

SENATE BILL 570

Q3

2lr1892
CF HB 943

By: **Senators King, Brinkley, Colburn, Currie, Garagiola, Jones-Rodwell,
Madaleno, Manno, McFadden, Peters, Pugh, and Young**

Introduced and read first time: February 3, 2012

Assigned to: Budget and Taxation

Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: March 20, 2012

CHAPTER _____

1 AN ACT concerning

2 **Income Tax Credit – Qualified Research and Development Expenses – ~~Small~~**
3 **~~Business Refund~~**

4 FOR the purpose of ~~defining “small business” as it relates to a certain refund in~~
5 ~~connection with a certain credit against the State income tax for certain~~
6 ~~research and development expenses incurred by an individual or corporation;~~
7 altering the total amount of research and development credits that the
8 Department of Business and Economic Development may approve in a calendar
9 year; ~~providing that certain unused credits by a small business may be claimed~~
10 ~~as a refund;~~ providing for the application of this Act; and generally relating to
11 certain credits against the State income tax based on certain expenses paid or
12 incurred for certain research and development conducted in the State.

13 BY repealing and reenacting, with amendments,
14 Article – Tax – General
15 Section 10-721
16 Annotated Code of Maryland
17 (2010 Replacement Volume and 2011 Supplement)

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

20 **Article – Tax – General**

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 10-721.

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

3 (2) "Department" means the Department of Business and Economic
4 Development.

5 (3) "Maryland base amount" means the base amount as defined in §
6 41(c) of the Internal Revenue Code that is attributable to Maryland, determined by:

7 (i) substituting "Maryland qualified research and development
8 expense" for "qualified research expense";

9 (ii) substituting "Maryland qualified research and development"
10 for "qualified research"; and

11 (iii) using, instead of the "fixed base percentage":

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

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

18 (4) "Maryland gross receipts" means gross receipts that are reasonably
19 attributable to the conduct of a trade or business in this State, determined under
20 methods prescribed by the Comptroller based on standards similar to the standards
21 under § 10-402 of this title.

22 (5) "Maryland qualified research and development" means qualified
23 research as defined in § 41(d) of the Internal Revenue Code that is conducted in this
24 State.

25 (6) "Maryland qualified research and development expenses" means
26 qualified research expenses as defined in § 41(b) of the Internal Revenue Code
27 incurred for Maryland qualified research and development.

28 ~~(7) "SMALL BUSINESS" MEANS A FOR-PROFIT CORPORATION,~~
29 ~~LIMITED LIABILITY COMPANY, PARTNERSHIP, OR SOLE PROPRIETORSHIP WITH~~
30 ~~NET BOOK VALUE ASSETS TOTALING, AT THE BEGINNING OR THE END OF THE~~
31 ~~TAXABLE YEAR FOR WHICH MARYLAND QUALIFIED RESEARCH AND~~
32 ~~DEVELOPMENT EXPENSES ARE INCURRED, AS REPORTED ON THE BALANCE~~
33 ~~SHEET, LESS THAN \$5,000,000.~~

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

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

6 (2) 10% of the amount by which the Maryland qualified research and
7 development expenses paid or incurred by the individual or corporation during the
8 taxable year exceed the Maryland base amount for the individual or corporation.

9 (c) (1) By September 15 of the calendar year following the end of the
10 taxable year in which the Maryland qualified research and development expenses
11 were incurred, an individual or corporation shall submit an application to the
12 Department for the credits allowed under subsection (b)(1) and (2) of this section.

13 (2) (i) Except as provided under paragraph (4) of this subsection,
14 the total amount of credits approved by the Department under subsection (b)(1) of this
15 section may not exceed [~~\$3,000,000~~] **\$9,000,000** for any calendar year.

16 (ii) Subject to paragraph (4) of this subsection, if the total
17 amount of credits applied for by all individuals and corporations under subsection
18 (b)(1) of this section exceeds the maximum specified under subparagraph (i) of this
19 paragraph, the Department shall approve a credit under subsection (b)(1) of this
20 section for each applicant in an amount equal to the product of multiplying the credit
21 applied for by the applicant times a fraction:

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

24 2. the denominator of which is the total of all credits
25 applied for by all applicants under subsection (b)(1) of this section in the calendar
26 year.

27 (3) (i) Except as provided in paragraph (4) of this subsection, the
28 total amount of credits approved by the Department under subsection (b)(2) of this
29 section may not exceed [~~\$3,000,000~~] **\$9,000,000** for any calendar year.

30 (ii) Subject to paragraph (4) of this subsection, if the total
31 amount of credits applied for by all individuals and corporations under subsection
32 (b)(2) of this section exceeds the maximum specified under subparagraph (i) of this
33 paragraph, the Department shall approve a credit under subsection (b)(2) of this
34 section for each applicant in an amount equal to the product of multiplying the credit
35 applied for by the applicant times a fraction:

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

1 2. the denominator of which is the total of all credits
2 applied for by all applicants under subsection (b)(2) of this section in the calendar
3 year.

4 (4) (i) For any calendar year, if the maximum specified under
5 paragraph (2)(i) of this subsection exceeds the total amount of credits applied for by all
6 individuals and corporations under subsection (b)(1) of this section, the maximum
7 specified under paragraph (3)(i) of this subsection shall be increased for that calendar
8 year by an amount equal to the amount by which the maximum specified under
9 paragraph (2)(i) of this subsection exceeds the total amount of credits applied for by all
10 individuals and corporations under subsection (b)(1) of this section.

11 (ii) For any calendar year, if the maximum specified under
12 paragraph (3)(i) of this subsection exceeds the total amount of credits applied for by all
13 individuals and corporations under subsection (b)(2) of this section, the maximum
14 specified under paragraph (2)(i) of this subsection shall be increased for that calendar
15 year by an amount equal to the amount by which the maximum specified under
16 paragraph (3)(i) of this subsection exceeds the total amount of credits applied for by all
17 individuals and corporations under subsection (b)(2) of this section.

18 (5) By December 15 of the calendar year following the end of the
19 taxable year in which the Maryland qualified research and development expenses
20 were incurred, the Department shall certify to the individual or corporation the
21 amount of the research and development tax credits approved by the Department for
22 the individual or corporation under subsection (b)(1) and (2) of this section.

23 (6) To claim the approved credits allowed under this section, an
24 individual or corporation shall:

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

27 (ii) attach a copy of the Department's certification of the
28 approved credit amount to the amended income tax return.

29 (d) ~~(1) [If] EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS~~
30 ~~SUBSECTION, IF~~ the credit allowed under this section in any taxable year exceeds the
31 State income tax for that taxable year, an individual or corporation may apply the
32 excess as a credit against the State income tax for succeeding taxable years until the
33 earlier of:

34 ~~{(1)} (I)~~ the full amount of the excess is used; or

35 ~~{(2)} (II)~~ the expiration of the 7th taxable year after the taxable year
36 in which the Maryland qualified research and development expense was incurred.

~~(2) IF THE CREDIT ALLOWED UNDER THIS SECTION IN ANY TAXABLE YEAR EXCEEDS THE STATE INCOME TAX FOR THAT TAXABLE YEAR, A SMALL BUSINESS MAY CLAIM A REFUND IN THE AMOUNT OF THE EXCESS.~~

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

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

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

(2) The Comptroller shall adopt regulations providing for:

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

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

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

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

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

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

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

(i) the location where services are performed;

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

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

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

3 (g) (1) On or before January 10 of each year, the Department shall report
4 to the Governor and, subject to § 2–1246 of the State Government Article, to the
5 General Assembly, on the credits approved under this section.

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

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

10 (ii) the amount of the credit approved.

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

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

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

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

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

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

29 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
30 June 1, 2012, and shall be applicable to all Maryland research and development tax
31 credits certified after December 15, 2012.