

SB0721 -- Income Tax – Credit for Federal Security

Uploaded by: Brian Levine

Position: FAV



**Senate Bill 721 -- *Income Tax – Credit for Federal Security Clearance Costs – Extension*
Senate Budget and Taxation Committee
March 7, 2023
Support**

The Montgomery County Chamber of Commerce (MCCC), the voice of business in Metro Maryland, supports Senate Bill 721 -- *Income Tax – Credit for Federal Security Clearance Costs – Extension*.

Senate Bill 721 extends the termination date to January 1, 2028 for the Employer Security Clearance Costs Tax Credit. This credit is utilized for costs incurred by employers to obtain federal security clearances for employees, first-year leasing costs, and construction or renovation of sensitive compartmented information facilities (SCIFs).

This credit is an important component to the success of federal government contractors, one of Maryland's most important and innovative industries. The credit provides entrepreneurial start-ups, and companies small and large, with a financial incentive to grow and create jobs in Maryland. Companies in Maryland that do business with the federal government face numerous barriers to entry, including high costs for security clearances and SCIF costs. This tax credit helps defray those costs while demonstrating Maryland's commitment to supporting and growing businesses in this sector.

This credit is also consistent with a focus on attracting and retaining military veterans in Maryland. This has been a longtime MCCC priority, most notably through efforts of the Montgomery County Chamber Community Foundation's (MCCCF) Veterans Institute for Procurement (VIP) program. The VIP program is a free training program for Service-Disabled Veteran-Owned Small Businesses and Maryland Veteran-Owned Small Businesses that provides company leaders with comprehensive instruction on how to accelerate their federal government contracting business skills. Most of the executives who graduate from the VIP program are retired military veterans who reside in Maryland. Extending this tax credit provides a strong and effective incentive for these types of entrepreneurial retired veterans to remain in Maryland.

For these reasons, the Montgomery County Chamber of Commerce supports Senate Bill 721 and respectfully requests a favorable report.

The Montgomery County Chamber of Commerce, on behalf of our nearly 500 members, advocates for growth in business opportunities, strategic investment in infrastructure, and balanced tax reform to advance Metro Maryland as a regional, national, and global location for business success. Established in 1959, MCCC is an independent non-profit membership organization and a proud Montgomery County Green Certified Business.

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SB 721_ESCCTC Extension_Support.pdf

Uploaded by: Kevin Anderson

Position: FAV



Wes Moore | Governor
Aruna Miller | Lt. Governor
Kevin A. Anderson | Secretary of Commerce
Signe Pringle | Deputy Secretary of Commerce

DATE: March 7, 2023
BILL NO: Senate Bill 721
BILL TITLE: Income Tax – Credit for Federal Security Clearance Costs – Extension
COMMITTEE: Budget and Taxation
POSITION: Support

The Maryland Department of Commerce (Commerce) supports Senate Bill 721- Income Tax – Credit for Federal Security Clearance Costs – Extension.

Bill Summary:

Senate Bill 721 extends the expiration date for the Maryland Employer Security Clearance Costs Tax Credit Program from January 1, 2022 to January 1, 2028. It includes three components:

Security Clearance Administrative Expense Tax Credit – This credit is 100% of eligible administrative expenses related to obtaining and maintaining federal security clearance for employees up to \$200,000. However, if the total amount of credits claimed by all businesses exceeds \$2 million, then the tax credit will be prorated.

Sensitive Compartmented Information Facility Costs Tax Credit – This tax credit is 50% of eligible construction or renovation costs of a single Sensitive Compartmented Information Facility (SCIF) up to \$200,000, and costs related to multiple SCIFs up to \$500,000. However, if the total amount of credits claimed by all businesses exceeds \$2 million, then, the tax credit will be prorated.

First Year Leasing Costs Tax Credit for Qualified Small Business – This credit is 100% of eligible first year leasing costs for small businesses doing security-based contract work up to \$200,000. However, if the total amount of credits claimed by all businesses exceeds \$2 million, then, the tax credit will be prorated.

Background:

The Maryland Employer Security Clearance Costs Tax Credit program was enacted during the 2012 session of the Maryland General Assembly. The statute requires that each business wishing to receive tax credits apply to the Department of Commerce for certification on or before September 15th of the calendar year following the tax year for which the federal security clearance costs were incurred. The total program is capped at \$2,000,000 for each year.

This tax credit has been very popular since enactment. In the first year, TY 2013, 39 businesses were certified. The number of companies applying for the credits has increased to 86 applicants for TY 2021. The tax credit has been oversubscribed for the \$2 million available under the statute. The percentage of qualified costs that received the tax credit was 37.18% for TY 2020 and 37.53% for TY 2021.

Maryland is unique in providing this tax credit. Both large and small companies have qualified. Most of the credit goes to companies employing less than 100 security professionals. This tax credit supports our highly valued technology-based security business sector. The chart below shows the number of recipients by number of employees.

Tax Credit Recipients by Number of Maryland Employees

	TY 2020	TY 2021
Less than 10	19	14
10-24	19	21
25-49	21	20
50-99	20	14
100+	7	17
Total	86	86

Rationale:

Senate Bill 721 extends a popular and well-subscribed incentive for five additional years. This allows Commerce to continue to offer an incentive for business retention and attraction that is not available in neighboring jurisdictions. Maryland companies seeking to do business with the federal government have an added challenge in that most of the work is classified. The costs associated with gaining and maintaining a Facility Clearance, hiring and retaining a cleared workforce, and building Sensitive Compartmented Information Facilities in which to conduct work at the highest levels of security classification are often barriers to entry facing small businesses and burdensome cost drivers for larger companies. One way Maryland has communicated its commitment to supporting and growing business in this sector is through the Employer Security Clearance Tax Credit. This program is well received by companies when Commerce teams brief them about programs the State has available to support them and the jobs they create. They perceive this as a tangible reason for doing business in Maryland and are grateful for this show of commitment to the important national security missions conducted in our State.

Commerce respectfully requests a favorable report on Senate Bill 721.

Omnyon Testimony.pdf

Uploaded by: Timothy Gorski

Position: FAV

3/6/2023

The Honorable Guy Guzzone,

I am Timothy Gorski, the CEO and founder of Omnyon a Maryland defense contractor, and I support Senate Bill 721 Income Tax Credit for Federal Security Clearance Costs Extension.

Omnyon has utilized this bill's Security Clearance Administrative Expense Tax Credit. This credit has financially incentivized the company to dedicate labor to properly administer service security clearances.

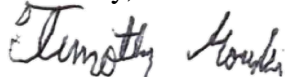
Security clearance administration is a unique and additional burden for founders to juggle in the defense sector. Often founders work 40 hours a week with a customer then do business growth and administrative activities. This credit incentivizes founders to invest in overhead staff, or consultants, to administer security clearances.

The positive effects to the state of Maryland resulting from this credit include:

1. Hiring overhead staff or Security Consultants, generate new income tax
2. Dedicating administrative resources to clear new individuals allowed new federally funded defense jobs to be created, generating new income tax
3. In my experience, sometimes a candidate will get an offer between the defense sector in Virginia and Maryland, and whomever gets the clearance transfer through first gets the candidate, generating new income tax
4. Dedicating manpower to administer security clearances promotes the retention of security clearances, retaining income tax

In summary, I believe Senate Bill 721 not only helps the defense sector businesses in Maryland, but it helps indirectly generate income taxes to Maryland.

Sincerely,



Timothy Gorski

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Uploaded by: Franklin Welch

Position: UNF

SB0721 - UNFAVORABLE

The state tax credit vs. security clearances and the construction of special compartmented information facilities (SCIFs) is aimed at “an individual or a corporation.” This means the tax payers are paying for contractor companies and contractors to acquire federal security clearances and build SCIFs. Contractors make a lot of money in Maryland. While most of the individuals are very competent at their jobs, the companies negotiate the contracts with the government. These contracts typically include things like not contributing to training contractors from other companies in their government workplace. So, if contract company A and contract company B have both been contracted to perform a job for the government in, say a highly technical field such as telecommunications, contractor/individual A cannot share knowledge with contractor/individual B and vice-versa in order to complete the job. Why? Both companies want to be able to win more government contracts in the future and not help their competition. Meanwhile, the tax-payer-funded job/task/requirement suffers. It requires more cost in resources. Increase in cost is exactly what the contractor companies want. I’ve seen this with my own eyes. The contractor companies can pay to build their own SCIFs and pay for the clearances themselves. Tax-payers provide too much money for government contractors as it is.