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Environment and Transportation
Committee

Chair

Land Use and Ethics Subcommittee

Joint Committee on Administrative,
Executive, and Legislative Review

Joint Committee on Ending
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THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Testimony in Support of HB 360: Angel Investor Tax Credit

January 21, 2021

Ways and Means Committee

Chairwoman Kaiser, Vice Chairman Washington, and Colleagues:

What this bill does

This bill creates the incentive needed for investors in our state to put their money into Maryland startups rather than other investments. This bill creates a tax credit for “angel investors” who make qualified investments in Maryland innovation businesses. The nonrefundable credit is equal to 50% of the investment not to exceed \$50,000 for an individual, or \$100,000 if married filing jointly or a pass-through entity.

Why this bill matters

The Baltimore-Washington-Frederick triangle receives more federal research funding than almost anywhere else in the country. Unfortunately, it ranks close to the bottom in the availability of seed funding to grow businesses based on that research. As a result, some of the region’s most promising companies are leaving Maryland in search of the funding they need at these critical stages of development, depriving our local economy of jobs and economic growth. In Baltimore alone, nearly 30 percent of companies launched at some of the city's incubators leave to find the initial capital they need.¹

The future of Maryland’s economy is dependent on our ability to attract and retain new talent in tech, health care, cyber security, clean energy, and other niche areas. Start-up companies are the companies contributing to job growth in this country. From 1980 to 2005, firms less than 5 years

¹ JOHNS HOPKINS UNIVERSITY, 21ST CENTURY CITIES INITIATIVE REPORT (2017)
<https://21cc.jhu.edu/wp-content/uploads/2017/09/21cc-financing-baltimores-growth-sept-2017.pdf>

old accounted for all net job growth in the United States ². In 2015, these young companies created 2.5 million new jobs throughout the United States, including right here in Maryland³.

Annually, VC-backed companies have generated revenue equal to 21% of U.S. GDP.⁴ A 2012 Abell Foundation report comparing the entrepreneurial climates of Boston and Baltimore found that Baltimore had only 345 startups compared to Boston's 1,647. The report identified early stage capital investment as one of the key ingredients in creating an entrepreneur-friendly environment. However, Baltimore's startup climate is merely "emerging" while Boston's is "established"—due in large part to less access to early stage capital in Baltimore⁵. This report had one very clear recommendation for our state: encourage early stage investment to expand dramatically.

In 2007, the General Assembly passed the Biotech Tax Credit. This tax credit program has been a resounding success, stimulating over \$90 million of investments in 60 Maryland biotech startups since its enactment. This Angel Investor bill builds on the success of the Biotech Tax Credit program by providing a similar program that will incentivize investments in other areas.

Why you should vote for this bill

This is tax credit that will bring more money into the state by helping launch and grow companies. In a time when we are going to lose hundreds of businesses around the state because of the pandemic, ensuring that entrepreneurs are able to rise again and start fresh is imperative. This credit will promote the small businesses that drive our community by providing a tax credit on qualified investments in innovative Maryland startup companies.

Amid economic hardship and market uncertainty caused by the coronavirus pandemic, start-up companies saw a 44% decrease in VC investments between March to June of 2020, compared to the same three-month period the year before⁶. Experts predict that we will see more promising young companies closing their doors or leaving our state *unless* we can create the robust local financing system these Maryland businesses need, now more than ever. The Angel Investor Tax Credit Bill, HB 526, will help save small businesses and fuel future businesses.

² EWING MARION KAUFFMAN FOUNDATION, JOB CREATION REPORT (2011), <http://www.kauffman.org/what-we-do/resources/policy/kauffman-research-roundup>

³ UNITED STATES CENSUS BUREAU, BUSINESS DYNAMICS PRESS RELEASE (2015), <https://www.census.gov/newsroom/press-releases/2017/business-dynamics.html>

⁴ THE NATIONAL VENTURE CAPITAL ASSOCIATION, VENTURE IMPACT: THE ECONOMIC IMPORTANCE OF VENTURE CAPITAL-BACKED COMPANIES TO THE U.S. ECONOMY 2 (2009), http://henshawneria.com/FolderBase/8.%20NVCA_venture_impact_5th_ed%20-%20USA.pdf.

⁵ Sean Pool & Matt Van Itallie, THE ABELL FOUNDATION, *Learning from Boston: Implications for Baltimore from Comparing the Entrepreneurial Ecosystems of Baltimore and Boston* 31, <http://www.abell.org/publications/learning-boston>.

⁶ CRUNCHBASE NEWS, HOW COVID-19 CHANGED THE VC INVESTMENT LANDSCAPE IN THE US <https://news.crunchbase.com/news/how-covid-19-changed-the-vc-investment-landscape-in-the-us/>