

Testimony of Linda Caprara

On Behalf of the Maine State Chamber of Commerce

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

April 2, 2025

Good Afternoon, Sen. Grohoski, Rep. Cloutier and Members of the Joint Standing Committee on Taxation. My name is Linda Caprara, I am the Vice President of Advocacy for the Maine State Chamber of Commerce. We are testifying in strong support of L.D. 926, "An Act to Promote Research and Development in the State by Amending the Research Expense Tax Credit." We would like to thank Rep. Sayre for sponsoring this important piece of legislation.

We feel strongly that L.D. 926 will increase R & D (research & development) investment in the State and represents a significant step toward fostering innovation, technological advancements and job creation.

The bill does several things. The bill increases the research expense tax credit by increasing the amount of expenditures eligible for the existing credit. The credit is based on qualified research expenses exceeding a base amount. The bill doubles the credit rate from 5% to 10% for qualified research expenses over the "base amount" and from 7.5% to 15% for basic research payments. The base amount is the **average** qualified research expenses over the previous 3 taxable years. The amount above that average is used to determine what qualifies for the credit. As a result, the legislation would create a clear incentive for Maine companies to increase their research and development expenditures.

This legislation would also reduce the threshold for eligibility of the base amount from the current threshold of 100% to 50%. This reduction in the base amount is important because it is one of the issues OPEGA identified in their report of the R&D tax credit that made the credit unworkable for some businesses. While maintaining R & D levels is absolutely critical, it is equally important that we grow R & D investment in the state. We need to ensure that the businesses located in this State continue to invest and we need to develop incentives for businesses to grow their investments. If businesses budgeted the same every year for R & D, they did not exceed the base amount, they could not take the credit. By reducing this threshold to 50%, it makes it easier for businesses to qualify for the credit. The bill also doubles the total amount of the credit that may be claimed from \$25,000 to \$50,000. And lastly, the bill provides for an annual reporting requirement and provides for legislative review which we feel is important.

If Maine is to grow its economy, it must focus on innovation. Innovation is necessary for economic growth and productivity, job creation and competitiveness in the global economy. R & D is the driver innovation,

which is responsible for developing new products, new services, new efficiencies, new technologies that are critical to compete globally. In addition, R&D activities tend to generate well-paying jobs in the STEM fields such as science, technology, engineering, and mathematics (STEM) fields. Innovation also leads to higher productivity, giving workers the latest tools to improve products produced and provide services faster and more efficiently. This is extremely important in sectors such as healthcare, energy and manufacturing and information technology.

In addition, we feel strongly that increasing the research expense tax credit, will make Maine more competitive with innovation hubs in other states. This legislation will not only incentivize existing businesses to expand their R&D operations but will also attract new companies to establish themselves in Maine, leading to job creation in high-tech industries and increased economic activity across multiple sectors.

Investments in research and development are absolutely critical to strengthening an economy and provide the power for innovation, which is key to driving economic growth and productivity. For years, Maine has lagged behind other states in research and development spending. Maine's ranking nationally is towards the bottom of the pack at 37th for R & D spending, which is not good. According to the 2024 Maine Economic Growth Council's Measures of Growth, Maine's R & D spending remained unchanged at 1.1% of Gross Domestic Product (GDP) from 2020 to 2021. The national average is 3.6%. R & D spending as a percentage of the State's GDP indicates the level of innovation in an economy. The report specifically indicated Maine lags behind in R & D spending in both the private and public university/education sectors.

For all these reasons and more, we urge the Committee to pass LD 926 to support innovation, drive economic prosperity, and ensure that Maine remains a leader in research and technological development.

We would like to work with the Committee on this bill. Thank you for your time and consideration. I am happy to answer any questions.