

HOUSE BILL 587

Q3

11r0775
CF SB 485

By: **Delegate Feldman**

Introduced and read first time: February 9, 2011

Assigned to: Ways and Means

A BILL ENTITLED

1 AN ACT concerning

2 **Biotechnology Investment Tax Credit – Application and Approval**
3 **Procedures**

4 FOR the purpose of requiring that an application for the biotechnology investment tax
5 credit state the amount of the proposed investment; modifying the application
6 approval process under the credit to treat all first-day applicants as if
7 applications were delivered simultaneously for purposes of distributing the tax
8 credit; repealing a certain limitation on the credit allowed to a qualified
9 investor; altering a certain recapture provision under the credit; defining a
10 certain term and modifying a certain definition under the credit; providing for
11 the application of this Act; and generally relating to the Maryland
12 Biotechnology Investment Tax Credit.

13 BY repealing and reenacting, with amendments,
14 Article – Tax – General
15 Section 10–725
16 Annotated Code of Maryland
17 (2010 Replacement Volume)

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

20 **Article – Tax – General**

21 10–725.

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

23 (2) “Biotechnology company” means a company organized for profit
24 that is primarily engaged in the research, development, or commercialization of
25 innovative and proprietary technology that comprises, interacts with, or analyzes

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 biological material including biomolecules (DNA, RNA, or protein), cells, tissues, or
2 organs.

3 (3) (i) “Company” means any entity of any form duly organized and
4 existing under the laws of any jurisdiction for the purpose of conducting business for
5 profit.

6 (ii) “Company” does not include a sole proprietorship.

7 (4) “Department” means the Department of Business and Economic
8 Development.

9 (5) (i) “Investment” means the contribution of money in cash or
10 cash equivalents expressed in United States dollars, at a risk of loss, to a qualified
11 Maryland biotechnology company in exchange for stock, a partnership or membership
12 interest, or other ownership interest in the equity of the qualified Maryland
13 biotechnology company, title to which ownership interest shall vest in the qualified
14 investor.

15 (ii) “Investment” does not include debt.

16 (iii) For purposes of this section, an investment is at risk of loss
17 when its repayment entirely depends upon the success of the business operations of
18 the qualified company.

19 (6) (i) “Qualified investor” means any individual or entity that
20 invests at least \$25,000 in a qualified Maryland biotechnology company and that is
21 required to file an income tax return in any jurisdiction.

22 (ii) “Qualified investor” does not include a qualified pension
23 plan, individual retirement account, or other qualified retirement plan under the
24 Employee Retirement Income Security Act of 1974, as amended, or fiduciaries or
25 custodians under such plans, or similar tax-favored plans or entities under the laws of
26 other countries.

27 (7) (i) “Qualified Maryland biotechnology company” means a
28 biotechnology company that:

29 1. has its headquarters and base of operations in this
30 State;

31 2. has fewer than 50 full-time employees;

32 3. except as provided in subparagraph (ii) of this
33 paragraph, has been in active business no longer than 10 years;

34 4. does not have its securities publicly traded on any
35 exchange; and

1 5. has been certified as a biotechnology company by the
2 Department.

3 (ii) “Qualified Maryland biotechnology company” includes:

4 1. a company that has been in active business for up to
5 12 years if the Department determines that the company requires additional time to
6 complete the process of regulatory approval; AND

7 2. **FOR FISCAL YEARS 2012, 2013, AND 2014 ONLY, A**
8 **COMPANY THAT HAS BEEN IN ACTIVE BUSINESS FOR UP TO 15 YEARS.**

9 **(8) “SECRETARY” MEANS THE SECRETARY OF BUSINESS AND**
10 **ECONOMIC DEVELOPMENT.**

11 (b) (1) Subject to paragraphs (2) and (3) of this subsection and subsections
12 (d) and (e) of this section, for the taxable year in which an investment in a qualified
13 Maryland biotechnology company is made, a qualified investor may claim a credit
14 against the State income tax in an amount equal to the amount of tax credit stated in
15 the final credit certificate approved by the Secretary for the investment as provided
16 under this section.

17 (2) To be eligible for the tax credit described in paragraph (1) of this
18 subsection, the qualified investor shall be:

19 (i) for a company, duly organized and in good standing in the
20 jurisdiction under the laws under which it is organized;

21 (ii) for a company, in good standing and authorized or registered
22 to do business in the State;

23 (iii) current in the payment of all tax obligations to the State or
24 any unit or subdivision of the State; and

25 (iv) not in default under the terms of any contract with,
26 indebtedness to, or grant from the State or any unit or subdivision of the State.

27 (3) To be eligible for the tax credit described in paragraph (1) of this
28 subsection, the qualified investor may not, after making the proposed investment, own
29 or control more than 25% of the equity interests in the qualified Maryland
30 biotechnology company in which the investment is to be made.

31 (c) (1) **(I)** At least 30 days prior to making an investment in a
32 qualified Maryland biotechnology company for which a qualified investor would be
33 eligible for an initial tax credit certificate under subsection (b) of this section, the
34 qualified investor shall submit an application to the Department.

1 **(II) THE APPLICATION SHALL STATE THE AMOUNT OF THE**
2 **PROPOSED INVESTMENT.**

3 (2) The application shall evidence that the qualified Maryland
4 biotechnology company is:

5 (i) in good standing;

6 (ii) current in the payment of all tax obligations to the State or
7 any unit or subdivision of the State; and

8 (iii) not in default under the terms of any contract with,
9 indebtedness to, or grant from the State or any unit or subdivision of the State.

10 (3) **(I) [The] SUBJECT TO SUBPARAGRAPH (II) OF THIS**
11 **PARAGRAPH, THE** Department shall:

12 **[(i)] 1.** approve all applications that qualify for credits under
13 this section on a first come first served basis; and

14 **[(ii)] 2.** within 30 **CALENDAR** days of receipt of an
15 application, **[certify the amount of any approved tax credits] ISSUE AN INITIAL TAX**
16 **CREDIT CERTIFICATE** to a qualified investor.

17 **(II) 1. FOR EACH FISCAL YEAR, THE DEPARTMENT**
18 **SHALL DESIGNATE THE FIRST DAY AND TIMES DURING WHICH APPLICATIONS**
19 **WILL BE ACCEPTED.**

20 **2. THE DEPARTMENT SHALL TREAT ALL**
21 **APPLICATIONS RECEIVED ON THE DESIGNATED FIRST DAY AS BEING RECEIVED**
22 **SIMULTANEOUSLY FOR PURPOSES OF APPROVAL.**

23 (4) (i) After the date on which the Department issues an initial tax
24 credit certificate under this section, a qualified investor shall have 30 calendar days to
25 make an investment in a qualified Maryland biotechnology company under this
26 section.

27 (ii) Within 10 calendar days after the date on which a qualified
28 investor makes the investment, the qualified investor shall provide to the Department
29 notice and proof of the making of the investment, including:

30 1. the date of the investment;

31 2. the amount invested;

1 3. proof of the receipt of the invested funds by the
2 qualified Maryland biotechnology company;

3 4. a complete description of the nature of the ownership
4 interest in the equity of the qualified Maryland biotechnology company acquired in
5 consideration of the investment; and

6 5. any reasonable supporting documentation the
7 Department may require.

8 (iii) If a qualified investor does not provide the notice and proof
9 of the making of the investment required in subparagraph (ii) of this paragraph within
10 40 calendar days after the date on which the Department issues an initial tax credit
11 certificate under this section:

12 1. the Department shall rescind the initial tax credit
13 certificate; and

14 2. the credit amount allocated to the rescinded
15 certificate shall revert to the Maryland Biotechnology Investment Tax Credit Reserve
16 Fund and shall be available in the applicable fiscal year for allocation by the
17 Department to other initial tax credit certificates in accordance with the provisions of
18 this section.

19 (d) (1) **[The] SUBJECT TO SUBSECTION (D-1) OF THIS SECTION, THE**
20 tax credit allowed in an initial tax credit certificate issued under this section is 50% of
21 the **PROPOSED** investment in a qualified Maryland biotechnology company[,not to
22 exceed \$250,000].

23 (2) During any fiscal year, the Secretary may not certify eligibility for
24 tax credits for investments in a single qualified Maryland biotechnology company that
25 in the aggregate exceed 15% of the total appropriations to the Maryland Biotechnology
26 Investment Tax Credit Reserve Fund for that fiscal year.

27 (3) If the tax credit allowed under this section in any taxable year
28 exceeds the total tax otherwise payable by the qualified investor for that taxable year,
29 the qualified investor may claim a refund in the amount of the excess.

30 **(D-1) (1) IF THE AMOUNT OF TAX CREDITS APPLIED FOR BY ALL**
31 **QUALIFIED INVESTORS SUBMITTING APPLICATIONS ON THE FIRST DAY ON**
32 **WHICH APPLICATIONS ARE ACCEPTED FOR A FISCAL YEAR EXCEEDS THE**
33 **MAXIMUM AMOUNT SPECIFIED UNDER SUBSECTION (E) OF THIS SECTION:**

34 **(I) WITHIN 30 CALENDAR DAYS OF RECEIPT OF AN**
35 **APPLICATION THE DEPARTMENT SHALL ISSUE A PRELIMINARY INITIAL TAX**
36 **CREDIT CERTIFICATE TO EACH FIRST-DAY APPLICANT THAT STATES A MINIMUM**

1 TAX CREDIT AVAILABLE, EQUAL TO THE PRODUCT OF MULTIPLYING 50% OF THE
2 APPLICANT'S PROPOSED INVESTMENT TIMES A FRACTION:

3 1. THE NUMERATOR OF WHICH IS THE MAXIMUM
4 AMOUNT SPECIFIED UNDER SUBSECTION (E) OF THIS SECTION; AND

5 2. THE DENOMINATOR OF WHICH IS 50% OF THE
6 TOTAL OF THE PROPOSED INVESTMENTS BY ALL QUALIFIED INVESTORS THAT
7 SUBMITTED APPLICATIONS ON THE FIRST DAY; AND

8 (II) THE DEPARTMENT SHALL ISSUE A REVISED INITIAL TAX
9 CREDIT CERTIFICATE TO EACH FIRST-DAY APPLICANT BASED ON THE ACTUAL
10 AMOUNTS INVESTED BY FIRST-DAY APPLICANTS, AS REFLECTED IN THE NOTICE
11 AND PROOF OF MAKING THE INVESTMENT REQUIRED UNDER SUBSECTION
12 (C)(4)(II) OF THIS SECTION, THAT STATES THE APPLICANT'S FINAL TAX CREDIT
13 EQUAL TO THE PRODUCT OF MULTIPLYING 50% OF THE APPLICANT'S ACTUAL
14 INVESTMENT TIMES A FRACTION:

15 1. THE NUMERATOR OF WHICH IS THE MAXIMUM
16 AMOUNT SPECIFIED UNDER SUBSECTION (E) OF THIS SECTION; AND

17 2. THE DENOMINATOR OF WHICH IS THE LESSER OF
18 THE MAXIMUM AMOUNT SPECIFIED UNDER SUBSECTION (E) OF THIS SECTION
19 AND 50% OF THE TOTAL OF THE ACTUAL INVESTMENTS MADE BY ALL
20 FIRST-DAY APPLICANTS.

21 (2) IF THE MAXIMUM AMOUNT SPECIFIED UNDER SUBSECTION (E)
22 OF THIS SECTION IS GREATER THAN 50% OF THE TOTAL OF THE ACTUAL
23 INVESTMENTS MADE BY FIRST-DAY APPLICANTS, THE EXCESS SHALL BE
24 AVAILABLE FOR ALLOCATION TO OTHER INITIAL TAX CREDIT CERTIFICATES IN
25 ACCORDANCE WITH SUBSECTION (C)(4)(III)2 OF THIS SECTION.

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

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

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

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

4 (ii) **[An] SUBJECT TO SUBSECTION (D-1) OF THIS SECTION,**
5 **AN** initial tax credit certificate issued under this subsection shall state the maximum
6 amount of tax credit for which the qualified investor is eligible.

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

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

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

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

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

25 (vi) Based on the actual amount of an investment made by a
26 qualified investor, the Secretary shall issue a final tax credit certificate to the
27 qualified investor.

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

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

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

35 B. the final certified credit amount for the investment.

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

5 (f) (1) The credit claimed under this section shall be recaptured as
6 provided in paragraph (2) of this subsection if within 2 years from the close of the
7 taxable year for which the credit is claimed:

8 (i) the qualified investor sells, transfers, or otherwise disposes
9 of the ownership interest in the qualified Maryland biotechnology company that gave
10 rise to the credit **AND THE SECRETARY DETERMINES THAT THE SALE, TRANSFER,**
11 **OR DISPOSAL WILL RESULT IN A DECREASE IN FUTURE ECONOMIC ACTIVITY IN**
12 **MARYLAND;** or

13 (ii) the qualified Maryland biotechnology company that gave
14 rise to the credit [ceases operating as an active business with] **RELOCATES** its
15 headquarters and base of operations [in] **OUT OF** the State.

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

18 (i) the total amount of the credit claimed or, in the case of an
19 event described in paragraph (1)(i) of this subsection, the portion of the credit
20 attributable to the ownership interest disposed of; and

21 (ii) 1. 100%, if the event requiring recapture of the credit
22 occurs during the taxable year for which the tax credit is claimed;

23 2. 67%, if the event requiring recapture of the credit
24 occurs during the first year after the close of the taxable year for which the tax credit
25 is claimed; or

26 3. 33%, if the event requiring recapture of the credit
27 occurs more than 1 year but not more than 2 years after the close of the taxable year
28 for which the tax credit is claimed.

29 (3) The qualified investor that claimed the credit shall pay the amount
30 to be recaptured as determined under paragraph (2) of this subsection as taxes
31 payable to the State for the taxable year in which the event requiring recapture of the
32 credit occurs.

33 (g) (1) The Department may revoke its initial or final certification of an
34 approved credit under this section if any representation in connection with the
35 application for the certification is determined by the Department to have been false
36 when made.

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

4 (3) The qualified investor shall have an opportunity to appeal any
5 revocation to the Department prior to notification of the Comptroller.

6 (4) The Comptroller may make an assessment against the qualified
7 investor to recapture any amount of tax credit that the qualified investor has already
8 claimed.

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

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

15 (i) the name of the qualified investor and the amount of credit
16 awarded or allocated to each investor;

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

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

23 (3) The report required under paragraph (1) of this subsection shall
24 summarize for the category of qualified investors:

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

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

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

31 (i) The Department and the Comptroller jointly shall adopt regulations to
32 carry out the provisions of this section and to specify criteria and procedures for
33 application for, approval of, and monitoring continuing eligibility for the tax credit
34 under this section.

1 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
2 June 1, 2011, and shall be applicable to initial tax credit certificates issued under the
3 Maryland Biotechnology Investment Tax Credit for fiscal years beginning on or after
4 July 1, 2011.