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Testimony of Rep. Maureen Terry presenting
**LD 643, An Act to Promote Research and Development in the State by Increasing the
Research Expense Tax Credit**
Before the Joint Standing Committee on Taxation

Senator Grohoski, Representative Perry and esteemed members of the Taxation Committee, I am Maureen Terry, representing part of Gorham in House District 108. I am proud to be here to present **LD 643, An Act to Promote Research and Development in the State by Increasing the Research Expense Tax Credit**.

Research and development (R&D) spending has been used as an indicator of the level of innovation in an economy and an important driver of economic growth. According to Maine Development Foundation's 2021 report, in 2019, Maine's total R&D spending was \$685 million, a 30% increase from \$527 million in 2018. Yet Maine ranks 44th of the 50 states in R&D spending, lagging behind other states particularly in private sector and university R&D investments relative to GDP, while our non-profit sector contributes a relatively high proportion of spending. R&D is a critical component of a healthy economy, and ours is growing, but we can do more to support this growth and strike a better balance between public and private investment in this industry.

Maine established an R&D tax credit in 1995 to help foster innovation in Maine. That credit has not been updated since 2007. To give you some perspective, a cup of coffee in 2007 cost \$1.80. Today, that same cup is \$2.65. The prices of everything have gone up since then, yet we are still operating under a tax credit that is outdated and insufficient for meeting our state's goals established in Maine's 10-year Economic and Development Strategy¹. If Maine wants to remain competitive and attract more cutting-edge businesses who, when looking for a location to set up shop, will look for the most optimal environment possible, comparing states with a fine tooth comb, we need to make some changes. My bill, LD 643, which would update the R&D credit, is a great opportunity to do so.

¹ https://www.maine.gov/decd/sites/maine.gov/decd/files/inline-files/DECD_120919_sm.pdf

LD 643 would increase the amount of qualified research expenses for which a credit can be taken, in part, by doubling the credit from 5% of qualified research expenses to 10%. This will ultimately mean that qualifying businesses will be able to receive a greater credit, which is more of an incentive to conduct innovative and groundbreaking work right here in Maine.

Currently, Maine is leading in a number of sectors in new and exciting ways including sustainable aquaculture and agriculture and regenerative food systems. We are also just beginning to build out a robust life sciences industry. Some sectors that fall within the life sciences industry include pharmaceutical manufacturing, scientific research and development services, medical diagnostic laboratories and medical equipment and supplies manufacturing, among others. According to BioME's 2022 report on life sciences,² job growth within this industry has outpaced job growth in all other industries in Maine over the last five years at a 42% rate of growth. There is momentum in this direction, but our investments have not effectively leveraged the private sector up until this point.

Over the past several years, we, as a state, have worked hard to attract new talent and create the learning environments necessary to help train and retain a strong workforce that is able to creatively and responsibly capitalize on the changing physical and economic climate. The establishment of the Roux Institute in Portland is a great example of the ways that these efforts are paying off. In the public sector, the University of Maine at Orono has also demonstrated significant growth and innovation as evidenced by its recent designation as an R1 university by the prestigious Carnegie Classification of Institutions of Higher Education.

But in order to keep the skills and talent in Maine that we've helped to foster and incentivize in terms of both public AND private development, we must recognize that the current R&D credit is simply too small in today's economy to provide a realistic incentive for continued industry growth in Maine. Let's improve this credit so that when those students reach graduation, they'll have the right business incentives to set up shop right here in Maine.

The time to invest in our future is now.

I look forward to working with the committee and the department on this bill in the coming weeks. I believe that raising this credit is necessary for all of the reasons previously stated, but I welcome friendly amendments to this proposal that include a provision for robust data collection to more clearly demonstrate the impact that the credit has on those R&D industries in Maine.

Thank you, and I'm happy to answer any questions you may have.

² <https://biomaine.org/industry-impact/>