SB 427

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 427 (The President, *et al.*) (By Request - Administration)

Budget and Taxation and Finance

Economic Development - Delivering Economic Competitiveness and Advancing Development Efforts (DECADE) Act

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This Administration bill takes various actions to streamline and update the State's economic development programs. In general, the bill (1) targets support for high potential industry sectors; (2) streamlines, transfers, and/or rebrands specified programs; and (3) repeals, sunsets, or enhances other specified programs, entities, and tax credits. **The bill generally takes effect July 1, 2025. Provisions affecting specified tax credits apply to tax year 2025 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease by $2.8 million in FY 2026, escalating to $18.8 million in FY 2030, due to tax credit changes. General fund expenditures and general/special fund expenditures shown below are due to program extensions. Special fund revenues and expenditures shown below are due to tax credit changes. Nonbudgeted revenues and expenditures are also affected (not shown). **This bill reestablishes a mandated appropriation beginning in FY 2027.**

($ in millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF Revenue	($2.8)	($7.2)	($17.2)	($17.2)	($18.8)
SF Revenue	($0.8)	($2.4)	($4.4)	($4.4)	($4.8)
GF Expenditure	$0	$0	$10.0	$10.0	$10.0
SF Expenditure	($0.1)	($0.4)	($0.5)	($0.5)	($0.6)
GF/SF Exp.	$2.0	$2.0	$2.0	$2.0	$2.0
Net Effect	($5.5)	($11.2)	($33.1)	($33.1)	($35.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local governments are affected, as discussed below.

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary/Current Law: A discussion of each provision in the bill is provided in **Appendix A**.

Background: The Administration advises that the bill is part of a broad-based effort to reinvigorate the State's approach to economic development. Specific changes in the bill seek to enhance the State's economic development programs by restructuring, relocating, rebranding, and, when necessary, eliminating certain programs to maximize investment returns.

State Fiscal Effect: The impact on State finances and operations is included in the discussion of each provision in Appendix A. There may be other relatively minor or incidental implementation costs for various State agencies not captured in the individual discussions below.

Local Fiscal Effect: Several provisions in the bill affect local government finances. The impact on local jurisdictions is included in the discussion of each provision in Appendix A. Most effects are due to receiving different levels of funding through various State economic development programs and changes to local highway user revenues from changes to tax credits claimed against the corporate income tax.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 498 (The Speaker, *et al.*) (By Request - Administration) - Ways and Means and Appropriations.

Information Source(s): Department of Commerce; Governor's Office of Small, Minority, and Women Business Affairs; Maryland Economic Development Corporation; Maryland Technology Development Corporation; Comptroller's Office; Maryland State Department of Education; University System of Maryland; Morgan State University; Department of Budget and Management; Maryland Department of the Environment; Department of Housing and Community Development; Maryland Department of Labor; Maryland Department of Planning; Board of Public Works; Maryland Department of Transportation; Department of Veterans and Military Families; Department of Legislative Services

Fiscal Note History: First Reader - March 3, 2025
js/jrb

Analysis by: Stephen M. Ross and Elizabeth J. Allison

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Appendix A – Individual Provisions

Repeal Maryland Economic Development Commission

Provisions in the Bill: Repeal the Maryland Economic Development Commission (MEDC) and make related conforming changes.

Agency: Department of Commerce

State Effect: Minimal or none.

Local Effect: None.

Program Description: The purpose of MEDC is to (1) establish economic development policy in the State; (2) advise the Secretary of Commerce on economic development policy in the State; (3) oversee the operations of Commerce and its units, including the department's efforts to support the creation of, attract, and retain businesses and jobs; and (4) monitor the operations of other specified State economic development entities. Among other duties, MEDC must develop and update an economic development strategic plan for the State and recommend to the Governor the program and spending priorities needed to implement the plan.

Location of Provisions in the Bill: Section 2 (pp. 6-7, pp. 9-12)

Analysis prepared by: Stephen M. Ross

Standardize Target Industry Sectors

Provision in the Bill: Requires the Department of Commerce to evaluate the potential employment and economic growth of Maryland's industry sectors and (1) establish a list of industry sectors and activities to be considered for additional investment and support from the department; (2) recommend other agencies consider prioritizing the sectors and activities through those agencies' policies and programs; and (3) publish the list on its website. These industry sectors are referenced by other programs in the bill, as discussed under other provisions.

Agency: Commerce

State Effect: Commerce can establish the list of industry sectors and activities, recommend other agencies consider prioritizing the sectors and activities, and publish the list on its website with existing budgeted resources. Effects of various programs prioritizing the industry sectors and/or activities are discussed under the relevant provisions.

Local Effect: None.

Program Description: Various economic development programs administered by Commerce restrict eligibility to certain industry sectors; Commerce is not required to adopt a standard list of industry sectors.

Location of Provision in the Bill: Section 2 (pp. 8-9)

Analysis prepared by: Stephen M. Ross

Alter Life Sciences Advisory Board Appointment Schedule

Provisions in the Bill: Alter the appointment schedule of the Maryland Life Sciences Advisory Board (LSAB), increase the term from two years to three years, and stagger the terms.

Agency: Department of Commerce

State Effect: Minimal or none.

Local Effect: None.

Program Description: The purpose of LSAB is to recommend State and federal policies, priorities, practices, and legislation to expedite the creation of private-sector jobs through the commercialization of life sciences research. Terms of appointment for members are two years. Members continue to serve until a successor is appointed and qualified.

Location of Provisions in the Bill: Section 2 (pp. 13-14) and Section 5 (p. 139)

Analysis prepared by: Stephen M. Ross

Repeal Partnership for Workforce Quality Advisory Board and Rename Program

Provisions in the Bill: Repeal the Partnership for Workforce Quality (PWQ) Advisory Board and rename the PWQ Program and Fund as the Talent Accelerator Grant Program and Fund.

Agency: Department of Commerce

State Effect: Minimal or none.

Local Effect: None.

Program Description: The purpose of the PWQ Program is to provide training services to (1) improve the competitiveness and productivity of the State's workforce and business community; (2) upgrade employee skills, or train new employees, for new technologies or production processes; and (3) assist employers located in the State in promoting employment stability. The PWQ Advisory Board advises the Secretary of Commerce and, among other duties, must submit recommendations to the Secretary concerning overall policy for the program.

Location of Provisions in the Bill: Section 2 (pp. 14-17)

Analysis prepared by: Stephen M. Ross

Sunset Maryland Economic Adjustment Fund

Provision in the Bill: Prohibits the Department of Commerce from approving an application for assistance from the Maryland Economic Adjustment Fund (MEAF) after June 30, 2025.

Agency: Commerce

State Effect: Special fund expenditures and revenues for MEAF decrease beginning in fiscal 2026 as grants and loans are no longer issued under the program. Commerce advises that revenues from outstanding program loans will be redirected to the Maryland Economic Inclusion Fund (currently, the Maryland Small Business Development Financing Authority), which has no net effect on special fund revenues for Commerce.

Local Effect: Minimal; programmatic activity has been limited in recent years.

Program Description: MEAF is a special, nonlapsing revolving fund that must be used to (1) make loans to new or existing companies with 50 or fewer employees; (2) make grants to local or regional governmental or nonprofit economic development revolving loan funds in the State; and (3) pay all expenses and reimbursements authorized by Commerce for administering the fund.

Location of Provision in the Bill: Section 2 (pp. 18-21)

Analysis prepared by: Stephen M. Ross

Alter and Rename Maryland Economic Development Assistance Authority and Fund

Provisions in the Bill: Repeal the Maryland Economic Development Assistance Authority and rename the Maryland Economic Development Assistance Fund (collectively, MEDAAF) as the Maryland Economic Competitiveness Fund. Repeal specified limits on financial assistance approved by the Secretary of Commerce and the authority. Repeal the requirement for a local government to provide a guarantee, matching funds, or both for a local economic development opportunity. Increase the limits on specified types of financial assistance. Repeal the requirement that the authority establish a list of eligible industry sectors and instead specify that eligible industry sectors are those established by the Department of Commerce (as described in a separate provision); retain the industries currently directly specified in statute. Repeal specific requirements for loans and allow the department to set the terms.

Agency: Commerce

State Effect: The provisions do not alter overall funding for MEDAAF and have minimal or no effect on State finances.

Local Effect: Local governments benefit from reduced requirements to receive funding but may be affected by different eligible industry sectors. The overall effect on any particular local government is likely limited.

Program Description: MEDAAF is Commerce's primary and most flexible tool for business financial assistance, with five capabilities, which are to provide:

- loans to businesses of up to $10.0 million for a significant economic development opportunity on a statewide or regional level;
- loans to businesses of up to $5.0 million, or conditional loans and grants to businesses of up to $2.0 million, for a local economic development opportunity;
- direct assistance to the Maryland Economic Development Corporation or a local jurisdiction for purposes such as land acquisition, infrastructure improvements, acquisition of fixed assets, and leasehold improvements;
- grants to regional or local revolving loan funds; and
- special purpose loans, including day care facilities, aquaculture, and brownfields.

Generally, businesses must be located within a priority funding area and an eligible industry sector. With few exceptions, assistance may not exceed 70% of total project costs.

Location of Provisions in the Bill: Section 2 (p. 18, pp. 21-36, pp. 116-117)

Analysis prepared by: Stephen M. Ross

Sunset Maryland Industrial Development Financing Authority

Provisions in the Bill: Disallow the Maryland Industrial Development Financing Authority (MIDFA) and the Secretary of Commerce to approve financial assistance from the Industrial Development Financing Fund or issuance of bonds under the MIDFA statute after June 30, 2025.

Agency: Department of Commerce

State Effect: Special fund expenditures and revenues for the Industrial Development Financing Fund decrease beginning in fiscal 2026 as programmatic activity ceases for the program.

Local Effect: None.

Program Description: MIDFA promotes significant economic development by providing financing support to manufacturing, industrial, and technology businesses located in or moving to Maryland. MIDFA does not provide direct loans but insures bonds, loans, and certain other types of transactions from financial institutions. The program promotes private-sector financing by providing insurance to transactions resulting in reduced credit risks and enabling better terms. Recipients generally must pay bond issuance fees and annual premiums on insured transactions.

Location of Provisions in the Bill: Section 2 (p. 36)

Analysis prepared by: Stephen M. Ross

Alter and Rename Maryland Small Business Development Financing Authority

Provisions in the Bill: Repeal the Maryland Small Business Development Financing Authority (MSBDFA) and related references; replace responsibilities for oversight and administration with the Department of Commerce. Repeal four separate special funds: (1) the Small Business Development Contract Financing Fund; (2) the Small Business Development Guaranty Fund; (3) the Equity Participation Investment Program Fund; and (4) the Small Business Surety Bond Fund. Establish the Economic Inclusion Fund as the successor to the four repealed funds, consisting of four generally equivalent programs. Increase specified maximum financial assistance amounts under the programs.

Authorize Commerce to contract for specified services, including a private Maryland corporation to administer some or all of the programs of the fund. Authorize Commerce to contract for and accept specified sources of funding and to take other specified administrative actions. Require that at least half of the annual appropriation to the Economic Inclusion Fund be reserved for business activities included in the list of industries developed by Commerce (as described in a separate provision). Increase related criminal penalties for defrauding the department.

Agency: Commerce

State Effect: The provisions do not alter overall funding for MSBDFA (renamed, under the bill, as the Equity Participation Investment Program Fund) and have minimal or no effect on State finances.

Local Effect: The provisions do not materially affect local government finances or operations.

Program Description: MSBDFA provides financing options for small businesses that are not able to qualify for financing from private lending institutions or are owned by socially and economically disadvantaged persons. Subject to specified conditions, Commerce may (and does) contract for and engage the services of some or all of the MSBDFA staff to administer the authority's programs. MSBDFA has four special funds in statute, listed above, that in practice already operate as programs.

Location of Provisions in the Bill: Section 2 (p. 18, pp. 36-71)

Analysis prepared by: Stephen M. Ross

Alter Military Personnel and Veteran-Owned Small Business No-Interest Loan Program

Provisions in the Bill: Narrow eligibility for the Military Personnel and Veteran-Owned Small Business No-Interest Loan Program to solely veteran-owned small business enterprises as certified by the Governor's Office of Small, Minority, and Women Business Affairs. Repeal required uses of loaned funds. Repeal requirement that the Maryland Department of Veterans and Military Families (DVMF) establish eligibility criteria for loans under the program.

Agency: Department of Commerce

State Effect: The provisions do not alter overall funding for the program and have minimal or no effect on State finances.

Local Effect: None.

Program Description: The Military Personnel and Veteran-Owned Small Business No-Interest Loan Program is administered by Commerce in consultation with DVMF. Eligible program loan applicants include (1) small businesses that employ military reservists and National Guard members called to active duty; (2) businesses owned by military reservists and National Guard members who are called to active duty; (3) veteran-owned small businesses; and (4) businesses employing a service-disabled veteran.

Loans must be made under the program for the purpose of (1) providing financial support to a business owned by a military reservist or National Guard member called to active duty or a small business that employs them; (2) making the home, motor vehicle, or place of employment of a veteran accessible to individuals with disabilities; and (3) defraying other necessary expenses, as determined by DVMF, incurred by a business that employs a service-disabled veteran, or a veteran-owned small business.

Location of Provisions in the Bill: Section 2 (pp. 71-74)

Analysis prepared by: Stephen M. Ross

Rename Maryland Small, Minority, and Women-Owned Businesses Account

Provision in the Bill: Renames the Maryland Small, Minority, and Women-Owned Businesses Account (SMWOBA) as the Reinvest for Success Account.

Agency: Department of Commerce

State Effect: None.

Local Effect: None.

Program Description: SMWOBA is used to provide loans and grants to small, minority, and women-owned businesses in the State. A small percentage of gross video lottery terminal proceeds is distributed to SMWOBA each fiscal year. Commerce then provides grants from SMWOBA to eligible fund managers – in practice, mostly a mixture of county development corporations and private firms. The fund managers then provide loans and grants to small, minority, and women-owned businesses in the State. Generally, grants are limited to $10,000 per recipient and, except in the case of certain disasters or emergencies, must be issued in conjunction with a loan.

Location of Provision in the Bill: Section 2 (p. 74)

Analysis prepared by: Stephen M. Ross

Prioritize Target Industry Sectors Under Industry 4.0 Technology Grant Program

Provision in the Bill: Requires the Department of Commerce to prioritize awarding grants to small or medium-sized enterprise manufacturers engaged in the sectors and activity included on the list established by the department (as described in a separate provision).

Agency: Commerce

State Effect: The provision does not alter overall funding for the program and has minimal or no effect on State finances.

Local Effect: None.

Program Description: The purpose of the Industry 4.0 Technology Grant Program is to assist small and medium-sized enterprise manufacturers in the purchase, implementation, and related employee training of "Industry 4.0 technology" and related infrastructure. "Industry 4.0 technology" means smart hardware and software manufacturing technologies. Subject to specified requirements, including the provision of matching funds, a competitive application process, and a small company set-aside, an eligible company may receive a grant of $25,000 to $500,000.

Location of Provision in the Bill: Section 2 (pp. 75-77)

Analysis prepared by: Stephen M. Ross

Alter Eligible Fields of Study Under Maryland E-Nnovation Initiative Program

Provisions in the Bill: Alter eligible fields of study under the Maryland E-Nnovation Initiative Program to those focused on the priority sectors and activities included on the list established by the Department of Commerce (as described in a separate provision). Repeal existing list of eligible scientific and technical fields and make conforming changes.

Agency: Commerce

State Effect: The provisions do not alter overall funding for the program and have minimal or no effect on State finances.

Local Effect: None.

Program Description: The Maryland E-Nnovation Initiative Program provides a State match to private funds to support research endowments in scientific and technical fields of study at nonprofit institutions of higher education. Eligible fields of study are those designated by the Maryland E-Nnovation Initiative Fund Authority that offer promising and significant economic impacts and the opportunity to develop clusters of technological innovation in the State, including specified fields such as the physical sciences, engineering, and cybersecurity.

Location of Provisions in the Bill: Section 2 (pp. 77-80)

Analysis prepared by: Stephen M. Ross

Alter and Transfer Commerce Programs to the Maryland Economic Development Corporation and Authorize Use of Funds for Administrative Expenses

Provisions in the Bill: Transfer the Regional Institution Strategic Enterprise (RISE) Zone Program and the Build Our Future Grant (BOFG) Pilot Program from the Department of Commerce to the Maryland Economic Development Corporation (MEDCO) and make conforming changes.

Authorize a RISE zone to be renewed for an additional 10 years, instead of five years. Alter eligibility requirements for rental assistance by removing the requirement that a business entity have a nexus with a qualified institution and be an active business for no more than seven years, but adding the requirement to be encompassed by the industry sectors and activities included on the list developed by Commerce (as described in a separate provision). Increase the maximum duration of rental assistance from three to five years. Allow a qualified institution, a county, a municipality, or an economic development entity that establishes a rental assistance program to receive funding without providing matching funds.

Limit awards under the BOFG Pilot Program to the industry sectors and activities included in the list developed by Commerce (as described in a separate provision). Repeal existing list of eligible technology sectors and make conforming changes. Require MEDCO to prioritize program applicants located in RISE zones. Extend termination date of BOFG Pilot Program from June 30, 2027, to June 30, 2030.

Authorize MEDCO to utilize up to 5% of the allocated appropriation for administrative costs for any project or program directed by MEDCO included in the State's operating or capital budget.

Agency: Commerce; MEDCO

State Effect: General fund expenditures for Commerce decrease by $10.75 million annually in fiscal 2026 and 2027 as the RISE Zone Program ($750,000) and BOFG Pilot Program ($10.0 million) are transferred to MEDCO. General fund expenditures for MEDCO increase correspondingly to reflect the transfer. General fund expenditures for MEDCO increase by $10.0 million annually from fiscal 2028 through 2030 as the BOFG Pilot Program is extended by three years. Up to 5% of the funding applicable to the transferred programs may be utilized by MEDCO for administrative expenses. Overall funding for the transferred programs is not directly affected.

Both programs have associated special funds for their administration. Accordingly, special fund revenues and expenditures for Commerce decrease while special fund revenues and expenditures for MEDCO increase coincident with the changes in general fund appropriations described above. Other changes are not anticipated to materially affect State finances or operations.

Local Effect: Local governments benefit from significant additional funding available under the BOFG Pilot Program from fiscal 2028 through 2030, but they may be affected by changes to program allocation criteria. Other changes are not anticipated to materially affect local government finances or operations.

Program Description:

Regional Institution Strategic Enterprise Zone Program

The purposes of the RISE Zone Program are to (1) access institutional assets that have a strong and demonstrated history of commitment to economic development and revitalization in the communities in which they are located and (2) incentivize the location of innovative start-up businesses based on technology developed, licensed, or poised for commercialization at or in collaboration with qualified Maryland institutions. Qualified institutions include institutions of higher education (public and private four-year institutions and community colleges), nonprofit organizations affiliated with federal agencies, and regional higher education centers. Businesses that are located within a zone and meet program requirements qualify for program benefits and priority consideration for specified State financial assistance programs.

The Secretary of Commerce designates RISE zones, subject to specified requirements, for a period of five years with an optional five-year renewal. Zones may not exceed 500 acres. Except for Baltimore City, which can have four RISE zones, no more than three RISE zones may be designated in a single county or municipality.

Chapters 206 and 207 of 2021 made significant modifications to the RISE Zone Program, most notably to the incentives offered. More specifically, a rental assistance grant program and enhanced investment incentive tax credits were established, while property tax credits were limited to businesses that located in a RISE zone before January 1, 2023, and income tax credits were ended after tax year 2022.

Under the rental assistance grant program, a qualified institution, county, and municipality, or the economic development agency of the local government may establish a program to provide rental assistance to a business that (1) moves into or locates in a RISE zone on or after the date of the zone designation; (2) has nexus with the qualified institution; and (3) has been in active business for a maximum of seven years. A business may receive funds under a program for a maximum of three years. Subject to available funding, Commerce must provide three times the amount of funding provided by the RISE zone entity’s rental assistance program.

Build Our Future Grant Pilot Program

Chapters 430 and 431 of 2023 established the BOFG Pilot Program and Fund in Commerce to provide grant funding for infrastructure projects intended to support innovation in eligible technology sectors. Under the program, grants of up to $2.0 million may be awarded to private companies, nonprofits, local governments, or colleges and universities in the State and may be used to defray specified costs associated with an eligible innovation infrastructure project. A grant recipient must provide matching funds of either 200% or 400%, depending on the size of the grant. Additional requirements are placed on grants to be used by colleges and universities. A single entity is limited to $2.0 million in grants in a fiscal year. The program terminates June 30, 2027.

Maryland Economic Development Corporation

MEDCO is a nonbudgeted entity created in 1984 by the General Assembly to assist business and governmental entities through ownership, financing, and development of real and personal property projects. MEDCO purchases or develops property that is leased to others and makes loans to companies throughout the State to maintain or develop facilities. MEDCO has broad powers to finance projects and most often is a conduit issuer of tax-exempt revenue bonds to an eligible tax-exempt borrower. MEDCO has also issued its bonds to finance its own projects, which it owns and operates. MEDCO-owned projects consist mostly of student housing projects. Generally, MEDCO debt is not debt of the State, and there is no implied State guaranty or State obligation to protect bondholders from losses.

Location of Provisions in the Bill: Section 1 (p. 6) and Section 2 (p. 18, pp. 80-94, p. 116, p. 117)

Analysis prepared by: Stephen M. Ross

Alter Maryland Technology Development Corporation Disinvestment Requirements

Provisions in the Bill: Require the Maryland Technology Development Corporation (TEDCO) to adopt regulations establishing responsibilities of its investment committee that include a process for considering remedies, including disinvestment, for investments in a business that no longer meets the definition of a qualified business. Alter provisions related to equity disinvestment to allow, rather than require, disinvestment and to also allow for another remedy that is in TEDCO's best interest.

Agency: TEDCO

State Effect: While financial returns to TEDCO may increase, the provisions are not anticipated to materially affect State finances.

Local Effect: None.

Program Description: TEDCO is an independent entity established by the Maryland General Assembly in 1998 to enhance the transfer of technology from universities and federal laboratories to the private sector and foster the growth of companies in critical or high-growth sectors. TEDCO investments must meet statutory eligibility criteria that generally require a business to have and subsequently maintain a presence in the State. TEDCO programs typically assist companies based on a company's stage of development, from early stage and technology transfer to growth stage.

TEDCO must adopt regulations establishing an investment committee, its responsibilities, and the procedures for appointing its members. TEDCO must divest itself of an equity investment within 15 years.

Location of Provisions in the Bill: Section 2 (pp. 94-97)

Analysis prepared by: Stephen M. Ross

Expand Tax Increment Financing Authorities

Provisions in the Bill: Allow the Maryland Economic Development Corporation (MEDCO) to finance the cost of infrastructure improvements located in or supporting a project allowable under the Build Our Future Grant Pilot Program (transferred to MEDCO by the bill in a separate provision). Authorize tax increment financing (TIF) bonds to be used for specified structures that support the retention, expansion, or attraction of business activities developed by the Department of Commerce (as described in a separate provision). Expand eligible use of TIF bonds in Regional Institution Strategic Enterprise (RISE) zones to explicitly include sensitive compartmented information facilities.

Agency: Commerce; MEDCO

State Effect: Nonbudgeted revenues and expenditures for MEDCO increase, potentially significantly, beginning in fiscal 2026 to the extent MEDCO finances additional projects as authorized.

Local Effect: Local government revenues and expenditures may increase, potentially significantly, beginning in fiscal 2026 as local revenues are raised, pledged to TIF special accounts, and used for eligible purposes – including payment of local debt service and MEDCO obligations.

Program Description: All counties and municipalities in Maryland are authorized to utilize TIF under Title 12, Subtitle 2 of the Economic Development Article (the Tax Increment Financing Act). In Baltimore City, the authority to use TIF is provided in the city charter. Counties and municipalities (including Baltimore City) may issue bonds to finance the development of an industrial, commercial, or residential area.

TIF is a public financing method that uses future gains in tax revenues to finance current improvements. The increase in the property tax revenue generated by new commercial development in a specific area, the TIF district, pays for bonds issued to finance site improvements, infrastructure, and other project costs located on public property. In a TIF district, the local government "freezes" the existing property tax base and uses the property tax revenue from this base as it would normally use such funds. The difference between the current tax base and the frozen base in each future year is termed the incremental valuation. The local government apportions the property tax revenue on the incremental valuation to a special account for certain purposes including to pay debt service on the bonds and to potentially pay for additional public expenditures in the TIF district. The TIF district ceases to exist upon the retirement of the bonds, and after that time, all property tax revenue may be appropriated by normal means.

Subject to specified requirements, a local government may also pledge alternative local tax revenues or other alternative revenues into a special account to (1) secure the payment of debt service on bonds or MEDCO obligations or (2) be applied to the other eligible purposes under the Tax Increment Financing Act. Alternative revenues may also be pledged to support the Strategic Infrastructure Revolving Loan Fund.

"MEDCO obligation" means a bond, note, or other similar instrument that MEDCO issues under authority other than the Tax Increment Financing Act to finance the cost of infrastructure improvements located in or supporting a transit-oriented development, a sustainable community, a RISE zone, or a State hospital redevelopment.

Location of Provisions in the Bill: Section 2 (pp. 97-100)

Analysis prepared by: Stephen M. Ross

Waive Annual Filing Fee for Targeted Industry Businesses in Regional Institution Strategic Enterprise Zones

Provision in the Bill: Beginning in fiscal 2026, requires the State Department of Assessments and Taxation (SDAT) to waive the filing fee for a business entity for each year that the entity provides evidence to the department that it (1) has located within a Regional Institution Strategic Enterprise (RISE) zone within three years of the date by which the filing fee is due and (2) is encompassed by the industry sectors and activities included on the list developed by the Department of Commerce (as described in a separate provision).

Agency: SDAT

State Effect: General fund revenues decrease by an unknown but likely modest amount beginning in fiscal 2026 from reduced filing fees. The amount depends on the number of eligible businesses located in RISE zones and the proportion of those businesses that provide evidence to SDAT of their eligibility. General fund expenditures may also increase minimally for SDAT implementation costs.

Local Effect: None.

Program Description: Business entities in the State are required to file an annual report along with a reporting fee with SDAT by April 15, regardless of whether the business owns property, generates income, or has conducted business activity in the State during the preceding year. Failure to file the annual report may result in the business entity losing the right to conduct business in Maryland. The fee is generally $300.

Location of Provision in the Bill: Section 2 (p. 100)

Analysis prepared by: Stephen M. Ross

Alter Child Care Capital Support Revolving Loan Fund

Provisions in the Bill: Alter the Child Care Capital Support Revolving Loan Fund by (1) limiting eligibility for loans provided for renovations, as specified; (2) generally, changing the *maximum* five-year duration of loans from the fund to a *minimum* five-year duration; (3) allowing up to $50,000 of a loan provided to a family child care home or large family child care home to be converted to a grant in specified circumstances; (4) requiring the Department of Commerce, and not the Maryland State Department of Education (MSDE), to prioritize specified applicant criteria when providing funding from the fund; and (5) altering prioritization criteria and allowing for temporary reprioritization of those criteria, as specified. Establish that the top prioritization is for providers that will increase the number of available child care slots the provider may offer, followed by child care providers that are located in areas identified as lacking child care slots.

Agency: Commerce; MSDE

State Effect: Special fund expenditures for the Child Care Capital Support Revolving Loan Fund are not affected in the short term. Over time, extending loan repayments and allowing for a portion of loans to be converted to grants reduces special fund revenues and expenditures each year, as funds are unavailable to be re-loaned.

Local Effect: None.

Program Description: Chapter 466 of 2022 established the Child Care Capital Support Revolving Loan Fund to provide no-interest loans for capital expenses to child care providers who participate in the Child Care Scholarship (CCS) Program. The fund is a special, nonlapsing fund administered by Commerce, with support from MSDE.

Commerce, in consultation with MSDE, must establish application procedures and eligibility criteria for loans from the fund. In addition to requiring that the child care provider be a participant in the CCS Program, MSDE must give priority to child care providers, in the following order, that (1) are located in underserved communities or areas lacking child care slots; (2) are located in rural communities; (3) serve primarily low-income populations in areas of high poverty; (4) serve children with special needs; and (5) serve children ages two and younger. Commerce must work with MSDE to publicize the availability of loans from the fund and provide support to child care providers in applying for loans from the fund.

Allowable expenses for the loans include acquisition, expansion, renovations, and new construction related to a child care facility. Child care providers must repay loans from the fund within five years of receiving a loan. However, Commerce may establish a financial hardship exemption to allow a child care provider additional time to repay a loan from the fund. If a hardship exemption is not granted, Commerce must apply its normal policy regarding assisting child care providers with past-due loan payments

Location of Provisions in the Bill: Section 2 (pp. 100-104)

Analysis prepared by: Stephen M. Ross

Prioritize Regional Institution Strategic Enterprise Zones Under Seed Community Development Anchor Institution Fund

Provisions in the Bill: Expand the purpose and eligible uses of the Seed Community Development Anchor Institution Fund to include providing grants and loans to anchor institutions for community development projects in "RISE zone catchment areas." Require the Department of Housing and Community Development (DHCD) to prioritize applicants located in an active Regional Institution Strategic Enterprise (RISE) zone when providing grants and loans from the fund.

Agency: DHCD

State Effect: Overall finances to the Seed Community Development Anchor Institution Fund are not affected, although some State entities may receive more funding, while others may receive less due to the changes in geographic eligibility and award prioritization. DHCD can handle any administrative changes within existing resources.

Local Effect: Local community colleges located in active RISE zones and/or RISE zone catchment areas may receive additional funding; expenditures are correspondingly affected to the extent funds are received.

Program Description: The Seed Community Development Anchor Institution Fund provides grants and loans to anchor institutions for community development projects in sustainable communities and blighted areas of the State. "Anchor institution" means an institution of higher education in the State or a hospital institution in the State that (1) has at least five physicians who are organized as medical staff for the institution; (2) maintains facilities to provide, under the supervision of the medical staff, diagnostic and treatment services for two or more unrelated individuals; and (3) admits or retains the individuals for overnight care. To be eligible for a grant or loan, an anchor institution must provide evidence of matching funds. The Governor must include in the annual budget bill or the capital budget bill an appropriation of $10.0 million for the fund.

Location of Provisions in the Bill: Section 2 (pp. 104-106)

Analysis prepared by: Thomas S. Elder

Alter, Transfer, and Rename Economic Development Opportunities Program Account

Provisions in the Bill: Alter provisions related to the Economic Development Opportunities Program Account by (1) renaming the account as the Strategic Closing Fund; (2) establishing the fund in the Department of Commerce; (3) removing requirements for approval by the Legislative Policy Committee before funds are provided, instead requiring only notice; and (4) making other administrative changes.

Agency: Commerce

State Effect: Overall State expenditures are not affected, although expenditures for the State Reserve Fund decrease correspondingly with expenditures increasing for Commerce beginning in fiscal 2026 to reflect the transfer. The fiscal 2026 budget as introduced includes $25.0 million in general funds for the Economic Development Opportunities Program Account.

Local Effect: Minimal or none.

Program Description: The Economic Development Opportunities (better known as Sunny Day) Program Account provides conditional loans and investments intended to take advantage of extraordinary economic development opportunities, defined in part as situations that create or retain a substantial number of jobs and where a considerable private investment is leveraged. The Sunny Day Fund is a fund under the State Reserve Fund.

Location of Provisions in the Bill: Section 2 (pp. 106-113)

Analysis prepared by: Stephen M. Ross

Reallocate Video Lottery Terminal Distributions between Maryland Small, Minority, and Women-Owned Businesses Account and Maryland Small Business Development Financing Authority

Provision in the Bill: Reallocates 0.75% of video lottery terminal (VLT) revenues from the Maryland Small, Minority, and Women-Owned Businesses Account (SMWOBA, under the bill, the Reinvest for Success Account) to the Maryland Small Business Development Financing Authority (MSBDFA, under the bill, the Maryland Economic Inclusion Fund).

Agency: Department of Commerce

State Effect: Overall special fund revenues and expenditures for Commerce are unaffected, although funding is reallocated between two Commerce programs.

Local Effect: Local economic development corporations may receive less funding from eligible fund managers under SMWOBA/the Reinvest for Success Account beginning in fiscal 2026.

Program Description: SMWOBA is used to provide loans and grants to small, minority, and women-owned businesses in the State. A small percentage of gross VLT proceeds is distributed to SMWOBA each fiscal year. Commerce then provides grants from SMWOBA to eligible fund managers – in practice, mostly a mixture of county development corporations and private firms. The fund managers then provide loans and grants to small, minority, and women-owned businesses in the State. Generally, grants are limited to $10,000 per recipient and, except in the case of certain disasters or emergencies, must be issued in conjunction with a loan.

MSBDFA provides financing options for small businesses that are not able to qualify for financing from private lending institutions or are owned by socially and economically disadvantaged persons. Subject to specified conditions, Commerce may (and does) contract for and engage the services of some or all of the MSBDFA staff to administer the authority's programs. MSBDFA has four special funds in statute that in practice already operate as programs.

Location of Provision in the Bill: Section 2 (pp. 113-114)

Analysis prepared by: Stephen M. Ross

Repeal Commerce Subcabinet

Provision in the Bill: Repeals the Commerce Subcabinet.

Agency: Department of Commerce

State Effect: Minimal or none. The Governor has established the Economic Competitiveness Subcabinet through Executive Order.

Local Effect: None.

Program Description: Chapter 141 of 2015 established the Commerce Subcabinet consisting of specified Secretaries of State agencies. The subcabinet must (1) advise the Governor on proposals to enhance the State's business climate; (2) gather information the Subcabinet considers necessary to promote its goals; (3) collaborate to facilitate and expedite critical economic development projects in the State; and (4) provide other assistance that may be required to further the goals of the State and enhance the State's business climate.

Location of Provision in the Bill: Section 2 (pp. 114-115)

Analysis prepared by: Stephen M. Ross

Accelerate Termination of Job Creation Tax Credit

Provision in the Bill: Accelerates the termination of the Job Creation Tax Credit Program by one year, to January 1, 2026.

Agency: Department of Commerce; Comptroller

State Effect: General fund revenues increase by an indeterminate amount in fiscal 2026 and/or future years due to a decrease in credits claimed. To the extent the provision results in a decrease in credits claimed against the corporate income tax, Higher Education Investment Fund revenues and Transportation Trust Fund revenues and expenditures also increase. To the extent the provision precludes credits that would be claimed by a corporation that operates a qualified data center, Strategic Energy Investment Fund revenues are also affected.

Local Effect: To the extent the provision results in a decrease in credits claimed against the corporate income tax, local highway user revenues increase by an indeterminate amount in fiscal 2026 and/or future years.

Program Description: The Job Creation Tax Credit Program offers nonrefundable tax credits against the income tax or the insurance premiums tax to a business that establishes or expands a facility in the State that (1) is primarily engaged in an eligible industry and (2) within a 24-month period, creates:

- at least 60 qualifying positions (as defined);
- at least 25 qualifying positions in a State priority funding area; or
- at least 10 qualifying positions in a county with an annual average employment that is less than 75,000 or a median household income that is less than two-thirds of the statewide median household income.

The value of the credit is generally equal to $3,000 per qualified employee employed during the credit year (for a facility located in a revitalization area, $5,000 per qualified employee employed during the credit year), subject to a maximum of $1.0 million per qualified business entity per credit year. The credit may be carried forward up to five tax years and may not be carried back to a preceding tax year.

Chapter 191 of 2021 established an enhanced job creation tax credit for the hiring of qualified veteran employees ($4,000 per qualified veteran employee employed during the credit year or, for a facility located in a revitalization area, $6,000 per qualified veteran employee employed during the credit year), and extended program eligibility to small businesses that hire at least one qualified veteran employee for a full-time position in the State. Under the Act, a qualifying small business may claim a credit equal to $2,500 per qualified veteran employee employed during the credit year, for up to five qualified veteran employees per credit year.

Commerce may certify up to $4.0 million in job creation tax credits annually. The program is scheduled to terminate January 1, 2027, after which a business entity may be considered for eligibility for the tax credit based on positions filled before this termination date, and tax credits earned may be carried forward.

Location of Provision in the Bill: Section 3 (p. 117)

Analysis prepared by: Elizabeth J. Allison

Repeal One Maryland Economic Development Tax Credit

Provision in the Bill: Terminates the One Maryland Economic Development Tax Credit Program on January 1, 2026, but allows tax credits earned to be carried forward after this termination date.

Agency: Department of Commerce; Comptroller

State Effect: General fund revenues increase by an indeterminate amount beginning as early as fiscal 2026 due to a decrease in credits claimed. The effect may be significant in any given year. To the extent the provision results in a decrease in credits claimed against the corporate income tax, Higher Education Investment Fund revenues and Transportation Trust Fund revenues and expenditures also increase. To the extent the provision precludes credits that would be claimed by a corporation that operates a qualified data center, Strategic Energy Investment Fund revenues are also affected.

Local Effect: To the extent the provision results in a decrease in credits claimed against the corporate income tax, local highway user revenues increase by an indeterminate amount beginning as early as fiscal 2026.

Program Description: The One Maryland Program offers tax credits against the income tax or the insurance premiums tax to businesses that establish or expand a business facility in a Tier I county with eligible project costs of at least $500,000. To be eligible for the credit, the new or expanded business facility must be:

- located in a priority funding area (PFA), eligible for funding outside of a PFA, or located in a qualified opportunity zone (QOZ) in Allegany, Garrett, Somerset, or Wicomico counties;
- primarily engaged in an eligible industry; and
- create a minimum of 10 qualified positions (as defined) during a 24-month period.

The amount of the credit is equal to 100% of total eligible project costs, up to a maximum of $5.0 million (if the business entity creates at least 50 qualified positions), $2.5 million (if the business entity creates at least 25 qualified positions but fewer than 50 qualified positions), or $1.0 million (if the business entity creates at least 10 qualified positions but fewer than 25 qualified positions). A QOZ business that creates at least 50 qualified positions may be eligible for an enhanced One Maryland credit of up to $5.5 million under the Opportunity Zone Enhancement Program.

The tax credit may be carried forward up to 10 tax years and is partially refundable beginning in the fifth tax year. The aggregate amount of credits that Commerce may award under the program is not subject to limitation. The program is not subject to termination.

Location of Provision in the Bill: Section 3 (pp. 117-118)

Analysis prepared by: Elizabeth J. Allison

Alter Biotechnology Investment Incentive and Innovation Investment Incentive Tax Credits

Provisions in the Bill: Make various similar alterations to the Biotechnology Investment Incentive Tax Credit (BIITC) and Innovation Incentive Tax Credit (IITC) programs. Specifically, the provisions:

- increase the value of the enhanced credits for investments in qualified companies located in Regional Institution Strategic Enterprise (RISE) zones from 50% to 75% of the investment, up to $750,000 (increased from $500,000) and repeal certain related eligibility criteria;
- repeal the enhanced credits for investments in qualified companies located in Allegany, Dorchester, Garrett, or Somerset counties;
- allow pass-through entities (PTEs) that elect to be taxed at the entity level for Maryland income tax purposes to claim and allocate the credits among their members in any manner;
- conform the IITC opportunity zone enhancements to the BIITC opportunity zone enhancements by (1) expanding eligibility to qualified opportunity funds (QOFs) that invest in qualified Maryland technology companies located in Allegany, Dorchester, Garrett, or Somerset counties; (2) increasing the Level 1 opportunity zone enhancement from 33% to 65% of the qualified investment, up to $575,000 (increased from $300,000); and (3) increasing the Level 2 opportunity zone enhancement from 50% to 75% of the qualified investment, up to $750,000 (increased from $500,000); and
- extend the IITC program for tax years 2025 through 2029.

Agency: Department of Commerce; Comptroller

State Effect: As discussed below, BIITC and IITC tax credit awards are subject to annual appropriations to the BIITC and IITC reserve funds. The fiscal 2026 budget as introduced includes a $12.0 million appropriation to the BIITC Reserve Fund, including $8.6 million in general funds and $3.4 million in special funds (reflecting the unused fund balance carried over from the prior year). To the extent the provisions increase utilization of the BIITC Reserve Fund, general fund expenditures may increase in fiscal 2027 and 2028 in order to maintain (or increase) the existing funding level for the BIITC program. Any such effect cannot be reliably predicted.

With respect to the extension and alteration of the IITC program, the Department of Legislative Services (DLS) notes that the Governor’s budget as introduced does not include an appropriation to the IITC Reserve Fund. However, the provisions extend an existing $2.0 million annual mandated appropriation to this fund – which, under current law, expires after fiscal 2025. Thus, general and special fund expenditures (reflecting any prior-year unused reserve fund balance) increase by $2.0 million in fiscal 2026 (at the Governor's discretion) and future years. Commerce advises that the current balance of the IITC Reserve Fund is $1.4 million. As discussed in the Additional Comments section of this analysis, it is unclear whether the mandated appropriation terminates after the expiration of IITC benefits under the provisions.

Local Effect: None.

Program Description: The BIITC and IITC programs offer refundable State income tax credits to qualified investors that invest at least $25,000 in a qualified Maryland biotechnology company or qualified Maryland technology company, respectively. The credit is generally equal to 33% of the qualified investment, up to $250,000. Investments in qualified Maryland biotechnology and technology companies located in Allegany, Dorchester, Garrett, or Somerset counties or in a RISE zone (subject to certain requirements) are eligible for enhanced credits equal to 50% of the qualified investment, up to $500,000. As discussed above, QOFs that invest in qualified companies located in an opportunity zone are also eligible for certain enhanced credits for tax years 2019 through 2026.

Commerce administers the tax credit application, approval, and certification process. Tax credit awards are subject to annual appropriations to the BIITC and IITC reserve funds; Commerce may not certify eligibility for tax credits for investments in a single qualified company that exceed 10% or 15% of the total appropriations to the BIITC or IITC reserve funds, respectively, for the fiscal year. The Comptroller must transfer the amount of certified credits from the corresponding reserve fund to the general fund on a quarterly basis. The IITC program statute specifies that the Governor must include in the annual budget bill an appropriation of at least $2.0 million to the IITC Reserve Fund; this funding mandate sunsets after fiscal 2025 due to the program's June 30, 2025 termination date. The Governor must also include an annual appropriation to the BIITC Reserve Fund; however, statute does not specify a required funding level. Commerce may not issue any tax credit certificates under the BIITC program after fiscal 2028.

Additional Comments: The provisions repeal the termination date of the IITC program and extend program benefits for tax years 2025 through 2029. Absent a conforming change to Tax-General Article § 10-733(e)(3)(iv), which requires the Governor to include an annual appropriation of $2.0 million to the IITC Reserve Fund, it is unclear whether this funding mandate continues after program benefits have sunset. Any such effect is beyond the five-year scope of this fiscal and policy note.

Location of Provisions in the Bill: Section 3 (p. 118, pp. 124-127, pp. 131-134) and Section 4 (p. 139)

Analysis prepared by: Elizabeth J. Allison

Enhance Community Investment Tax Credit in Regional Institution Strategic Enterprise Zones

Provision in the Bill: Increases the value of the Community Investment Tax Credit from 50% to 60% of the value of an eligible contribution if the approved project or the business entity is located within a Regional Institution Strategic Enterprise (RISE) zone or RISE zone catchment area (as provided under the bill).

Agency: Department of Housing and Community Development (DHCD); Comptroller

State Effect: General fund revenues may decrease by an indeterminate amount beginning in fiscal 2026. To the extent increased credits are claimed against the corporate income tax, Higher Education Investment Fund revenues and Transportation Trust Fund revenues and expenditures also decrease. To the extent increased income tax credits are claimed by a corporation that operates a qualified data center, Strategic Energy Investment Fund revenues are also affected. State revenue losses resulting from the provision do not exceed $350,000 in any given year.

Local Effect: To the extent increased credits are claimed against the corporate income tax, local highway user revenues decrease beginning in fiscal 2026.

Program Description: An individual or a business entity may claim a nonrefundable tax credit against the income tax, insurance premium tax, or public service company franchise tax for a contribution worth more than $500 in goods, money, or real property to an approved project under the Neighborhood and Community Assistance Program. The tax credit is equal to 50% of the amount of approved contributions made during the tax year, up to $250,000. Any excess credit, including any amount that would be allowed but for the $250,000 limit, may be carried forward for up to five tax years. DHCD administers the tax credit application, approval, and certification process. The sum of contributions eligible for the tax credit may not exceed $3,500,000 for all approved projects for a fiscal year.

Location of Provision in the Bill: Section 3 (pp. 118-120)

Analysis prepared by: Elizabeth J. Allison

Extend Research and Development Tax Credit and Target Industry Sectors

Provisions in the Bill: Extend the Research and Development (R&D) Tax Credit Program for tax years 2026 through 2030 and limit eligibility to target industry sectors identified by the Department of Commerce.

Agency: Commerce; Comptroller

State Effect: No effect in fiscal 2026 or 2027. In fiscal 2028, general fund revenues decrease by an estimated $9.8 million, Higher Education Investment Fund and Transportation Trust Fund (TTF) revenues decrease by an estimated $0.6 million and $1.6 million, respectively, and TTF expenditures for local highway user revenues decrease by an estimated $0.3 million. General fund revenues and special fund revenues and expenditures decrease by similar amounts annually through fiscal 2032. This estimate assumes that 80% of credits are claimed against the corporate income tax and the remaining 20% are claimed against the personal income tax. Actual revenues and expenditures under the provisions may differ from this estimate due to the timing of tax credit claims and carryforwards.

Local Effect: No effect in fiscal 2026 or 2027. Local highway user revenues decrease by an estimated $0.3 million in fiscal 2028 and by similar amounts annually through fiscal 2032. Actual local highway user revenues under the provisions may differ from this estimate due to the timing of tax credit claims and carryforwards.

Program Description: The Maryland R&D tax credit is equal to 10% of the amount of Maryland qualified R&D expenses paid or incurred during the tax year that exceed the Maryland base amount (as defined), subject to an annual $250,000 per-taxpayer cap and certain annual aggregate limits. The tax credit is generally nonrefundable and may be carried forward for up to seven years after the tax year in which the expense was incurred. The tax credit is fully refundable for a small business, which is defined as a for-profit corporation, limited liability company, partnership, or sole proprietorship with net book value assets totaling less than $5.0 million at the beginning or end of the taxable year for which Maryland qualified R&D expenses are incurred.

Commerce administers the tax credit application, approval, and certification process and may approve up to $12.0 million in tax credits annually, of which $3.5 million is set aside for small businesses. If the total amount of credits applied for by small businesses exceeds $3.5 million, the amount approved for each small business applicant is reduced by a proportional amount of the excess. Similarly, if the total amount of credits applied for by non-small businesses exceeds $8.5 million (plus any unused amount of the small business set-aside), the amount approved for each non-small business applicant is reduced by a proportional amount of the excess. The tax credit program terminates June 30, 2027.

Location of Provisions in the Bill: Section 3 (pp. 120-124, pp. 138-139)

Analysis prepared by: Elizabeth J. Allison

Enhance Film Production Activity Tax Credit

Provisions in the Bill: Increase, from $12.0 million to $20.0 million, the aggregate amount of film production activity tax credit certificates that may be awarded annually in fiscal 2027 and beyond and repeal a $10.0 million limit on the amount of credits that may be awarded for a single film production activity.

Agency: Department of Commerce; Comptroller

State Effect: No effect in fiscal 2026. In fiscal 2027, general fund revenues decrease by $6.0 million, Higher Education Investment Fund and Transportation Trust Fund (TTF) revenues decrease by $0.5 million and $1.5 million (respectively), and TTF expenditures for local highway user revenues decrease by $0.3 million. General fund revenues and special fund revenues and expenditures decrease by similar amounts annually thereafter. Based on historic tax credit claims, this estimate assumes that credits are claimed against the corporate income tax.

Local Effect: No effect in fiscal 2026. Local highway user revenues decrease by $0.3 million in fiscal 2027 and by similar amounts annually thereafter.

Program Description: A qualified film production entity may apply for and claim a refundable credit against the State income tax for film production activities in the State in an amount equal to 28% of qualified total direct costs (30% for a television series) as stated on a final tax credit certificate approved by the Secretary of Commerce. Commerce may not approve credits totaling more than $10.0 million in aggregate for a single film production activity.

Chapter 434 of 2023 increased the maximum amount of credits Commerce may award annually from $12.0 million to $15.0 million for fiscal 2024, $17.5 million for fiscal 2025, and $20.0 million for fiscal 2026. For fiscal 2027 and beyond, the annual limit on aggregate tax credit awards returns to $12.0 million. Any unused amount may be issued in a subsequent year. Commerce must reserve 10% of the total authorized amount each year for Maryland small or independent film entities.

Location of Provisions in the Bill: Section 3 (pp. 127-129)

Analysis prepared by: Elizabeth J. Allison

Repeal Employer Security Clearance Costs Tax Credit

Provision in the Bill: Repeals the employer security clearance costs tax credit for tax years after 2024.

Agency: Department of Commerce; Comptroller

State Effect: No effect in fiscal 2026. In fiscal 2027, general fund revenues increase by an estimated $1.6 million, Higher Education Investment Fund and Transportation Trust Fund (TTF) revenues increase by an estimated $0.1 million and $0.3 million, respectively, and TTF expenditures for local highway user revenue grants increase by less than $0.1 million. General fund revenues and special fund revenues and expenditures increase by similar amounts annually through fiscal 2029. This estimate assumes that, absent the provision, 80% of credits are claimed against the corporate income tax, and the remaining 20% are claimed against the personal income tax. Actual revenues and expenditures may differ from this estimate due to the timing of tax credit claims and carryforwards in the absence of the provision.

Local Effect: No effect in fiscal 2026. Local highway user revenues increase by less than $0.1 million annually in fiscal 2027 through 2029. Actual local highway user revenues under the provisions may differ from this estimate due to the timing of tax credit claims and carryforwards in the absence of the provision.

Program Description: Chapter 438 of 2023 reauthorized the employer security clearance costs tax credit for tax years 2023 through 2027. An individual or corporation that employs up to 500 employees may claim nonrefundable credits against the State income tax for (1) up to $200,000 of security clearance administrative expenses; (2) small businesses that perform security-based contracting, up to $200,000 of first-year rental payments for spaces leased in the State; and (3) up to $200,000 of construction and equipment costs incurred to construct or renovate a single sensitive compartmented information facility (SCIF) (up to $500,000 in total for eligible costs to construct or renovate multiple SCIFs). Any excess credit may be carried forward until fully used.

Commerce administers the tax credit application, approval, and certification process and may approve up to $2.0 million in credits annually. If the total amount of credits applied for exceeds this annual cap, the amount approved for each applicant is reduced by a proportional amount of the excess.

Location of Provision in the Bill: Section 3 (pp. 129-131)

Analysis prepared by: Elizabeth J. Allison

Enhance and Sunset Buy Maryland Cybersecurity Tax Credit

Provisions in the Bill: Alter the Buy Maryland Cybersecurity Tax Credit by (1) codifying the program name; (2) making the credit fully refundable; (3) increasing the annual aggregate limit on the amount of credits that may be claimed for cybersecurity technology or cybersecurity services purchased from a single qualified seller from $200,000 to $1.0 million; (4) expanding the definition of "qualified buyer" for purposes of the credit to include businesses with 50 or more employees in the State; (5) expanding the definition of "qualified seller" to include cybersecurity businesses with $5.0 million to $10.0 million in annual revenue; (6) repealing a requirement that the Secretary of Commerce award 25% of the annual authorized amount of credits to qualified buyers that purchase cybersecurity services; (7) repealing an authorization for the Department of Commerce to establish a specified panel to assist the department in determining if a cybersecurity business is a qualified seller; (8) specifying program intent; and (9) sunsetting the program after tax year 2029. Apply the provisions to tax year 2025 and beyond.

Agency: Commerce; Comptroller

State Effect: In fiscal 2026, general fund revenues decrease by an estimated $2.8 million, Higher Education Investment Fund revenues decrease by an estimated $0.2 million, Transportation Trust Fund (TTF) revenues decrease by an estimated $0.6 million, and TTF expenditures for local highway user revenue grants decrease by an estimated $0.1 million. General fund revenues and special fund revenues and expenditures decrease by similar amounts annually through fiscal 2030. To the extent credits are claimed by a corporation that operates a qualified data center, Strategic Energy Investment Fund revenues are also affected. This estimate assumes that (1) the provisions sufficiently increase utilization of the tax credit to maximize the existing $4.0 million annual limit on tax credit awards and (2) 80% of overall tax credit awards under the program as modified by the provisions are claimed against the corporate income tax.

Local Effect: Local highway user revenues decrease by an estimated $0.1 million annually in fiscal 2026 through 2030.

Program Description: Chapter 578 of 2018 established a nonrefundable credit against the State income tax for costs incurred by qualified buyers (defined as any entity that has fewer than 50 employees in the State and is required to file a Maryland income tax return) to purchase cybersecurity technology or services from a qualified seller. The value of the credit is equal to 50% of the eligible costs incurred, not to exceed $50,000 per qualified buyer. For purposes of the credit, "qualified seller" is defined as a cybersecurity business that (1) has its headquarters and base of operations in the State; (2) has less than $5.0 million in annual revenue, 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 U.S. Small Business Administration; and (3) owns or has properly licensed any proprietary cybersecurity technology or provides a cybersecurity service (among other specified requirements). The Secretary of Commerce may approve up to $4.0 million in tax credit certificates annually and must award 25% of the amount of authorized tax credits to qualified buyers that purchase cybersecurity services. On average, Commerce has awarded a little over $400,000 in tax credit certificates annually under the program.

Location of Provisions in the Bill: Section 3 (pp. 134-138)

Analysis prepared by: Elizabeth J. Allison

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Economic Development - Delivering Economic Competitiveness and Advancing Development Efforts (DECADE) Act

BILL NUMBER: SB0427

PREPARED BY: Brad Fallon

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

___ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

_X_ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The DECADE Act makes alterations to programs business development programs, particularly those that meet the standards to be considered small businesses based on the number of workers they employ. The alterations to each program seek to increase their utility, usefulness, and accessibility to businesses in order to make Maryland's economy more resilient.

The programs in the bill will collectively direct hundreds of millions of dollars to qualified businesses to help expand their access to capital and to leverage state resources for business attraction, expansion, and retention efforts.