

CHAPTER 518

(House Bill 723)

AN ACT concerning

Business and Economic Development – Biotechnology Investment Incentive Act

FOR the purpose of altering certain eligibility criteria and requirements for claiming a certain State income tax credit for certain investments in certain technology businesses; limiting the aggregate credits that may be certified for investments in a single company for any fiscal year to a certain percentage of the total appropriations to a certain reserve fund for that fiscal year; altering the method of claiming the credit; providing for recapture of the credit under certain circumstances; defining certain terms; authorizing certain regulations; providing for the application of this Act; and generally relating to certain tax credits for investments in certain technology businesses in the State.

BY repealing and reenacting, with amendments,
Article – Tax – General
Section 10–725
Annotated Code of Maryland
(2004 Replacement Volume and 2007 Supplement)

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

Article – Tax – General

10–725.

(a) (1) In this section the following words have the meanings indicated.

(2) “Biotechnology company” means a company organized for profit that is primarily engaged in the research, development, or commercialization of innovative and proprietary technology that comprises, interacts with, or analyzes biological material including biomolecules (DNA, RNA, or protein), cells, tissues, or organs.

(3) (1) **“COMPANY” MEANS ANY ENTITY OF ANY FORM DULY ORGANIZED AND EXISTING UNDER THE LAWS OF ANY JURISDICTION FOR THE PURPOSE OF CONDUCTING BUSINESS FOR PROFIT.**

(II) “COMPANY” DOES NOT INCLUDE A SOLE PROPRIETORSHIP.

[(3)] (4) “Department” means the Department of Business and Economic Development.

[(4)] (5) (i) “Investment” means the contribution of [property] **MONEY IN CASH OR CASH EQUIVALENTS EXPRESSED IN UNITED STATES DOLLARS**, at a risk of loss, to a [qualified company] **QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY** in exchange for stock, a partnership **OR MEMBERSHIP** interest, or other ownership interest in the [qualified company] **EQUITY OF THE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY, TITLE TO WHICH OWNERSHIP INTEREST SHALL VEST IN THE QUALIFIED INVESTOR.**

(II) “INVESTMENT” DOES NOT INCLUDE DEBT.

[(ii)] (III) For purposes of this section, an investment is at risk of loss when its repayment entirely depends upon the success of the business operations of the qualified company.

[(5)] (6) (I) “Qualified investor” means [an investor that is:

(i) an individual] **ANY ENTITY** that invests at least \$25,000 in a qualified Maryland biotechnology company[; or

(ii) a corporation that invests at least \$250,000 in a qualified Maryland biotechnology company] **AND THAT IS REQUIRED TO FILE AN INCOME TAX RETURN IN ANY JURISDICTION.**

(II) “QUALIFIED INVESTOR” DOES NOT INCLUDE A QUALIFIED PENSION PLAN, INDIVIDUAL RETIREMENT ACCOUNT, OR OTHER QUALIFIED RETIREMENT PLAN UNDER THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR FIDUCIARIES OR CUSTODIANS UNDER SUCH PLANS, OR SIMILAR TAX-FAVORED PLANS OR ENTITIES UNDER THE LAWS OF OTHER COUNTRIES.

[(6)] (7) (I) “Qualified Maryland biotechnology company” means a biotechnology company that:

[(i)] 1. has its headquarters and base of operations in this State;

[(ii)] 2. has fewer than 50 full-time employees;

[(iii)] 3. EXCEPT AS PROVIDED IN SUBPARAGRAPH (II) OF THIS PARAGRAPH, has been in active business no longer than 10 years; [and]

4. DOES NOT HAVE ITS SECURITIES PUBLICLY TRADED ON ANY EXCHANGE; AND

[(iv)] 5. has been certified as a biotechnology company by the Department.

(II) “QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY” INCLUDES A COMPANY THAT HAS BEEN IN ACTIVE BUSINESS FOR UP TO 12 YEARS IF THE DEPARTMENT DETERMINES THAT THE COMPANY REQUIRES ADDITIONAL TIME TO COMPLETE THE PROCESS OF REGULATORY APPROVAL.

[(7) “Qualified Maryland venture capital firm” means an entity that:

(i) is organized for the purpose of investing funds in privately held companies engaged in the research, development, or commercialization of innovative and proprietary technology;

(ii) has at least two principals that each have at least 5 years of venture capital experience;

(iii) has at least 1 year of experience investing in biotechnology or biopharmaceutical companies; and

(iv) has its principal place of operations in this State.]

(b) (1) Subject to PARAGRAPHS (2) AND (3) OF THIS SUBSECTION AND subsections (d) and (e) of this section, a qualified investor [or a qualified Maryland venture capital firm] may claim a credit against the State income tax in an amount equal to the AMOUNT OF TAX CREDIT STATED IN THE final credit certificate approved by the Secretary for an investment in a qualified Maryland biotechnology company as provided under this section.

(2) TO BE ELIGIBLE FOR THE TAX CREDIT DESCRIBED IN PARAGRAPH (1) OF THIS SUBSECTION, THE QUALIFIED INVESTOR SHALL BE:

(I) FOR A COMPANY, DULY ORGANIZED AND IN GOOD STANDING IN THE JURISDICTION UNDER THE LAWS UNDER WHICH IT IS ORGANIZED;

(II) FOR A COMPANY, IN GOOD STANDING AND AUTHORIZED OR REGISTERED TO DO BUSINESS IN THE STATE;

(III) CURRENT IN THE PAYMENT OF ALL TAX OBLIGATIONS TO THE STATE OR ANY UNIT OR SUBDIVISION OF THE STATE; AND

(IV) NOT IN DEFAULT UNDER THE TERMS OF ANY CONTRACT WITH, INDEBTEDNESS TO, OR GRANT FROM THE STATE OR ANY UNIT OR SUBDIVISION OF THE STATE.

(3) TO BE ELIGIBLE FOR THE TAX CREDIT DESCRIBED IN PARAGRAPH (1) OF THIS SUBSECTION, THE QUALIFIED INVESTOR MAY NOT~~3~~,

~~**(I) AFTER MAKING THE PROPOSED INVESTMENT, OWN OR CONTROL MORE THAN 25% OF THE EQUITY INTERESTS IN THE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY IN WHICH THE INVESTMENT IS TO BE MADE; OR,**~~

~~**(II) BEFORE MAKING THE PROPOSED INVESTMENT, BE:**~~

~~**1. A FOUNDER, A PRINCIPAL, AN OFFICER, OR A MEMBER OF OR A GENERAL PARTNER IN THE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY; OR**~~

~~**2. A PARENT, A SPOUSE, OR A CHILD OF ANY PERSON DESCRIBED IN ITEM 1 OF THIS ITEM.**~~

(c) (1) At least 30 days prior to making an investment in a qualified Maryland biotechnology company for which a qualified investor [or qualified Maryland venture capital firm] would be eligible for an initial tax credit certificate under subsection (b) of this section, the qualified investor [or qualified Maryland venture capital firm] shall submit an application to the Department.

(2) THE APPLICATION SHALL EVIDENCE THAT THE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY IS:

(I) IN GOOD STANDING;

(II) CURRENT IN THE PAYMENT OF ALL TAX OBLIGATIONS TO THE STATE OR ANY UNIT OR SUBDIVISION OF THE STATE; AND

(III) NOT IN DEFAULT UNDER THE TERMS OF ANY CONTRACT WITH, INDEBTEDNESS TO, OR GRANT FROM THE STATE OR ANY UNIT OR SUBDIVISION OF THE STATE.

~~(2)~~ **(3)** The Department shall:

(i) approve all applications that qualify for credits under this section on a first come first served basis; and

(ii) within 30 days of receipt of an application, certify the amount of any approved tax credits to a qualified investor [or qualified Maryland venture capital firm].

~~[(3)]~~ (4) (i) After the **DATE ON WHICH THE** Department [has issued] **ISSUES** an initial tax credit certificate under this section, a qualified investor [or qualified Maryland venture capital firm] shall have 30 **CALENDAR** days to make an investment in a qualified Maryland biotechnology company under this section.

(ii) Within 10 **CALENDAR** days [of making an investment in a qualified Maryland biotechnology company] **AFTER THE DATE ON WHICH A QUALIFIED INVESTOR MAKES THE INVESTMENT**, [a] **THE** qualified investor [or qualified Maryland venture capital firm] shall provide **TO THE DEPARTMENT** notice [to the Department] **AND PROOF OF THE MAKING OF THE INVESTMENT, INCLUDING:**

1. **THE DATE OF THE INVESTMENT;**
2. **THE AMOUNT INVESTED;**
3. **PROOF OF THE RECEIPT OF THE INVESTED FUNDS BY THE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY;**
4. **A COMPLETE DESCRIPTION OF THE NATURE OF THE OWNERSHIP INTEREST IN THE EQUITY OF THE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY ACQUIRED IN CONSIDERATION OF THE INVESTMENT; AND**
5. **ANY REASONABLE SUPPORTING DOCUMENTATION THE DEPARTMENT MAY REQUIRE.**

(iii) If a qualified investor [or qualified Maryland venture capital firm] does not provide the notice **AND PROOF OF THE MAKING OF THE INVESTMENT** required in subparagraph (ii) of this paragraph within [30 days] **40 CALENDAR DAYS** after the [issuance of] **DATE ON WHICH THE DEPARTMENT ISSUES** an initial tax credit certificate under this section[,];

1. the Department shall rescind the **INITIAL TAX CREDIT** certificate; **AND**

2. THE CREDIT AMOUNT ALLOCATED TO THE RESCINDED CERTIFICATE SHALL REVERT TO THE MARYLAND BIOTECHNOLOGY INVESTMENT TAX CREDIT RESERVE FUND AND SHALL BE AVAILABLE IN THE APPLICABLE FISCAL YEAR FOR ALLOCATION BY THE DEPARTMENT TO OTHER INITIAL TAX CREDIT CERTIFICATES IN ACCORDANCE WITH THE PROVISIONS OF THIS SECTION.

(d) (1) The tax credit allowed in an initial tax credit certificate issued under this section is 50% of the investment in a qualified Maryland biotechnology company, not to exceed[:

- (i) \$50,000 for a qualified investor that is an individual;
- (ii) \$250,000 for a qualified investor that is a corporation; or
- (iii) \$250,000 for a qualified Maryland venture capital firm]

\$250,000.

(2) DURING ANY FISCAL YEAR, THE SECRETARY MAY NOT CERTIFY ELIGIBILITY FOR TAX CREDITS FOR INVESTMENTS IN A SINGLE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY THAT IN THE AGGREGATE EXCEED 15% OF THE TOTAL APPROPRIATIONS TO THE MARYLAND BIOTECHNOLOGY INVESTMENT TAX CREDIT RESERVE FUND FOR THAT FISCAL YEAR.

[(2)] (3) If the tax credit allowed under this section in any taxable year exceeds the total tax otherwise payable by the qualified investor [or qualified Maryland venture capital firm] for that taxable year, the qualified investor [or qualified Maryland venture capital firm] may claim a refund in the amount of the excess.

(e) (1) In this subsection, "Reserve Fund" means the Maryland Biotechnology Investment Tax Credit Reserve Fund established under paragraph (2) of this subsection.

(2) (i) There is a Biotechnology Investment Tax Credit Reserve Fund which is a special continuing, nonlapsing fund that is not subject to § 7-302 of the State Finance and Procurement Article.

(ii) The money in the Fund shall be invested and reinvested by the Treasurer, and interest and earnings shall be credited to the General Fund.

(3) (i) Subject to the provisions of this subsection, the Secretary shall issue an initial tax credit certificate for each approved investment in a qualified Maryland biotechnology company eligible for a tax credit.

(ii) An initial tax credit certificate issued under this subsection shall state the maximum amount of tax credit for which the qualified investor [or qualified Maryland venture capital firm] is eligible.

(iii) 1. Except as otherwise provided in this subparagraph, for any fiscal year, the Secretary may not issue initial tax credit certificates for credit amounts in the aggregate totaling more than the amount appropriated to the Reserve Fund for that fiscal year in the State budget as approved by the General Assembly.

2. If the aggregate credit amounts under initial tax credit certificates issued in a fiscal year total less than the amount appropriated to the Reserve Fund for that fiscal year, any excess amount shall remain in the Reserve Fund and may be issued under initial tax credit certificates for the next fiscal year.

3. For any fiscal year, if funds are transferred from the Reserve Fund under the authority of any provision of law other than under paragraph (4) of this subsection, the maximum credit amounts in the aggregate for which the Secretary may issue initial tax credit certificates shall be reduced by the amount transferred.

(iv) For each fiscal year, the Governor shall include in the budget bill an appropriation to the Reserve Fund.

(v) Notwithstanding the provisions of § 7-213 of the State Finance and Procurement Article, the Governor may not reduce an appropriation to the Reserve Fund in the State budget as approved by the General Assembly.

(vi) Based on the actual amount of an investment made by a qualified investor [or a qualified Maryland venture capital firm], the Secretary shall issue a final tax credit certificate to the qualified investor [or qualified Maryland venture capital firm].

(vii) A qualified investor [or a qualified Maryland venture capital firm] may redeem a final tax credit certificate for a taxable year beginning after December 31, 2006.

(4) (i) Except as provided in this paragraph, money appropriated to the Reserve Fund shall remain in the Fund.

(ii) 1. Within 15 days after the end of each calendar quarter, the Department shall notify the Comptroller as to each final credit certificate issued during the quarter:

A. the maximum credit amount stated in the initial tax credit certificate for the investment; and

B. the final certified credit amount for the investment.

2. On notification that an investment has been certified, the Comptroller shall transfer an amount equal to the credit amount stated in the initial tax credit certificate for the investment from the Reserve Fund to the General Fund.

(f) (1) The credit claimed under this section shall be recaptured as provided in paragraph (2) of this subsection if, within 2 years from the close of the taxable year in which the credit is approved, ~~the~~

(I) THE qualified investor sells, transfers, or otherwise disposes of the ownership interest in the qualified Maryland biotechnology company that gave rise to the credit; **OR**

(II) THE QUALIFIED MARYLAND BIOTECHNOLOGY COMPANY THAT GAVE RISE TO THE CREDIT CEASES OPERATING AS AN ACTIVE BUSINESS WITH ITS HEADQUARTERS AND BASE OF OPERATIONS IN THE STATE.

(2) The amount required to be recaptured under this subsection is the product of multiplying:

(i) **THE TOTAL AMOUNT OF THE CREDIT CLAIMED OR, IN THE CASE OF AN EVENT DESCRIBED IN PARAGRAPH (1)(I) OF THIS SUBSECTION,** the portion of the credit attributable to the ownership interest disposed of ~~as described in paragraph (1) of this subsection~~; and

(ii) 1. 100%, if the ~~disposition~~ **EVENT REQUIRING RECAPTURE OF THE CREDIT** occurs during the taxable year in which the tax credit is approved;

2. 67%, if the ~~disposition~~ **EVENT REQUIRING RECAPTURE OF THE CREDIT** occurs during the first year after the close of the taxable year for which the tax credit is approved; or

3. 33%, if the ~~disposition~~ **EVENT REQUIRING RECAPTURE OF THE CREDIT** occurs more than 1 year but not more than 2 years after the close of the taxable year for which the tax credit is approved.

(3) The qualified investor [or a qualified Maryland venture capital firm] that claimed the credit shall pay the amount to be recaptured as determined

under paragraph (2) of this subsection as taxes payable to the State for the taxable year in which the ~~disposition~~ **EVENT REQUIRING RECAPTURE OF THE CREDIT** ~~described under paragraph (1) of this subsection~~ occurs.

(g) (1) The Department may revoke its **INITIAL OR FINAL** certification of an approved credit under this section if any representation in connection with the application for the certification [proves] **IS DETERMINED BY THE DEPARTMENT** to have been false when made.

(2) The revocation may be in full or in part as the Department may determine and, subject to paragraph (3) of this subsection, shall be communicated to the qualified investor[, the qualified Maryland venture capital firm,] and the Comptroller.

(3) The qualified investor [or a qualified Maryland venture capital firm] shall have an opportunity to appeal any revocation to the Department prior to notification of the Comptroller.

(4) The Comptroller may make an assessment against the qualified investor [or a qualified Maryland venture capital firm] to recapture any amount of tax credit that the qualified investor [or a qualified Maryland venture capital firm] has already claimed.

(h) (1) On or before January 10 of each year, the Department shall report to the Governor and, subject to § 2-1246 of the State Government Article, to the General Assembly, on the initial tax credit certificates awarded under this section for the prior calendar year.

(2) The report required under paragraph (1) of this subsection shall include for each initial tax credit certificate awarded:

(i) the name of the qualified investor [or the name of the qualified Maryland venture capital firm] and the amount of credit awarded or allocated to each investor [or firm];

(ii) the name and address of the qualified Maryland biotechnology company that received the investment giving rise to the credit under this section and the county where the qualified Maryland biotechnology company is located; and

(iii) the dates of receipt and approval by the Department of all applications for initial tax credit certificates.

(3) The report required under paragraph (1) of this subsection shall summarize for the category of qualified investors [and qualified Maryland venture capital firms]:

(i) the total number of applicants for initial tax credit certificates under this section in each calendar year;

(ii) the number of applications for which initial tax credit certificates were issued in each calendar year; and

(iii) the total initial tax credit certificates authorized under this section for all calendar years under this section.

(i) The Department and the Comptroller jointly shall adopt regulations to carry out the provisions of this section **AND TO SPECIFY CRITERIA AND PROCEDURES FOR APPLICATION FOR, APPROVAL OF, AND MONITORING CONTINUING ELIGIBILITY FOR THE TAX CREDIT UNDER THIS SECTION.**

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 2008, and shall be applicable to all taxable years beginning after December 31, 2008.

Approved by the Governor, May 13, 2008.