

By Jim Rogers, President and CEO of ProInfoNet

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Comments to the Maine Legislature on the need to conform to immediate Research and Development Expensing as recommended in Governor Mills recent budget

Thank you for the opportunity to speak today in support of conforming Maine's tax code to allow immediate expensing of Research and Development, as recommended in Governor Mills' budget.

Research and Development includes software development, engineering, network architecture, telecommunications innovation, healthcare IT systems, product design, and testing. For technology-driven companies like ProInfoNet, R&D is not optional — it is our largest investment category, primarily engineers and technical staff.

For decades, companies could deduct 100 percent of R&D expenses in the year they were incurred. If we spent \$1 million on engineers, we deducted \$1 million. That matched tax policy with economic reality.

Beginning in 2022, under Section 174, companies were forced to amortize those costs over six years. In practice, only 10 percent is deductible in year one, 20 percent in years two through five, and 10 percent in year six.

The problem is straightforward. We pay our engineers in year one. But for tax purposes, we can deduct only 10 percent of that cost. The remaining 90 percent becomes taxable income that does not actually exist. The result is phantom income and real tax liability on money already spent.

For ProInfoNet, this has meant artificially inflated profits and a severe cash flow impact. In tax year 2024, we paid Maine income tax equal to 26 percent of our actual economic profit because we were taxed on income that was not real. We have reduced R&D spending and technical labor as a result.

This policy disproportionately harms small and mid-sized technology, software, telecom, and healthcare IT companies — precisely the sectors that create high-wage jobs and drive productivity.

Congress corrected this federally in 2025. Governor Mills has recommended that Maine conform to that change. I strongly urge the Legislature to do so.

Conforming to Section 174 does not reduce Maine's long-term tax revenue. It simply ends the requirement that businesses pre-pay six years of taxes upfront. It restores alignment between tax policy and economic reality.

ProInfoNet employs 30 people in Bangor and Portland. We do not need this change to be retroactive. We simply need it going forward so Maine companies like mine can compete and continue investing in engineering and innovation here at home.

R&D amortization is not a tax on profit. It is a tax on investment. I respectfully ask you to fix it.

Thank you.