Tax Expenditure Evaluation

Research Expense Tax Credit

Presentation – March 11, 2022

Report to the Government Oversight Committee (GOC)
by the Office of Program Evaluation and Government Accountability (OPEGA)

Key Takeaways

Overall Conclusions

- Research supports innovation as an economic driver.
- The impact of Maine's credit on the State economy is unknown based on readily available data.
- Nationwide data show Maine ranks poorly on many R&D measures.
- The R&D credit may be useful to support Maine businesses in light of similar credits in other states, but other factors may be more important in attracting R&D to Maine.

Recommendations

- Memorialize goals for the credit
- Target intended beneficiaries
- Clarify data needed for oversight

Road Map

Program Background

Evaluation Results

Recommendations

Maine's R&D Credit Basics

Eligible Expenses

Based on federal R&D credit

Incremental expenses only

Maine expenses only

Credit Amount

5% of qualified research expenses

+

7.5% of basic research payments

Nonrefundable

Can't reduce tax below zero

15 year carry forward

Limitations
(Corporate filers)

100% of first $25,000 of tax due

+

75% of tax due over $25,000

OPEGA Tax Expenditure Evaluation – Research Expense Tax Credit
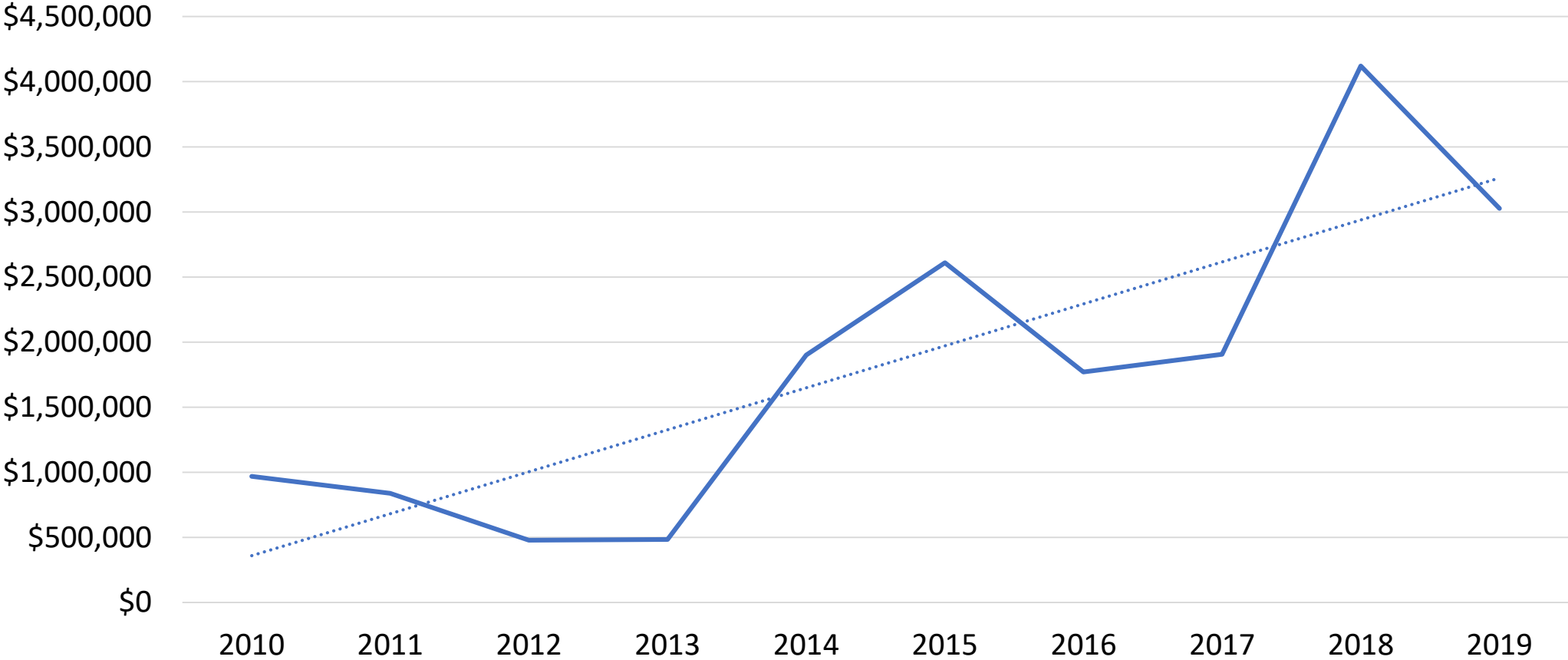
Credit History & Context

Enacted in 1995

LD 308 proposes changes

35 states have similar credits

R&D Credits Claimed, Tax Years 2010-2019

Source: OPEGA analysis of aggregate tax data provided by MRS.

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Evaluation Results – 5 Key Areas

1. R&D credit structure & design

2. Benefits to intended beneficiaries

3. Goal: Creation of high-quality jobs

4. Goal: Stimulation of R&D investment in Maine

5. Goal: Impacts on the overall economy of the State

1. Credit Structure & Design

- Building on federal credit can bring efficiencies around design and administration

- Complexities in federal R&D can the impact State R&D credit

- Statute currently specifies no goals for the credit

2. Benefits to Intended Beneficiaries

- Businesses taking the R&D credit must be performing or contracting for R&D

- Some businesses may be excluded from taking the credit even if they are undertaking R&D

3. Goal: Creation of High-Quality Jobs in Maine

- Businesses taking the R&D credit are likely spending on high-quality research jobs in Maine

- How much credit recipients are spending on highly-skilled jobs is unknown

- Maine ranked 31st on science, engineering & health (SEH) doctoral degree holders as a % of total workforce

4. Goal: Stimulation of R&D Investment in Maine

- No data readily available about R&D investment dollars associated with the credit

- Maine ranked 47th in total R&D performed

- Other factors are important with regard to business location decisions

5. Goal: Impacts on the Overall Economy of the State

R&D as a % of GDP, by State, 2018
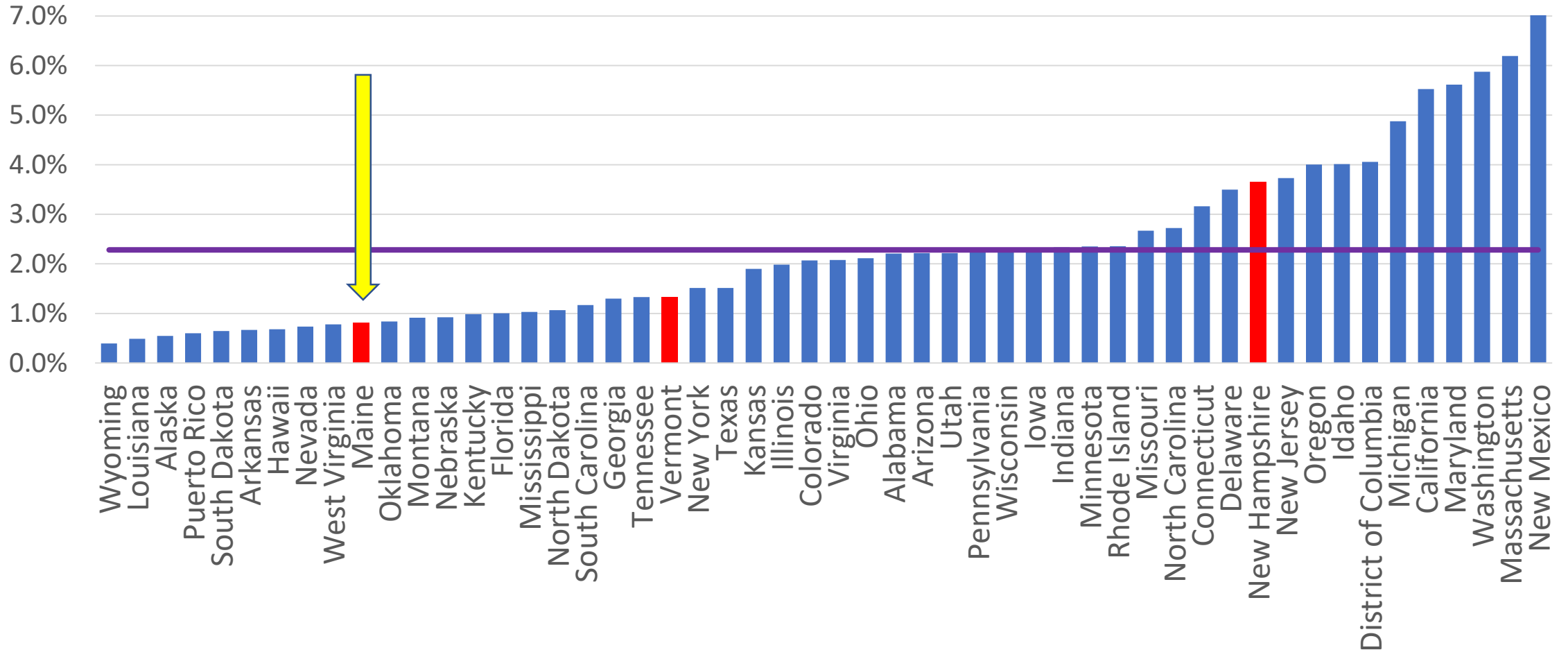
Recommendation 1

Re-evaluate and memorialize the R&D credit's goals and desired outcomes for the credit

Considerations:

- Framework for oversight and evaluation
- Fit within overall R&D strategy & environment
- Fit with 10-Year Strategic Economic Development Plan

Recommendation 2

Consider whether amendments to the credit's design are desirable to potentially expand participation

Considerations:

- Effects of incremental design
- Limitations on credit claims
- Uncertainty for participants

Recommendation 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 available

Considerations:

- Uncollected data
- Data retrieval challenges & confidentiality
- Business concerns about data collection
- Alternate data sources

Wrap-Up

Acknowledgments

- Maine Revenue Services
- Business community program stakeholders

Next steps

- Public comment
- Work session and vote
- Transmittal to Taxation Committee

Report is available on OPEGA website:
https://legislature.maine.gov/opega/opega-reports