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Testimony by Representative Daniel Sayre introducing

L.D. 926, An Act to Promote Research and Development in the State by Amending the Research Expense Tax Credit

Joint Standing Committee on Taxation

Senator Grohoski, Representative Cloutier, friends and colleagues of the Joint Standing Committee on Taxation. I represent House District 135, the greater part of Kennebunk. I am pleased to present **L.D. 926, An Act to Promote Research and Development in the State by Amending the Research Expense Tax Credit.**

This bill does two things that I will first define and then describe in more detail.

What the bill does:

1. Promote economic growth by amending the existing Research Expense Tax Credit, making four specific changes to the program.
2. Establish an annual reporting requirement and define the parameters of that reporting, so that the legislature can more effectively evaluate the impact of the program and make evidence-based decisions about future changes.

Here are the detail:

One of the principal drivers of economic growth is innovation, and a primary driver of economic growth is R&D. In the 80 years since the end of WWII, the US has enjoyed tremendous growth driven by technological innovation. That innovation hasn't happened by accident. It's the result of policies that have promoted deep research collaboration between the public and private sectors.

Maine's economy has historically relied on extractive industries with relatively low dependence on R&D. That has been to our detriment. Much of our state has stagnated in the years since legacy businesses closed their doors. We have not replaced the employment, wages and tax revenues they provided. We find ourselves struggling to pay for the needs of Maine's people without overburdening Maine's people with taxes precisely because we don't have a sufficiently productive economy. This bill aims to help get us out of this bind.

Maine is playing catch-up in a global tech economy. We rank 43rd out of 52 regions (the 50 states plus DC and Puerto Rico) in R&D as a percentage of state GDP. At about 1.2%, it's about 1/3 of the rate in New Hampshire and 1/5 of the rate in Massachusetts. We simply must do better. We can catch up, but it takes hard work and smart policy to do so. Increasing the state contribution to R&D performed in the state is one such policy. It's just one ingredient in the recipe for growth, but it's an essential one.

So that's where this bill comes in. It does four things:

- It proposes to increase the amount of expenditures eligible for the credit.
- It doubles the rate by which the credit is calculated.
- It doubles the maximum amount of credit that may be claimed.
- It reduces the base amount used to calculate the credit by half.

These changes have two goals – they increase the impact of the credit, and they respond to current shortcomings in the program identified in OPEGA's report TE-RETC-20.

The report stated that the relationship between implementing this solution and seeing the intended result is unclear. That will remain true regardless of how we adjust this program. OPEGA notes that we haven't seen much R&D growth while the current program has been in force. I don't see that as an argument to stop but instead to accelerate. We compete with about 35 other states that have similar programs. Our current policy allows us to tread water. Expansion will enable us to grow.

The report also indicated that many types of companies are left out of the program because they can't qualify. The changes to the base amount and the calculation rate are intended to loosen the barriers to participation for firms that may not have high year-on-year R&D growth. Smaller companies, and early-stage companies in particular, should be better able to access the program due to these changes, and these are the kinds of companies that can create the acceleration in employment and productivity we need to get to a more robust and thriving economy.

Which leads to my final point – the evaluation and reporting requirements. OPEGA made three recommendations to improve this program. One related to amending the design of the program, which I have addressed. The other two recommendations dealt with the lack of definition of goals, how success would be measured and what data would be needed for effective oversight of the program. You will see that page two of the bill spells out evaluation metrics and defines the public policy objectives and performance measures that the legislature can use to evaluate and revise the program going forward.

I thank you for your consideration and will endeavor to answer any questions.