

OFFICE OF FINANCE  
MARYLAND RESEARCH AND DEVELOPMENT  
TAX CREDIT PROGRAM

ANNUAL STATUS REPORT  
TAX YEAR 2017  
TAX-GENERAL ARTICLE

SECTION 10-721

Maryland Department of Commerce

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## ***Maryland R&D Tax Credit, TYE 2017 Summary***

The Maryland Research and Development Tax Credit program was enacted during the 2000 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 November 15<sup>th</sup> of the calendar year following the tax year for which the R&D expenses were incurred. For November 15, 2018, businesses applied for expenses incurred in the Tax Year Ending (TYE) 2017. After receiving certification, a business may amend its tax return and or claim the credit on one of the following 7 year's returns. If the credit exceeds the business's tax liability, the unused portion of the credit may be carried forward for up to seven years. A small business may claim a refund. A "small business" is defined as a for-profit corporation, limited liability company, partnership, or sole proprietorship with net book value assets totaling, at the beginning or the end of the taxable year for which Maryland qualified research and development expenses are incurred, as reported on the balance sheet, less than \$ 5,000,000.

The Maryland Research and Development Tax Credit Program includes two tax credits.

***Basic R&D Tax Credit-*** *This credit is 3% of eligible R&D expenses that do not exceed the Maryland Base Amount. The Maryland Base Amount is a business's average R&D expenses over the last four years. However, if the total amount of credits claimed by all businesses exceeds \$5.5 million, then the Basic R&D tax credit will be prorated.*

***Growth R&D Tax Credit-*** *This credit is 10% of eligible R&D expenses that exceed the Maryland Base Amount. However, if the total amount of credits claimed by all businesses exceeds \$6.5 million, then the Growth R&D tax credit will be prorated.*

Commerce certified 358 businesses to receive credits for research conducted in Maryland for their tax year ending in 2017. Businesses reported having \$2,134 million in Maryland Qualified R&D. The total amount of credits that companies applied for was approximately \$48.9 million in basic research credits and \$50.3 million growth credits. By statute, the total of both R&D credits combined cannot exceed \$12 million. Because credit applications exceeded the \$12 million that can be claimed by all firms, the amounts for each company were prorated. The basic R&D credit was 8.9 times oversubscribed and the growth credit was 7.7 times oversubscribed. These limits reduced the effective rates to 0.34% for the basic credit and 1.29% for the growth credit.

The credit is refundable for "small businesses". Of the applicants, 128 businesses met the definition of a "small business". A small business for purposes of the R&D tax credit is defined as: a for profit corporation, limited liability company, partnership or sole proprietorship with net book value assets totaling, at the beginning or the end of the taxable year for which the Maryland Qualified Research and Development expenses are incurred, as reported on the balance sheet, less than \$5,000,000.