Maine Center for Economic Policy

Mailing: PO Box 437
Street: 1 Weston Court, Suite 103
Augusta, ME 04332
207.622.7381
mecep.org

Testimony in Opposition to LD 643, An Act to Promote Research and Development in the State by Increasing the Research Expense Tax Credit
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Senator Grohoski, Representative Perry, and members of the Taxation Committee, my name is Maura Pillsbury and I am an analyst at the Maine Center for Economic Policy. I am here today to testify in opposition to LD 643, An Act to Promote Research and Development in the State by Increasing the Research Expense Tax Credit. MECEP agrees that supporting research and development in Maine is important, as is growing sectors that will lead to innovation and economic development in our state. However, we also believe there are more effective ways to increase investment in research and development than business tax subsidies.

LD 643 would make changes to the existing state R&D credit, which is based on the federal credit. It would:

- double the state's existing R&D Tax Credit from 5 percent to 10 percent of qualified research expenses over a base amount, and from 7.5 percent to 15 percent of basic research payments[i]
- double the allowable credit from 100 percent of the first $25,000 to 100 percent of the first $50,000 of tax liability
- provide a credit of up to 75 percent of the corporation's remaining tax over $50,000 (rather than over $25,000)
- lower the base amount (the amount over which a business must invest to receive the credit) from 100 percent of average expenditures over the past three years to 50 percent of expenditures over the past three years, which increases the tax credit even more.

The current R&D tax credit is estimated to cost the state of Maine a total of $6.3 million in FY24-FY25 (Maine State Tax Expenditure Report, 2024-2025). It stands to reason this bill would at least double that. The current credit also requires investment above and beyond existing R&D investment, so businesses must invest more in the current year than the prior year to receive the credit. This bill would cut that in half, so if a business makes over half of the investment they did in the years prior, they would receive this credit.

In a review last year, the Legislature's Office of Program Evaluation and Government Accountability (OPEGA) found there was inadequate program data to judge the effectiveness of the R&D credit, and that research points to other factors that may be more important in attracting R&D to Maine. (Evaluation of the Research Expense Tax Credit, 2022)

> *OPEGA noted that factors linked to strong state R&D performance include: academic, industry, and federal government R&D funding in states; National Science Foundation*

activity; measures of venture capital as well as patents, business formation, and initial public offerings; human capital in sciences with adequate skills and training; broadband infrastructure; and availability of researchers and university collaborative research settings (p.15).

R&D credits are generally most lucrative for big pharmaceutical and high-tech companies. However, we don't know the amount individual businesses receive in R&D credits or who receives them because Maine is among the worst states in terms of transparency on business tax credits.[ii] A review of the federal credit found that large corporations account for a small share of the number of credit claims but the vast share of the total value of those claims.[iii] This report also found:

> *Businesses generally seek the highest possible return on their investments. Therefore, in selecting R&D investments, they are likely to assign a higher priority to investments that might earn substantial short-term profits than to projects that expand or clarify basic knowledge in engineering and scientific fields, which are unlikely to produce substantial profits anytime soon, if ever. (p.22)*

We believe if the Legislature would like to continue or expand this credit, it is important to understand what public benefits this credit is providing, and what impacts the Legislature hopes it will have. We believe increasing the R&D tax credit will not address the most pressing issues facing Maine businesses today and would not be a wise investment of public dollars that would be better directed elsewhere.

Thank you for your time. I would be happy to answer any questions.
Contact information: maura@mecep.org

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[i] According to OPEGA: "Qualified research expenses" include both in-house research expenses and contract research expenses as defined in IRC 41(b)(1). "Basic research payments" are amounts that exceed a base amount and are paid to qualified organizations (such as educational institutions or certain scientific research organizations) per a written agreement for the performance of basic research (IRC 41(e)(1)(A) and (e)(2)(A)).

[ii] Tarczynska, Kasia, Christine Wen, Katie Furtado. *Financial Exposure: Rating the States on Economic Development Transparency.* Good Jobs First, April 2022.

[iii] Congressional Research Service. *Federal Research Tax Credit: Current Law and Policy Issues.* 27 July 2022.