economic Development (DBED) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: Chapter 98 of 2005 extended the termination date of the Research and Development (R&D) tax credit program to June 30, 2012. Credits may only be applied for through tax year 2010. DBED can approve a total of \$6 million in credits in each tax year; \$3 million in basic credits and \$3 million in growth credits.

Background: Chapters 515 and 516 of 2000 established the State R&D income tax credit. Businesses that incur qualified research and development expenses in Maryland are entitled to the credit. The total credits approved may not exceed \$6 million in a tax year. There are two types of R&D credits available to businesses: (1) the basic credit is equal to 3% of the Maryland qualified R&D expenses paid during the tax year, up to the Maryland base amount; and (2) the growth credit is equal to 10% of the Maryland qualified R&D expenses paid during the year that exceed the Maryland base amount.

The federal research and development tax credit temporarily expired on December 31, 2005 and was not extended until the Tax Relief and Health Care Act of 2006 (P.L. 109-432) was passed in December 2006. The Act extended the credit retroactively to January 1, 2006 and through tax year 2007. With the retroactive extension, all of the qualifying research and development expenses incurred by companies could be claimed in tax year 2006. The temporary expiration of the credit was the twelfth temporary lapse in the credit in its 25-year history.

State Fiscal Effect: The bill clarifies that State research and development tax credits would be available if the federal research and development tax credit program expired. State revenues would not be affected. The Comptroller's Office advises that if the federal program expired, State credits could still be claimed even though calculation of State credits is partly based on the federal tax credit program.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/rhh

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