



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
Kelly M. Schulz | Secretary of Commerce

DATE: January 27, 2021 **COMMITTEE:** Senate Budget and Taxation
BILL NO: Senate Bill 19
BILL TITLE: Economic Development – Biotechnology Investment Incentive Tax Credit – Alterations
POSITION: Support

The Maryland Department of Commerce (Commerce) supports Senate Bill 19 – Economic Development – Biotechnology Investment Incentive Tax Credit – Alterations.

Bill Summary:

Senate Bill 19 alters the Biotechnology Investment Incentive Tax Credit (BIITC) to: allow more early stage biotechnology companies to participate in the program; leverage more private investment with State funds; and establish a policy goal for the tax credit. The specific changes to BIITC proposed by Senate Bill 19 include:

- Establishing the lifetime participation cap for biotechnology companies to a total tax credit benefit limit of \$7 million per company;
- Removing two provisions limiting program participation based on the age of a company;
- Reducing the percentage of investment eligible for the tax credit from 50% to 33%, and from 75% to 50% in Allegany, Dorchester, Garrett, and Somerset counties;
- Lowering the tax credit benefit one company may receive in a year from 15% to 10% of the annual appropriation; and
- Establishing a policy goal for the tax credit.

These changes reflect concepts identified by legislators, Commerce’s own analysis of the program, as well as findings identified in DLS’ 2018 evaluation of the program.

Background:

The Biotechnology Investment Incentive Tax Credit was enacted in 2005 to attract private investment in Maryland life sciences and biotechnology companies. Investors in Qualified Maryland Biotechnology Companies (QMBC), which are certified by Commerce, may receive a certified tax credit up to 50% of their investment, or 75% of their investment if a QMBC is located in Allegany, Dorchester, Garrett, and Somerset counties.

BIITC has been very successful at attracting private investment in QMBCs, having attracted over \$250 million of private investment from the first year it received in appropriation in FY 2007 through FY 2021. The typical appropriation has increased four times during this time period, increasing the initial annual appropriations of \$6 million to the program’s current FY 2021 appropriation of \$12 million, which was first appropriated in FY 2015.

The tax credit is awarded on a first-come, first-served basis, and funding for the program is fully subscribed each year within seconds of the online application portal being opened. Many QMBCs' investors are often unable to apply for a tax credit each year because funding for the program is so quickly subscribed.

Commerce analyzed the first twelve years (FY 2007- FY 2019) of certified tax credits for the BIITC program to determine if marginal improvements to the program could be made to improve its effectiveness. This analysis found that a few companies were more effective at applying for and securing the credit, which resulted in a relatively few QMBCs benefitting from a disproportionate amount of the program's funding over the twelve year period. The analysis also identified that the lack of a stated policy goal for the program made it difficult to fully determine its effectiveness.

Rationale:

Marginal changes to the BIITC program will allow Commerce to better meet the demand for the program and allow more QMBCs to participate in it. These changes include: (1) reducing the percentage of investment eligible for the tax credit from 50% of investment to 33% of investment; (2) lowering the annual tax credit benefit for one company from 15% of the annual appropriation to 10% of the annual appropriation; and (3) instituting a lifetime limit of \$7 million in total tax credit benefits per QMBC.

Lowering the amount of investment eligible for a tax credit from 50% to 33% will allow more companies to participate in the program every year, and increase the amount of private investment limited State funds are able to leverage. As part of its analysis of the BIITC program, Commerce reviewed biotechnology tax credits offered by other states and found that most states that offer a biotechnology investment tax credit provide a tax credit between 25% and 33% of investment.

Currently, QMBCs may benefit from up to \$1.8 million in tax credits based upon the \$12 million appropriation for BIITC. Reducing the annual limit from 15% to 10% will still allow companies to benefit from a significant tax credit of up to \$1.2 million (per year) while allowing State resources to go further by allowing more companies to participate in the program each year.

Implementing a \$7 million lifetime tax credit benefit limit for a company will allow more QMBCs to participate in BIITC during the life of the program. The limit will also prevent a relatively few number of QMBCs to receive a prolonged and disproportionate benefit from the program.

One of the challenges with evaluating the effectiveness of BIITC is that the program does not lend itself to being measured by traditional economic development metrics like job creation and economic multipliers. BIITC is designed to attract investment in Maryland life sciences companies, which use that investment to develop new biotechnologies. Having a stated policy goal for the program that can be measured with clear and appropriate metrics will assist the General Assembly and Commerce with evaluating the program's effectiveness in the future.

Commerce respectfully requests a favorable report on Senate Bill 19.