

SENATE BILL 196

C8, Q3

(PRE-FILED)

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CF 1lr0116

By: **Chair, Budget and Taxation Committee (By Request – Departmental – Commerce)**

Requested: October 22, 2020

Introduced and read first time: January 13, 2021

Assigned to: Budget and Taxation

Committee Report: Favorable

Senate action: Adopted

Read second time: February 28, 2021

CHAPTER _____

1 AN ACT concerning

2 **Economic Development – Research and Development Tax Credit – Alterations**

3 FOR the purpose of repealing a certain credit against the State income tax for certain
4 Maryland qualified research and development expenses not exceeding a certain base
5 amount; altering the amount of research and development tax credits that the
6 Department of Commerce may approve in certain calendar years; requiring the
7 Department to reserve a certain amount of the total amount of research and
8 development credits that the Department may approve in a calendar year to small
9 businesses; prohibiting the Department from approving a tax credit for a single
10 applicant in excess of a certain amount; defining the term “net book value assets” for
11 purposes of the program concerning small businesses; extending the termination
12 date applicable to the program; making conforming changes; providing for the
13 application of this Act; and generally relating to the Research and Development Tax
14 Credit Program.

15 BY repealing and reenacting, with amendments,
16 Article – Tax – General
17 Section 10–721
18 Annotated Code of Maryland
19 (2016 Replacement Volume and 2020 Supplement)

20 BY repealing and reenacting, with amendments,
21 Chapter 515 of the Acts of the General Assembly of 2000, as amended by Chapter 98

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 of the Acts of the General Assembly of 2005, Chapter 20 of the Acts of the
2 General Assembly of 2010, and Chapter 85 of the Acts of the General Assembly
3 of 2019

4 Section 2 and 4

5 BY repealing and reenacting, with amendments,

6 Chapter 516 of the Acts of the General Assembly of 2000, as amended by Chapter 98
7 of the Acts of the General Assembly of 2005, Chapter 20 of the Acts of the
8 General Assembly of 2010, and Chapter 85 of the Acts of the General Assembly
9 of 2019

10 Section 2 and 4

11 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
12 That the Laws of Maryland read as follows:

13 **Article – Tax – General**

14 10–721.

15 (a) (1) In this section the following words have the meanings indicated.

16 (2) “Department” means the Department of Commerce.

17 (3) “Maryland base amount” means the base amount as defined in § 41(c)
18 of the Internal Revenue Code that is attributable to Maryland, determined by:

19 (i) substituting “Maryland qualified research and development
20 expense” for “qualified research expense”;

21 (ii) substituting “Maryland qualified research and development” for
22 “qualified research”; and

23 (iii) using, instead of the “fixed base percentage”:

24 1. the percentage that the Maryland qualified research and
25 development expense for the 4 taxable years immediately preceding the taxable year in
26 which the expense is incurred is of the gross receipts for those years; or

27 2. for a taxpayer who has fewer than 4 but at least 1 prior
28 taxable year, the percentage as determined under item 1 of this item, determined using the
29 number of immediately preceding taxable years that the taxpayer has.

30 (4) “Maryland gross receipts” means gross receipts that are reasonably
31 attributable to the conduct of a trade or business in this State, determined under methods
32 prescribed by the Comptroller based on standards similar to the standards under § 10–402
33 of this title.

1 (5) “Maryland qualified research and development” means qualified
2 research as defined in § 41(d) of the Internal Revenue Code that is conducted in this State.

3 (6) “Maryland qualified research and development expenses” means
4 qualified research expenses as defined in § 41(b) of the Internal Revenue Code incurred for
5 Maryland qualified research and development.

6 (7) “NET BOOK VALUE ASSETS” MEANS THE TOTAL OF A BUSINESS’S
7 NET VALUE OF ASSETS, INCLUDING INTANGIBLES BUT NOT INCLUDING LIABILITIES,
8 MINUS DEPRECIATION AND AMORTIZATION.

9 [(7)] (8) “Small business” means a for-profit corporation, limited liability
10 company, partnership, or sole proprietorship with net book value assets totaling, at the
11 beginning or the end of the taxable year for which Maryland qualified research and
12 development expenses are incurred, as reported on the balance sheet, less than \$5,000,000.

13 (b) Subject to the limitations of this section, an individual or a corporation may
14 claim credits against the State income tax in an amount equal to[:

15 (1) 3% of the Maryland qualified research and development expenses, not
16 exceeding the Maryland base amount for the individual or corporation, paid or incurred by
17 the individual or corporation during the taxable year; and

18 (2)] 10% of the amount by which the Maryland qualified research and
19 development expenses paid or incurred by the individual or corporation during the taxable
20 year exceed the Maryland base amount for the individual or corporation.

21 (c) (1) By November 15 of the calendar year following the end of the taxable
22 year in which the Maryland qualified research and development expenses were incurred,
23 an individual or corporation shall submit an application to the Department for the credits
24 allowed under subsection [(b)(1) and (2)] (B) of this section.

25 (2) [(i) Except as provided under paragraph (4) of this subsection] **FOR**
26 **EACH CALENDAR YEAR**, the total amount of credits approved by the Department under
27 subsection [(b)(1)] (B) of this section may not exceed[:

28 1. \$4,500,000 in calendar year 2016; and
29 2. \$5,500,000 in calendar year 2017 and each calendar year
30 thereafter] **\$12,000,000**.

31 (3) (I) **EXCEPT AS PROVIDED IN PARAGRAPH (5) OF THIS**
32 **SUBSECTION, EACH CALENDAR YEAR, THE DEPARTMENT SHALL RESERVE**
33 **\$3,500,000 OF THE CREDITS AUTHORIZED UNDER SUBSECTION (B) OF THIS SECTION**
34 **FOR APPLICANTS THAT ARE SMALL BUSINESSES.**

1 (ii) Subject to paragraph [(4)] (5) of this subsection, if the total
2 amount of credits applied for by all [individuals and corporations] **SMALL BUSINESSES**
3 under [subsection (b)(1) of] this section exceeds the [maximum] **AMOUNT** specified under
4 subparagraph (i) of this paragraph, the Department shall approve a credit [under
5 subsection (b)(1) of this section] for each applicant in an amount equal to the product of
6 multiplying the credit applied for by the applicant times a fraction:

7 1. the numerator of which is the [maximum] **AMOUNT**
8 specified under subparagraph (i) of this paragraph; and

9 2. the denominator of which is the total of all credits applied
10 for by all [applicants] **SMALL BUSINESSES** under [subsection (b)(1) of] this section in the
11 calendar year.

12 [(3)] (4) (i) Except as provided in paragraph [(4)] (5) of this
13 subsection, **FOR EACH CALENDAR YEAR**, the total amount of credits approved by the
14 Department under [subsection (b)(2) of] this section to applicants **THAT ARE NOT SMALL**
15 **BUSINESSES** may not exceed[:

16 1. \$4,500,000 in calendar year 2016; and

17 2. \$6,500,000 in calendar year 2017 and each calendar year
18 thereafter] **\$8,500,000**.

19 (ii) Subject to paragraph [(4)] (5) of this subsection, if the total
20 amount of credits applied for by all [individuals and corporations under subsection (b)(2) of
21 this section] **APPLICANTS THAT ARE NOT SMALL BUSINESSES** exceeds the maximum
22 specified under subparagraph (i) of this paragraph, the Department shall approve a credit
23 under [subsection (b)(2) of] this section for each applicant in an amount equal to the product
24 of multiplying the credit applied for by the applicant times a fraction:

25 1. the numerator of which is the maximum specified under
26 subparagraph (i) of this paragraph; and

27 2. the denominator of which is the total of all credits applied
28 for by all applicants [under subsection (b)(2) of this section] **THAT ARE NOT SMALL**
29 **BUSINESSES** in the calendar year.

30 [(4)] (5) (i) For any calendar year, if [the maximum specified under
31 paragraph (2)(i) of this subsection exceeds] the total amount of credits applied for by all
32 [individuals and corporations under subsection (b)(1) of this section] **SMALL BUSINESSES**
33 **IS LESS THAN \$3,500,000**, the [maximum] **AMOUNT** specified under paragraph [(3)(i)]
34 **(4)(I)** of this subsection shall be increased for that calendar year by an amount equal to the
35 [amount by which the maximum specified under paragraph (2)(i) of this subsection exceeds
36 the total amount of credits applied for by all individuals and corporations under subsection

1 (b)(1) of this section] **DIFFERENCE BETWEEN \$3,500,000 AND THE TOTAL AMOUNT OF**
2 **CREDITS APPLIED FOR BY SMALL BUSINESSES.**

3 (ii) For any calendar year, if [the maximum specified under
4 paragraph (3)(i) of this subsection exceeds] the total amount of credits applied for by all
5 [individuals and corporations under subsection (b)(2) of this section] **APPLICANTS THAT**
6 **ARE NOT SMALL BUSINESSES IS LESS THAN \$8,500,000**, the [maximum] **AMOUNT**
7 specified under paragraph [(2)(i)] **(3)(I)** of this subsection shall be increased for that
8 calendar year by an amount equal to the [amount by which the maximum specified under
9 paragraph (3)(i) of this subsection exceeds the total amount of credits applied for by all
10 individuals and corporations under subsection (b)(2) of this section] **DIFFERENCE**
11 **BETWEEN \$8,500,000 AND THE TOTAL AMOUNT OF CREDITS APPLIED FOR BY**
12 **APPLICANTS THAT ARE NOT SMALL BUSINESSES.**

13 **(6) THE DEPARTMENT MAY NOT APPROVE A TAX CREDIT FOR ANY**
14 **SINGLE APPLICANT IN AN AMOUNT EXCEEDING \$250,000.**

15 [(5)] **(7)** By February 15 of the calendar year following the end of the year
16 in which the individual or corporation submitted an application for the credit in accordance
17 with paragraph (1) of this subsection, the Department shall certify to the individual or
18 corporation the amount of the research and development tax credits approved by the
19 Department for the individual or corporation under [subsection (b)(1) and (2) of] this
20 section.

21 [(6)] **(8)** To claim the approved credits allowed under this section, an
22 individual or corporation shall:

23 (i) 1. file an amended income tax return for the taxable year in
24 which the Maryland qualified research and development expense was incurred; and

25 2. attach a copy of the Department's certification of the
26 approved credit amount to the amended income tax return; or

27 (ii) subject to subsection (d) of this section, attach a copy of the
28 Department's certification of the approved credit amount to an income tax return filed for
29 any of the 7 taxable years after the taxable year in which the Maryland qualified research
30 and development expenses were incurred.

31 (d) (1) Except as provided in paragraph (2) of this subsection, if the credit
32 allowed under this section in any taxable year exceeds the State income tax for that taxable
33 year, an individual or corporation may apply the excess as a credit against the State income
34 tax for succeeding taxable years until the earlier of:

35 (i) the full amount of the excess is used; or

36 (ii) the expiration of the 7th taxable year after the taxable year in

1 which the Maryland qualified research and development expense was incurred.

2 (2) If the credit allowed under this section in any taxable year exceeds the
3 State income tax for that taxable year, a small business may claim a refund in the amount
4 of the excess.

5 (e) (1) In determining the amount of the credit under this section:

6 (i) all members of the same controlled group of corporations, as
7 defined under § 41(f) of the Internal Revenue Code, shall be treated as a single taxpayer;
8 and

9 (ii) the credit allowable by this section to each member shall be its
10 proportionate shares of the qualified research expenses giving rise to the credit.

11 (2) The Comptroller shall adopt regulations providing for:

12 (i) determination of the amount of the credit under this section in
13 the case of trades or businesses, whether or not incorporated, that are under common
14 control;

15 (ii) pass-through and allocation of the credit in the case of estates
16 and trusts, partnerships, unincorporated trades or businesses, and S corporations;

17 (iii) adjustments in the case of acquisitions and dispositions
18 described in § 41(f)(3) of the Internal Revenue Code; and

19 (iv) determination of the credit in the case of short taxable years.

20 (3) The regulations adopted under paragraph (2) of this subsection shall be
21 based on principles similar to the principles applicable under § 41 of the Internal Revenue
22 Code and regulations adopted thereunder.

23 (f) (1) The Department of Commerce and the Comptroller jointly shall adopt
24 regulations to prescribe standards for determining when research or development is
25 considered conducted in the State for purposes of determining the credit under this section.

26 (2) In adopting regulations under this subsection, the Department and the
27 Comptroller may consider:

28 (i) the location where services are performed;

29 (ii) the residence or business location of the person or persons
30 performing services;

31 (iii) the location where supplies used in research and development
32 are consumed; and

1 (iv) any other factors that the Department determines are relevant
2 for the determination.

3 (g) (1) In accordance with § 2.5–109 of the Economic Development Article, the
4 Department shall report on the credits approved under this section.

5 (2) The report required under paragraph (1) of this subsection shall include
6 for each individual or corporation approved to receive a credit under [subsection (b)(1) and
7 (2) of] this section in the prior calendar year:

8 (i) the individual's or corporation's name and address; and

9 (ii) the amount of the credit approved.

10 (3) The report required under paragraph (1) of this subsection shall include
11 the name of the individual or corporation and the aggregate amount of credits approved in
12 all calendar years for each individual or corporation under [subsection (b)(1) and (2) of] this
13 section.

14 (4) The report required under paragraph (1) of this subsection shall
15 summarize for the credits approved under [subsection (b)(1) of this section and for the
16 credits approved under subsection (b)(2) of] this section:

17 (i) the total number of applicants for credits under this section in
18 each calendar year;

19 (ii) the number of applications for which a tax credit was approved
20 in each calendar year; and

21 (iii) the total credits authorized under this section for all calendar
22 years under this section.

23 (h) If the provisions of § 41 of the Internal Revenue Code governing the federal
24 research and development tax credit are repealed or terminate, the provisions of this
25 section continue to operate as if the provisions of § 41 of the Internal Revenue Code remain
26 in effect, and the Maryland research and development tax credit under this section shall
27 continue to be available.

28 **Chapter 515 of the Acts of 2000, as amended by Chapter 98 of the Acts of 2005,**
29 **Chapter 20 of the Acts of 2010, and Chapter 85 of the Acts of 2019**

30 SECTION 2. AND BE IT FURTHER ENACTED, That:

31 (a) Except as otherwise provided in this section, this Act shall be applicable to all
32 taxable years beginning after December 31, 1999 but before January 1, [2021] **2026**.

1 (b) If a taxpayer's taxable year for income tax purposes is not the calendar year:

2 (1) for the taxable year that ends in calendar year 2000, the taxpayer may
3 apply for a prorated credit for research and development expenses paid or incurred in the
4 taxable year for that part of the taxable year that falls in calendar year 2000; and

5 (2) for the taxable year that begins in calendar year **[2020] 2025**, the
6 taxpayer may apply for only a prorated credit for research and development expenses paid
7 or incurred in the taxable year for that part of the taxable year that falls in calendar year
8 **[2020] 2025**.

9 SECTION 4. AND BE IT FURTHER ENACTED, That this Act shall take effect July
10 1, 2000. It shall remain effective for a period of **[22] 27** years and, at the end of June 30,
11 **[2022] 2027**, with no further action required by the General Assembly, this Act shall be
12 abrogated and of no further force and effect.

13 **Chapter 516 of the Acts of 2000, as amended by Chapter 98 of the Acts of 2005,**
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21 taxable year for that part of the taxable year that falls in calendar year 2000; and

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24 or incurred in the taxable year for that part of the taxable year that falls in calendar year
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29 abrogated and of no further force and effect.

30 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July
31 1, 2021, and shall be applicable to all Maryland research and development tax credits
32 certified after February 15, 2021.