This bill creates a refundable credit against the State income tax for certain cybersecurity expenses incurred by a small business. The bill takes effect July 1, 2022, and applies to tax years 2022 and beyond.

**Fiscal Summary**

**State Effect:** General fund revenues will decrease significantly beginning in FY 2023 due to credits claimed against the State income tax. General fund expenditures increase by $40,000 in FY 2023 due to one-time implementation costs at the Comptroller’s Office.

**Local Effect:** None.

**Small Business Effect:** Meaningful, as small businesses will benefit from the proposed tax credit.

**Analysis**

**Bill Summary:** In order to qualify, a business must employ 50 or fewer employees. The amount of the tax credit is equal to 100% of the eligible expenses incurred in the tax year, not to exceed (1) $1,000 for an initial cybersecurity risk assessment and the costs to implement the recommendations of the assessment and (2) $500 for recurring cybersecurity measures including risk assessments, antivirus software, multifactor authentication, and data encryption.
A business claiming the credit must include documentation of the qualified costs incurred during the year.

**Current Law:** A qualified buyer who purchases cybersecurity technology or a cybersecurity service from a Maryland company that meets specified requirements can claim a State income tax credit equal to 50% of the costs incurred to purchase the technology or service. A qualified buyer is any entity that has fewer than 50 employees in the State and is required to file a State income tax return. The Department of Commerce may not certify purchases from a single cybersecurity company that total more than $200,000 of tax credits in a tax year. The purchase must be made from a cybersecurity company that meets specified criteria, including that the company (1) has its headquarters and base of operations in the State; (2) has less than $5.0 million in annual revenue; (3) is a minority-owned, woman-owned, veteran-owned, or service-disabled veteran-owned business or is located in a historically underutilized business zone designated by the United States Small Business Administration; and (4) owns or has properly licensed any proprietary cybersecurity technology or provides a cybersecurity service. The Secretary of Commerce may approve a total of $4.0 million in tax credits each year and must award 25% of the total tax credits awarded to qualified buyers that purchase cybersecurity services.

**State Revenues:** Tax credits may be claimed beginning in tax year 2022. As a result, general fund revenues decrease significantly beginning in fiscal 2023. Based on the requirements of the bill and data on Maryland small businesses, the Comptroller’s Office estimates that general fund revenues will decrease by about $50.0 million annually beginning in fiscal 2023.

**State Expenditures:** The Comptroller’s Office reports that it will incur a one-time general fund expenditure increase of $40,000 in fiscal 2023 to add the tax credit to the income tax forms. This includes changes to the income tax return processing and imaging systems and systems testing.

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**Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** None.

**Information Source(s):** Comptroller’s Office; Department of Legislative Services
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Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510