



TESTIMONY PRESENTED TO THE SENATE BUDGET & TAXATION COMMITTEE

SENATE BILL 246 – Income Tax – Angel Investor Tax Credit Program

Sponsor: Senators Hester, Feldman, and Peters

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GREATER BALTIMORE COMMITTEE**

Position: Support

The Greater Baltimore Committee (GBC) supports Senate Bill 246, which authorizes a tax credit against the State income tax for 50% of an investment made in a qualified innovation business, not to exceed \$50,000, or \$100,000 for a qualified investor that is a married couple filing jointly or a pass-through entity; provided that the qualified investor meets certain eligibility requirements.

According to the Maryland Economic Development Commission’s 2020 report on Maryland business climate, Maryland has displayed a clear and present multiyear trend of lagging behind the United States as a whole in multiple business metrics. Even more concerning is the low ratings Maryland has received for support for small businesses. Maryland ranked 43rd in Small Business Tax Climate in 2020 according to the Tax Foundation 2021, 40th in Entrepreneur-friendly States in 2019 according to the Small Business Policy Index, and had the 8th highest state and local taxes per capita. This is not conducive to an environment where small and minority owned businesses can thrive; a crucial component to positioning Maryland to compete in the United States economy alone, much less the global economy.

With the current Covid-19 pandemic, targeted economic policy and regulatory solutions to accelerate the recovery of and promote the development of small businesses are crucial. The Greater Baltimore Committee believes the Angel Investor Tax Credit program is an important step toward that goal. This bill would provide tax incentives to “Angel Investors” who invest their own funds in early stage ventures in Maryland. The funding for the tax credit would be provided by the Angel Investor Tax Credit Reserve Fund, an allocation of the annual state budget set aside for that purpose.

The importance of this specific bill is that its flexibility allows it to maximize the business sectors where it can have a positive impact. While there are important and successful programs that target industry-specific sectors such as biotechnology or cybersecurity, which the Greater Baltimore Committee (GBC) strongly supports, there are no current incentives that are viable across a broad range of industries, an investment gap which this bill could help remedy. The Organization for Economic Cooperation and Development reported that “angel investors” tended to invest in a wider wage of innovation than traditional venture capitalists. As the United States has transitioned from an industrial economy to a tech-based economy over the past several decades, the growth of new industries is a crucial component in maintaining a healthy economy and preventing stagnation. Incentivizing investment in a broad range of fields minimizes the chance of passively curtailing development in any single field, especially when that industry could prove crucial to Maryland’s economic health at a later date.

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This bill also provides protections against monies being allocated to companies which the bill was not intended to serve. This legislation is very targeted; a “qualified business” for the purposes of this bill is defined as having its HQs and base of operations in Maryland, has fewer than 35 full time employees, is a privately owned business, and has been operating for less than 10 years. Any qualified business that received an “angel investment” would be required to report yearly information to the Maryland Department of Commerce. Small businesses will be the direct beneficiaries of these investments and have the most to gain from this legislation.

This type of legislation comes with precedent; across the country “Angel Investors” have been an economic benefit for many states. A study published in the Small Business Institute Journal noted that 29 states implemented angel investment tax credit programs between 1997 and 2011 and had analyzable data available. Of those 29 states, 22 experienced an increase in entrepreneurial activity within the first two years of the program. Eight of those states implemented their program during a slowdown in the national economy and still managed to demonstrate an increase in entrepreneurial activity. As this pandemic has illustrated, legislation that is effective in both times of crisis and stability is imperative to keeping Marylanders economically and socially secure.

Senate Bill 246 is consistent with the Greater Baltimore Committee’s [2021 Legislative Priorities](#) which include provisions to position Maryland to compete in the global economy, advocate for policy aimed to accelerating economic recovery with an emphasis on small and minority business, and champion policies that strengthen competitiveness and job creation.

For these reasons, the Greater Baltimore Committee urges a favorable report on Senate Bill 246.

The Greater Baltimore Committee (GBC) is a non-partisan, independent, regional business advocacy organization comprised of hundreds of businesses -- large, medium and small -- educational institutions, nonprofit organizations and foundations located in Anne Arundel, Baltimore, Carroll, Harford, and Howard counties as well as Baltimore City. The GBC is a 66-year-old, private-sector membership organization with a rich legacy of working with government to find solutions to problems that negatively affect our competitiveness and viability.