DATE: **January 27, 2021**   **COMMITTEE: Senate Budget and Taxation**
BILL NO: **Senate Bill 160**
BILL TITLE: **Cybersecurity Investment Incentive Tax Credit Program – Alteration and Expansion**
POSITION: **Support**

The Maryland Department of Commerce supports Senate Bill 160 – Cybersecurity Investment Incentive Tax Credit Program – Alteration and Expansion.

Bill Summary:
SB 160 alters the existing Cybersecurity Investment Incentive Tax Credit (CIITC) program by: (1) expanding the program eligibility to include additional technology sectors; 2) establishing a maximum percentage of the program Reserve Fund that a single Maryland technology sector may receive in a fiscal year; and (3) extending the program to January 1, 2025. The expansion of the eligible technology sectors enables the Department of Commerce, with input from the Maryland Economic Development Commission, to annually establish the technology sectors that are eligible for the investment tax credit. Each technology sector would be limited to 25% of the Reserve Fund, enabling investments across several technology sectors while ensuring that no one sector disproportionately benefits from the program,

Background:
The Maryland Cybersecurity Investment Incentive Tax Credit program was originally established during the 2013 Legislative Session to offer incentives for investment in early stage privately-held cybersecurity companies. The original program provided the tax credit to the company, not the investor. In 2016, the program was amended to provide an enhanced credit to qualified companies located in Allegany, Dorchester, Garrett or Somerset counties. The program was amended again in 2018 to provide the tax credit to the investor, following the model of the Biotechnology Investment Incentive Tax Credit. The income tax credit is equal to 33% of an eligible investment up to $250,000 in tax credits, or 50% of an eligible investment up to $500,000 if the cybersecurity company is located in Allegany, Dorchester, Garrett or Somerset counties. The program has had limited activity over the years, however it has had modest success in attracting investment to cybersecurity companies in Maryland.

CIITC provides an incentive to equity investors to invest in Maryland companies through this income tax credit. As a result, qualified Maryland companies are more attractive to investors, are able to leverage the CIITC to raise capital in a competitive landscape, and Maryland is more attractive to start-up and early-stage companies seeking to raise equity investment as a result.

Since the program was amended in 2018, the program has been utilized by 4 companies, resulting in $3.3 in investment. The program has been underutilized for a variety of reasons, with a carry-over of funds each year.

Rationale:
The existing CIITC statute is restricted to investments in cybersecurity technology companies. Maryland has been ranked #2 or #3 in the Milken State Technology and Science Index for several years, but fell to #4 in 2020. Notably, in the component ranking Risk Capital, Maryland fell from #6 in 2018 to #18 in 2020. In order to remain competitive, innovative and responsive to quickly-evolving technology development, Maryland needs to invest in targeted areas of technology innovation. Programs like this one can serve "as crucial financing to help de-risk early-stage technology development and enable validation that encourages follow-on private institution capitalization".[1]

Cybersecurity remains a critical industry and growing area of innovation within Maryland. However, it is not the only technology sector with opportunities for innovation and growth in early-stage companies. Maryland's innovation ecosystem extends beyond cybersecurity to promising and emerging sectors such as clean energy, aerospace, quantum computing, and agriculture (ag-tech). There are many innovative and fast-growing Information Technology companies that are not specifically engaged in cybersecurity. Of the 149 Inc. 5000 Fastest Growing companies in Maryland, a large number are in IT management, IT systems development and software. The expansion of this program to new technology sectors, as well as the annual process for identifying those eligible sectors, will enable the State of Maryland to be more competitive across innovative sectors of research and development, as well as more nimble in responding to new technologies and areas of innovation in which the State can gain a competitive advantage. Additionally, this expansion will enable better utilization of the program funds which has historically been underutilized.

Commerce respectfully requests a favorable report on SB 160.

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[1] https://public-sector.cioreview.com/cxoinsight/incentivizing-next-generation-technology-nid-24735-cid-37.html