

## Executive Summary

# Research Expense Tax Credit (R&D Credit)



### About the Research Expense Tax Credit

The Research Expense Tax Credit (R&D credit) provides a non-refundable income tax credit to taxpayers who make certain qualified research expenditures in Maine. The effect of the credit is to reduce the cost, and hence the financial risk, of investments in research and development. The credit is built on the federal R&D credit and uses federal definitions of qualifying research expenses.

The R&D credit was enacted in 1995 and has no sunset date. It is administered by Maine Revenue Services through the normal tax filing process in accordance with Title 36 §5219-K.

### Overall Conclusions

In this evaluation OPEGA found that:

- Research supports the idea that increasing innovation is an economic driver, but the ability to understand the specific impacts of Maine's R&D credit on the State economy is limited by the lack of readily available data.
- Other data available on R&D in Maine generally demonstrates that the State has performed poorly over time on R&D even as Maine's credit has remained available.
- R&D credits are common in states (70%) and typically built on the structure of the federal R&D credit.
- While having an R&D credit as an option to support Maine businesses may make sense in light of similar credits in many states, research points to other factors that may be more important in attracting R&D to Maine.
- The incremental structure and limitations of Maine's credit exclude some businesses conducting R&D from participating in the credit, but there may be reasons for policymakers to support these limitations. Complexities in the federal credit, upon which the State credit is based, may also create uncertainty for businesses and hinder take-up of the credit.

### Recommendations

OPEGA makes three recommendations for the Legislature's consideration. We recommend that the Legislature, in consultation with State agencies and other stakeholders where appropriate:

1. Review and memorialize the R&D credit's goals, intended beneficiaries, and how success is defined in terms of outcomes for the credit;
2. Amend the design of the R&D credit as needed to ensure that intended beneficiaries can access the credit; and
3. Determine what data is needed for effective oversight of the R&D credit and make changes to statute or practice, as needed, to ensure the necessary data is readily accessible.