

**Testimony in Opposition to LD 125, An Act to Increase the Total Amount of Credits Authorized Under the Maine Seed Capital Tax Credit Program**

Senator Grohoski, Representative Cloutier, and members of the Committee on Taxation, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. MECEP is testifying in opposition today to LD 125. This bill would double the size of the Seed Capital tax credit program from \$5 million to \$10 million per year beginning in 2027.

The Seed Capital tax credit is administered by the Finance Authority of Maine (FAME), and allows individuals or private venture capital firms who make qualifying investments in small businesses (those with less than \$5 million in gross sales) to claim up to 40% of these investments as a tax credit. In essence this credit hopes to encourage greater investment in the state by assuming some of the risk of the investment that would otherwise fall to the investor. However, unlike the investor, the state does not receive the benefit of a possible return on the investment, and if the investment fails the state is not made whole. Nor is the state able to weigh the risk of the investment vs. the potential payoff.

A 2021 review by the Office of Program Evaluation and Government Accountability (OPEGA) found several flaws with the Seed Capital program that remain unaddressed. This included the tax credit going to businesses that do not fulfill the goal of the program to target industries with the potential for rapid growth and to advance innovation because tax credits were given for investment in the hospitality, tourism, and film industries.

Because of inadequate data, OPEGA was unable to confirm that the program produced the promised outcomes, including return on investment and jobs created. OPEGA found jobs data were inaccurate, in some cases repeatedly counted the same jobs reported over a number of years. From 2015 to 2022, the program was expanded from \$5 million to \$15 million based on this flawed data. In 2026 this expansion is set to expire, and it will be scaled back to \$5 million.

Maine is facing a budget shortfall that will require careful consideration of which priorities will be funded in the next biennium. Proposals to increase unproven tax preferences that primarily benefit wealthy investors are not where the state should be putting its priorities. If the legislature wishes to provide greater support for small businesses, it should do so through programs that more directly support them, such as grants. We urge the Committee to reject the proposal to expand this credit.

Thank you for your time. I would be happy to answer any questions.

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