

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: March 28, 2023

LD 643 – *“An Act to Promote Research and Development in the State by
Increasing the Research Expense Tax Credit”*

Senator Grohoski, Representative Perry, 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 643, *“An Act to Promote Research and Development in the State by Increasing the Research Expense Tax Credit”*

The research expense tax credit is a nonrefundable credit that applies to qualified amounts spent on research conducted in Maine. The bill increases the research expense tax credit – by doubling the rate by which the credit is calculated, increasing the amount of expenditures eligible for the credit, and increasing the maximum amount of the credit that may be claimed. As is the case under current statute, unused credit amounts may be carried forward for up to 15 years.

The research expense tax credit was enacted in 1995 and applies to tax years beginning on or after January 1, 1996. No increases or decreases have been made to the credit’s allowable expenditures or maximum amount since the credit was enacted.

Additionally, the changes proposed in this bill should be coordinated with proposed technical changes affecting the research expense tax credit included in an

upcoming DAFS agency bill, LD 283, An Act to Make Technical Changes to the Maine Tax Laws.

The Administration would also like to note the following concerns:

- The bill does not contain an application date. Maine Revenue Services suggests that the bill apply to tax years beginning on or after January 1, 2023; and
- The credit benefits are highly concentrated in a small number of large corporations.
- The Office of Program Evaluation and Government Accountability (OPEGA) recently reviewed this tax expenditure and released a report on March 11, 2022, which is available on the Legislature's web site: <https://legislature.maine.gov/doc/8379>. We encourage the Committee to consider the recommendations of that report in conjunction with this bill.

The estimated preliminary fiscal impact of the bill is a revenue loss of \$7.5 million annually.

Estimated administrative costs of the bill are nominal and can be absorbed by the Bureau.

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.