

**TESTIMONY OF
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *May 8, 2025*

LD 1699 – “*An Act to Create a Refundable Tax Credit for Agricultural Enterprises*”

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Neither For Nor Against LD 1699, “*An Act to Create a Refundable Tax Credit for Agricultural Enterprises.*”

This testimony is limited to the bill as it relates to taxation and Maine Revenue Services. For tax years beginning on or after January 1, 2025, the bill proposes to expand the Maine seed capital tax credit program to include investments in agricultural enterprises made on or after April 1, 2025, including investments made by the principal owner and the principal owner’s spouse of the agricultural enterprise. The agricultural enterprise must certify that the amount of investment is necessary to expand its agricultural enterprise. Investments in the agricultural enterprise may also be used on infrastructure, not including real estate, for any improvement that expands the marketing, production, or processing of agricultural products, as defined in Title 7, section 152, subsection 2, as approved by the Finance Authority of Maine (“FAME”).

This bill also proposes to allow an agricultural enterprise to sell or render its products or services *inside* or *outside* of the State. Currently, a certified Maine business must sell or render its products or services *predominantly outside* the

State. The investment limitations that apply generally to the Maine seed capital tax credit program also apply to agricultural enterprises.

LD 125, a bill also presented this session, proposes to increase the maximum annual aggregate amount of tax credit certificates that may be issued by FAME to investors under the program from \$5 million to \$10 million.

Currently, FAME may issue a certificate to investors for up to 40% of the cash invested in eligible Maine businesses. Investments may be used for fixed assets, research, or working capital. An aggregate investment up to \$3,500,000 per business is eligible for the seed capital investment tax credit (not more than \$2,000,000 in any calendar year). The investment must be at risk for five years. An investor must own less than 50% of the business and immediate relatives of principal owners of the business are not eligible for the credit. An eligible investment is an investment in a business that: a) Is located in Maine; b) Has gross sales of \$5,000,000 or less per year; c) Is the full-time, professional activity of at least one of the principal owners; and d) Is a manufacturer, or a product or service provider with sales derived predominantly from outside the state or to out-of-state residents, is a producer of value-added natural resource products, is a certified visual media production company, or is engaged in developing or applying advanced technologies.

Twenty-five percent of the authorized credit may be used in each of the four tax years beginning with the tax year in which the investment was made. The credit is limited to 50% of the tax liability of the taxpayer in any one year. Unused credits may be carried forward for up to 15 years. In the case of qualified investments made by a private venture capital fund, the credit is refundable.

The Administration notes that for tax years beginning on or after January 1, 2025, investments made by a certified agricultural enterprise could be eligible for both the expanded seed capital tax credit and the Dirigo Business Incentives program tax credit enacted in 2023.

The Administration also notes the following technical concerns:

- The proposed changes to § 1100-T(2)(A) included on page 1 of the bill, lines 23 through 26 and § 1100-T(2)(C) included on page 1 of the bill, lines 43 through 45 and page 2 of the bill, line 1, should include a reference to “eligible Maine business” such that the certificate limitation for investments on or after April 1, 2025 will apply to both eligible Maine businesses and agricultural enterprises.
- The proposed change to the first sentence of § 1100-T(2)(C) on page 1 of the bill, line 39, is unnecessary and should be removed. This applies to investments made before April 1, 2020.

The preliminary estimated fiscal impact is currently not available.

The preliminary estimated administrative costs are nominal and can be absorbed within current budgetary allotments.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee’s questions.