



MARYLAND Research and Development Tax Credits

What is the Research and Development Tax Credit Program?

Maryland's Research and Development Tax Credit program provides income tax credits to businesses that invest in research and development in Maryland. The total amount of credits depends on the amount of eligible expenses incurred with a limit of \$6 million for all businesses that apply.

How much credit does a business receive?

Businesses may qualify for both the Basic R&D Credit and the Growth R&D Credit.

Basic R&D Credit: A business will receive 3% of the lesser of 1) its Maryland qualified research and development expenses incurred during the taxable year or 2) the Maryland base amount, subject to statutory limits on the total amount of credits to all firms.

Growth R&D Credit: The business will receive 10% of Maryland qualified R&D expenses incurred during the taxable year that exceeds the Maryland base amount, subject to statutory limits on the total amount of credits to all firms.

How do I know if I can claim the R&D Tax Credits?

1. **Firm Certification Requirement:** A firm must submit an application to the Department of Business and Economic Development by September 15th of the year following the taxable year in which the Maryland qualified research and development expenses were incurred. DBED will certify to the taxpayer the amount of Basic and Growth R&D tax credits that the taxpayer may claim by December 15th of the same year.
2. The firm may only claim credits for expenses incurred for Maryland qualified research and development. Maryland qualified research and development is research and development as defined in § 41 (d) of the Internal Revenue Code -- expenses eligible for the federal R&D credit.

How do I calculate the credit amount?

1. Determine the business's Maryland gross receipts for the tax year for which you are claiming credits and the preceding four years or for those years that the business had gross receipts.
2. Compute the average gross receipts based on the number of years the business was in existence. If the business is a partial or short year taxpayer, multiply the average by the portion of the year for which the business entity is claiming the credit.
3. Determine the business's Maryland qualified research and development expenses for the tax year for which you are claiming credits and the preceding four years, if any.
4. Compute the average of the expenses for these years based on the number of years the business was in existence. If the business is a partial or short year taxpayer, multiply the average by the portion of the year for which the business entity is claiming the credit.

5. Calculate the base percentage by dividing the average (or adjusted average) Maryland qualified research and development expenses by the average (or adjusted average) Maryland gross receipts for the applicable years.
6. Calculate the Maryland base amount by multiplying the base percentage by the average Maryland gross receipts. If the business entity is a partial year or short year taxpayer determine the Maryland adjusted base amount by multiplying the base percentage by the adjusted average Maryland gross receipts.
7. Compute the Basic R&D tax credit by taking the lesser of 3% of the Maryland qualified R&D expenses for the tax year in which you are claiming the credit and 3% of the Maryland Base Amount (or adjusted base amount).
8. Compute the Growth R&D tax credit by subtracting the Maryland Base Amount from the Maryland qualified R&D expenses in 2001 and taking 10% of this amount.

What if my firm did not invest in research and development before the tax year in which I am claiming the credit?

If the first year in which your firm incurred R&D expenses is the year you are claiming the tax credits then the Maryland Base Amount would be equal to zero and you would not qualify for the Basic R&D credit. You would qualify for the Growth R&D credit, which would be 10% of your expenses incurred in the tax year.

What if I do not have enough tax liability to use all of the credit?

If the tax credits exceed the tax imposed for that year, the credits may be applied against following years' taxes until the credit is used or the credit may be carried forward for 7 years.

How do I claim the R&D Tax Credit?

The business must file an amended tax credit return for the year in which the expenses were incurred and attach a copy of the certification from DBED.

What is the Maryland Adjusted Base Amount?

If you are a partial or short year taxpayer, Basic and Growth R&D tax credits will be calculated using the Maryland Adjusted Base Amount. The Maryland Adjusted Base Amount is the Maryland Base Amount multiplied by the following fraction: the number of days in the calendar year that are in the firm's partial or short tax year divided by 365 days. For example, if your tax year were from January 1, 2001 to June 30, 2001, the Maryland adjusted base amount would be the Maryland base amount multiplied by $181/365$ or 50%.

What if the total Basic R&D tax credits applied for by all firms exceeds \$3 million?

If applications by all firms for the Basic R&D Tax credit exceed \$3 million, your credit amount will be calculated by multiplying the credit applied for by the following fraction: \$3 million divided by the total value of credits applied for by all applicants. For example, if the credit amount that you are applying for is \$1 million and the total amount of credits applied for by all businesses is \$6 million,

you will be eligible for \$500,000. Additionally, if there are unused funds from the \$3 million allowed for the Growth R&D credit, then these unused funds will be added to the \$3 million allowed for the Basic R&D credit.

What if the total Growth R&D tax credits applied for by all firms exceeds \$3 million?

If applications by all firms for the Growth R&D Tax credit exceed \$3 million, your credit amount will be calculated by multiplying the credit applied for by the following fraction: \$3 million divided by the total credits applied for by all applicants. For example, if the credit amount that you are applying for is \$1 million and the total amount of credits applied for by all businesses is \$6 million, you will be eligible for \$500,000. Additionally, if there are unused funds from the \$3 million allowed for the Basic R&D credit, then these unused funds will be added to the \$3 million allowed for the Growth R&D credit.

My corporation has several subsidiaries in Maryland conducting Research and Development. How do I determine the amount of credits allowable to each entity?

Only the parent company will apply for the R&D credit. Each subsidiary will be allocated a fraction of the total credits for use against its Maryland tax liability. The fraction is the Maryland qualified R&D expenses incurred by the separate entity divided by the total Maryland qualified R&D expenses incurred by all affiliated corporations and entities under common control.

What if R&D expenses increase because of a merger, acquisition or reorganization?

When determining the Maryland Base Amount or Maryland Adjusted Base Amount, the Maryland qualified research and development expenses from the acquired, consolidated, merged or restructured entity must be included. For example if Company A buys Company B, it can count Company B's Maryland qualified R&D expenses in the taxable year, but it must also count Company B's R&D expenses in previous years when determining the base amount.

If I purchase a firm that has claimed R&D credits, do the credits carry over?

The credits carry over to the extent that the federal law allows. If the transaction involves a purchase of assets, the credits would not carry over because the company from which the assets are being purchased would remain a legal entity and therefore, the credits would remain with that company.