



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.