

Cybersecurity Alert

May 2012

What You Need to Know Regarding the New Maryland Income Tax Credit for Security Clearance Costs & Construction of SCIFs

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The recent passage of Senate Bill 296 will create an additional incentive for investment by the Maryland business community in cleared employees and Sensitive Compartmented Information Facilities (SCIFs). Beginning in 2013, individuals and corporations can claim a Maryland income tax credit (a dollar-for-dollar reduction in the amount of Maryland income taxes owed) for costs incurred to obtain federal security clearances for employees and to construct or renovate SCIFs. This tax savings will reduce the overall cost of the federal security clearance process and will make it more affordable to construct or renovate SCIFs located in Maryland.

How much is the Credit?

For qualified expenses related to federal security clearance measures, an individual or corporation can claim a credit against Maryland income tax up to \$100,000.00 per taxable year. Qualified expenses include the following:

- Processing application requests for clearances of employees located in Maryland;
- Maintaining, upgrading or installing computer systems in Maryland to obtain federal security clearances; and
- Training employees in Maryland to administer the application process.

For construction and equipment costs related to the construction or renovation of a SCIF located in Maryland, the credit is capped at 50% of the costs or \$100,000.00 (whichever is less) per taxable year. If an individual or corporation constructs or renovates multiple SCIFs located in Maryland, the total credit claimed for all SCIFs is capped at \$250,000.00 per taxable year.

The Maryland Department of Business and Economic Development (DBED) is responsible for administering the credit. DBED can issue a total of \$2 million in credits for both security clearance costs and SCIFs each calendar year. The credits are *not* allocated on a first-come first-served basis. Instead, if the total amount of credits applied for in any calendar year by all individuals and corporations exceeds \$2 million, the credit will be allocated among the applicants on a pro-rata basis.

How is the Credit claimed?

An employer will be required to satisfy the following requirements to claim the Maryland income tax credit:

- By September 15th following the end of the taxable year in which the costs were incurred, the individual or corporation must submit an application to DBED for the credits.
- By December 15th following the end of the taxable year in which the costs were incurred, DBED will certify to the individual or corporation its "approved" tax credit amount.
- An individual or corporation will be required to file an amended income tax return for the taxable year in which the costs were incurred and attach a copy of DBED's certification.
- The credit can be carried forward to succeeding taxable years until the full amount of the credit is used.

When is the Credit available?

The credit is available for taxable years that begin after December 31, 2012 but before January 1, 2017.

Who can claim the Credit?

Individuals and corporations who incur qualified expenses related to obtaining federal security clearances for employees and constructing or renovating SCIFs can claim the credit.

With the new tax credit incentive for investing in cleared employees and SCIFs, Maryland businesses can now reduce the overall cost of the federal security clearance process and make it more affordable to

construct or renovate SCIFs located in Maryland.