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Testimony of Phoenix McLaughlin

On 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 Committee on Taxation, my name is Phoenix McLaughlin, and I am the Tax Incentive Policy Manager for the Department of Economic and Community Development. I am here to testify on LD 643, *An Act to Promote Research and Development in the State by Increasing the Research Expense Tax Credit*.

The Research Expense Tax Credit, or R&D credit, was enacted in 1995 and aims to lower the cost of research and development for companies conducting such work in Maine. The credit builds on the similar federal credit, which taxpayers are required to utilize to take advantage of Maine's credit.

Maine's level of investment in research and development has historically been far from what it needs to be. That's why our 10-Year Economic Development Strategy prioritized efforts to strengthen R&D investment as a part of its call to spur innovation. To increase the investment, the plan called for a combination of public subsidies, tax incentives, and higher education investments to incentivize private sector investment. Maine's technology-based companies—the businesses most likely to engage in research, development, and innovation—account for around 20% of our gross regional product. The R&D credit is one valuable tool in the toolbox of federal, state, and local programs aimed at boosting research and development in Maine.

In March of last year, the Office of Program Evaluation and Government Accountability published a report on the R&D credit. One of their recommendations was to “Amend the design of the R&D credit as needed to ensure that intended beneficiaries can access the credit”. One part of that recommendation was to consider the fact that the credit currently only applies to incremental new R&D investment, meaning a business that invests in R&D at a constant level receives no benefit. LD 643 addresses part of this restriction by reducing the base level a business's R&D spending is measured against.

We are seeing substantial momentum in Maine's innovation economy: the University of Maine's R1 status achievement, the start of the Roux Institute, and growing business investment in advances in our heritage industries and new sectors like life sciences. The Department looks forward to continuing to work with this Legislature to build on this momentum through improved policy tools.

Thank you for your time, and I am happy to answer any questions.

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