

**Testimony in Opposition to LD 926, An Act to Promote Research and Development in the State by Amending the Research Expense Tax Credit**

April 2, 2025

Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We are testifying in opposition to LD 926.

First let me say we agree that supporting research and development in Maine is important, as is growing sectors that will lead to innovation and economic development in our state. But there are more effective ways to increase R&D than business tax subsidies, including direct funding for research at universities, building a skilled workforce, and building out Maine's broadband infrastructure, among others.

We are concerned with the proposed changes to expand the R&D credit in this bill, which we oppose, including:

- doubling the size of the R&D credit from 5% to 10% of qualified research expenses<sup>i</sup> over the base amount
- doubling the credit for basic research payments<sup>ii</sup> from 7.5% to 15% of that allowable under the federal credit
- changing the base amount from the amount spent in excess over the average of the prior three years to 50% of the average spent over the last three years
- doubling the amount of credit for 100% reimbursement from \$25,000 to \$50,000

According to Maine Revenue Services, this tax credit costs \$4 million per year.<sup>iii</sup> With the changes proposed in this bill, we assume the cost of the tax credit could at least double.

Rather than stimulating more R&D spending, this credit would also go to businesses for investments they are already making, which is a major weakness of business tax expenditure programs like this one. Business tax credits like this are poorly targeted and due to their design will also benefit businesses who would have made an investment anyway. Currently the credit for qualified research expenses only goes to businesses who invest *more* in research and development than they have in prior years. This bill would change this, and reward businesses who spend more than *just* half of the investment they made in prior years, which is a significant departure from how the federal credit works.

In a 2022 review of the credit, the Office of Program Evaluation and Government Accountability 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 than this credit,<sup>iv</sup> some of which I have already mentioned. We believe investment in these other areas would also broadly benefit the public, unlike this tax credit, which will disproportionately benefit businesses who already have the means to make an investment.

Just last year, Maine voters approved a \$25 million research and development bond passed by the Legislature. This funding will be distributed by Maine Technology Institute via grants, which have greater oversight and accountability than the R&D credit. Under the federal credit, businesses may also receive a tax credit for 20% of their R&D expenses. OPEGA also found Maine also has more than a dozen other

programs targeting and supporting investment in R&D. This does not include a host of other business tax breaks that may also be used to offset the cost of the same investments, including the Dirigo credit and Seed Capital tax credit.

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 state R&D credits or who receives them because Maine is among the worst states in terms of transparency on business tax credits.<sup>v</sup> 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.<sup>vi</sup>

We appreciate the addition of evaluation criteria and data reporting requirements proposed for the R&D credit in this bill, although we do have some concerns about the metrics used and whether they are appropriate for evaluating the effectiveness of this program. We support greater transparency and accountability for business tax expenditures and would suggest OPEGA be consulted on appropriate metrics for evaluating this program.

At a time when Maine faces a budget shortfall and is struggling to afford even basic investments in education and health care, we should not be giving more money away to businesses who are already well-resourced. We urge you reject this proposal.

Thank you for your time. I would be happy to answer any questions.  
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<sup>i</sup> Under IRC 41(b)(1), qualified research expenses include: in-house research expenses (including wages, supplies, and use of computers for research) and contract research expenses (paid to non-employees).  
[https://www.irs.gov/pub/irs-regis/research\\_credit\\_basic\\_sec41.pdf](https://www.irs.gov/pub/irs-regis/research_credit_basic_sec41.pdf)

<sup>ii</sup> Under IRC 41(e)(2), basic research payments include those made under an agreement with a qualified organization, including educational institutions and scientific research organizations, for conducting basic research. Basic research is defined as any original investigation for the advancement of scientific knowledge not having a specific commercial objective. [https://www.irs.gov/pub/irs-regis/research\\_credit\\_basic\\_sec41.pdf](https://www.irs.gov/pub/irs-regis/research_credit_basic_sec41.pdf)

<sup>iii</sup> Maine State Tax Expenditure Report, 2026-2027  
<https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/Tax%20Expenditure%20Report%2026-27%20.pdf>

<sup>iv</sup> Office of Program Evaluation and Government Accountability. *Evaluation of the Research Expense Tax Credit (R&D Credit)*, March 2022. <https://legislature.maine.gov/doc/8379>

<sup>v</sup> Tarczynska, Kasia, Christine Wen, Katie Furtado. Financial Exposure: Rating the States on Economic Development Transparency. Good Jobs First, April 2022. <https://goodjobsfirst.org/financial-exposure-rating-the-states-on-economic-development-transparency>

<sup>vi</sup> Congressional Research Service. *Federal Research Tax Credit: Current Law and Policy Issues*. 27 July 2022.  
<https://www.congress.gov/crs-product/RL31181>