

Testimony in Support of LD 1664, An Act to Repeal the Dirigo Business Incentives Program

April 24, 2025

Sen. Curry, Rep. Gere, and members of the Committee on Housing and Economic Development, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We are testifying in support of LD 1664. This bill would repeal the Dirigo program, which subsidizes businesses by reducing their tax liability. This program will cost the state over \$47 million in FY27 alone.ⁱ

Benefits for businesses under the Dirigo program begin in tax year 2025 and include:

- up to a 10% credit for capital investment exceeding \$50,000, with a lower 5% percent credit for York, Cumberland, and Sagadahoc counties
- a \$2,000 tax credit tax per employee trained, for businesses that pay to train 3 or more workers in an approved employee training program for as few as 20 hours

Eligible sectors for the tax breaks under this bill are those with business activity primarily (more than 50% of the time) in:

- agriculture, forestry, and fishing
- manufacturing
- long-distance freight transportation
- software publishing, data processing, and computer design service
- engineering, architecture, and scientific research and development services

Dirigo does not address the top challenges our economy is facing. We opposed the creation of the Dirigo business subsidy program when the Legislature enacted it two years ago. The program is costly and poorly designed to promote economic growth in Maine. It seeks to promote capital investment and worker training, but there is no evidence that these are the major areas where we face challenges in our state. A 2022 survey conducted by the Maine Development Foundation and the Maine Chamber of Commerce of nearly 500 business leaders in the state found the availability of entry level workers was the number one concern for businesses (tied with energy costs).ⁱⁱ Mainers cannot fully access the workforce and we have a labor shortage. The need for child care, housing, adequate wages, and paid family and medical leave are the biggest barriers keeping Mainers from entering or staying in the workforce.ⁱⁱⁱ

A recent report commissioned by the Department of Economic and Community Development to evaluate the state's business tax subsidies as required by the Legislature, which cost over \$700,000, determined that the state needs to place a greater emphasis on addressing root causes of business challenges, include workforce and housing availability and the costs of transportation, energy, and other inputs to production because direct subsidies to businesses cannot overcome these issues.^{iv}

Dirigo gives bigger benefits to bigger corporations. Unfortunately, large corporations will reap much greater benefits from this program than Maine's small businesses that are the backbone of our communities. This program subsidizes larger employers who already have greater access to resources to make bigger investments over \$50,000 in their businesses and who have more employees, and thus will receive larger tax credits.

Dirigo writes checks of Maine taxpayer money. This program provides refundable tax credits of up to \$500,000 per year and allows credits to be carried over for up to four years, which means the state is likely to be writing big checks to out-of-state corporations. The program also may subsidize businesses for things they may already be doing or would have done anyway. There is no guarantee that businesses will make any additional investments in training or capital expenditures they otherwise wouldn't have.

Dirigo subsidizes short training programs. Another top concern cited by businesses is a skilled workforce. But the amount of employee training required for businesses to receive this credit is minimal—just two-and-a-half work days—which is an inadequate amount of training to meet the need for skilled labor or complete many of the qualifying training programs. The state should instead invest directly in funding more training programs for workers instead of tying the benefit to an employer.

Maine needs to make investments in other areas for our economy to grow. Sweeping business tax giveaways are not the right approach for growing Maine's economy. The money dedicated to this program could instead be spent on other priorities in the state that could have a positive impact on our economy and help support the growth of our workforce. There are other more targeted, evidence-based approaches the state could be investing its money in that would address the biggest challenges we face as a state and help people get back to work—like child care, affordable housing, and education.

Blanket tax breaks like Dirigo worsen inequality. Our policy brief, *Are tax giveaways worth the money?* identifies a number of ways that programs like this could be more equitable and support Mainers and small businesses who really need it, including:

- target businesses that need them, and benefit small Maine businesses, not large corporations
- target programs and tax breaks to meet the needs of underserved communities and businesses, not those who already have wealth
- invest in struggling communities
- avoid subsidizing companies that are repeated violators of local, state and federal regulations (such as wage or environmental regulations)

Businesses who already access other large tax breaks may also benefit from Dirigo. There is no restriction prohibiting businesses from participating in most of Maine's other tax credit programs alongside this one. This program does disallow those receiving the tax credit for shipbuilding facility investment and paper manufacturing facility investment from also receiving the Dirigo credit. But businesses receiving other big tax credits—including the major business

headquarters expansion, research and development, major food processing, high technology investment, and manufacturing facility expansion credits—are also eligible. Because of Maine’s lack of transparency around business tax expenditures, we don’t know which businesses are accessing multiple subsidies or how much they are receiving. While this information will be reported for Dirigo, it is unavailable for other business tax credits.

At a time when our state is facing a budget shortfall, the Legislature must reconsider its priorities and how it can best make use of taxpayer dollars. We do not believe the state should be prioritizing a massive tax giveaway to businesses, especially when our state has so many other unmet needs. We urge the committee to consider repealing this program and better directing the funds to support the needs of Mainers.

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

maura@mecep.org

ⁱ Maine Revenue Services, *Maine State Tax Expenditure Report 2026 – 2027*, 15 Feb 2025.

<https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/Tax%20Expenditure%20Report%2026-27%20.pdf>

ⁱⁱ Maine Development Foundation, *Making Maine Work, Critical Investments for the Maine Economy*. 2022.

<https://www.mdf.org/wp-content/uploads/2022/11/mmw2022-web.pdf>

ⁱⁱⁱ Myall, James. *State of Working Maine 2023: Boosting Maine’s Workforce*. 20 Nov 2023. Maine Center for Economic Policy. <https://www.mecep.org/jobs-and-income/state-of-working-maine-2023/>

^{iv} EBP US, Inc. *Final Program Evaluation Report. Maine Department of Economic and Community Development*. 15 Jan 2025. <https://legislature.maine.gov/doc/11501>

^v Maine Center for Economic Policy, 1 May 2023. <https://www.mecep.org/taxes-and-budget/policy-brief-are-tax-giveaways-worth-the-money/>