

DIVISION OF FINANCE
MARYLAND RESEARCH AND DEVELOPMENT
TAX CREDIT PROGRAM

ANNUAL STATUS REPORT
TAX YEAR 2009
TAX-GENERAL ARTICLE

SECTION 10-721(g)

Submitted by:

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Development

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BASIC FACTS ABOUT MARYLAND'S RESEARCH AND DEVELOPMENT TAX CREDIT TAX YEAR 2009

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 tax returns and receive refunds. If a business receives more R&D credits than it paid in taxes, 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 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.

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.

DBED certified 129 businesses to receive credits for research conducted in Maryland for their tax year ending in 2009. The businesses applying for the Maryland R&D tax credit incurred \$991.6 million in research and development expenses in TY 2009. Of the 129 businesses that received certification, 53% increased their R&D expenses in 2009 over their average R&D expenses from the previous four years, and were therefore, able to claim the Growth R&D Tax Credit. This is a lower percentage than in previous years, reflective of the current economy.

At the *nominal statutory rates* of 3% for the basic research credit and 10% for the growth credit, applicants would have received \$26.5 million in basic research credits and \$10.9 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 8.83 times oversubscribed and the growth credit was 3.63 times oversubscribed. These limits reduced the *effective rate* for the basic credit to 0.34 percent and the *effective rate* for the growth credit to 2.76 percent.

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