

DIVISION OF ECONOMIC POLICY, RESEARCH AND
LEGISLATIVE AFFAIRS

MARYLAND RESEARCH AND DEVELOPMENT
TAX CREDIT PROGRAM

ANNUAL STATUS REPORT
TAX YEAR 2006
TAX-GENERAL ARTICLE

SECTION 10-721(g)

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Development

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BASIC FACTS ABOUT MARYLAND'S RESEARCH AND DEVELOPMENT TAX CREDIT TAX YEAR 2006

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 for certification on or before September 15th for R&D expenses incurred in the preceding tax year. The Department of Business and Economic Development (DBED) is responsible for administering the certification process. After receiving certification, businesses may then amend their 2006 returns and receive refunds. If a business receives more R&D credits than it paid in taxes for 2006, the unused portion of the credit may be carried forward for up to seven years.

The Maryland Research and Development Tax Credit Program includes two separate, but related, tax credits. One credit is calculated on a business's average level of research; the other credit is calculated on its increase in R&D expenditures over previous years.

Basic R&D Tax Credit- This credit is 3% of eligible R&D expenses that do not exceed the business's average R&D expenses over the last four years. However, if the total amount of credits claimed by all businesses exceeds \$3 million, then the Basic R&D tax credit will be prorated. Moreover, if there is money left over from the Growth R&D tax credit allotment, then this money will be added to the \$3 million.

Growth R&D Tax Credit- This credit is 10% of eligible R&D expenses that exceed the businesses average R&D expenses over the last four years. However, if the total amount of credits claimed by all businesses exceeds \$3 million, then the Growth R&D tax credit will be prorated. Moreover, if there is money left over from the Basic R&D tax credit allotment, then this money will be added to the \$3 million.

DBED certified 110 businesses to receive credits for research conducted in Maryland for their tax year ending in 2006. This is an increase of 108 percent over the number of firms that applied for tax year 2000, the first year of the credit.

The businesses applying for the Maryland R&D tax credit incurred \$886.2 million in research and development expenses in TY 2006. Of the 110 businesses that applied, 71% increased their R&D expenses in 2006 over their average R&D expenses from the previous four years, and were therefore, able to claim the Growth R&D Tax Credit.

At the *nominal statutory rates* of 3% for the basic research credit and 10% for the growth credit, applicants would have received \$20.8 million in basic research credits and \$19.2 million in growth credits. However, the General Assembly established limits of \$3 million for each of the two R&D credit components. The basic R&D credit was 6.9 times over subscribed and the growth credit was 6.4 times oversubscribed. These limits reduced the *effective rate* for the basic credit to 0.43 percent and the *effective rate* for the growth credit to 1.56 percent.

The applicants and information about the amount of credits for which they were certified are included in the attached appendices.