

**The Maine Heritage Policy Center
Testimony to Oppose LD 1586
“An Act To Promote Major Food Processing and Manufacturing
Facility Expansion and To Create Jobs in Maine”**

Senator Chipman, Representative Tipping and distinguished members of the Committee on Taxation, my name is Adam Crepeau and I serve as a policy analyst at The Maine Heritage Policy Center. Thank you for the opportunity to provide testimony in opposition to LD 1586.

The Maine Heritage Policy Center is vehemently opposed to corporate welfare in the state of Maine. LD 1586 gives tax credits to food processing and manufacturing corporations to “expand facilities” and “create jobs in Maine.” Corporate welfare is distributed through tax credits to expand firms and to promote job creation. However, research has shown corporate welfare does little to increase entrepreneurial activity. In fact, a study from 2017 found “a robustly negative and statistically significant relationship between development incentives and patent activity,” or entrepreneurial activity.¹ In contrast, incentives that increase economic freedom, such as lower taxes, have shown to be more effective in spurring entrepreneurial activity.²

Corporate welfare allows state government to pick winners and losers in the private sector. LD 1586 would give a 2 percent tax credit to businesses for 20 years if they invest at least \$35 million in the construction or expansion of a facility in Maine. While the incentive would be capped at \$34 million for each expansion project, this bill is still irresponsible and could be expensive. Some food processing and manufacturing companies may take advantage of these incentives and push out smaller companies that cannot meet the criteria in this bill. For example, if a company has not been in Maine for five years, it is ineligible for a tax credit under this proposal. Thus, some businesses would lose as a result of this bill.

LD 1586 requires that a facility must employ at least 40 full-time employees by the end of the first year and must maintain that many employees for two years. After three years, the employer would need to employ 60 full-time employees. While the intent of this provision is likely well-intentioned, it creates carve outs for some businesses and not others. In other words, not all food processing and manufacturing facilities would be eligible for the tax credit.

¹Tuszynski, Meg and Stansel, Dean, Targeted State Economic Development Incentives and Entrepreneurship (July 11, 2018). Forthcoming, Journal of Entrepreneurship and Public Policy. Available at SSRN: <https://ssrn.com/abstract=3212411>

² <https://www.mercatus.org/publications/corporate-welfare/opportunity-cost-corporate-welfare>; Ibid.

Corporate welfare has shown to be ineffective. Research from a 2018 working paper produced by the W.E. Upjohn Institute found tax incentives are largely ineffective.³ In fact, it illustrated that incentivized firms had lower employment than non-incentivized firms.⁴ The data showed positive results for smaller firms but showed negative results overall.

The Maine Heritage Policy Center believes the best method of expanding businesses is to reduce taxes, fees and regulations across the board in the state of Maine. Economic freedom allows businesses to compete with each other without receiving assistance through government subsidies or tax incentives. Not only is this more fair to all businesses in the industry, but it also does not create an environment of favoritism for businesses that meet specific criteria.

For those reasons, The Maine Heritage Policy Center urges the committee to vote, “Ought Not to Pass” on LD 1586. Thank you.

³ https://research.upjohn.org/cgi/viewcontent.cgi?article=1309&context=up_workingpapers

⁴ Ibid.