



**Business & Education
at Work for Maine**

**Testimony by Elizabeth L. Bordowitz, Chief Executive Officer
Finance Authority of Maine**

In Favor of L.D. 743

An Act to Extend and Improve the Maine Seed Capital Tax Credit Program

Joint Standing Committee on Taxation

April 29, 2013

Senator Haskell, Representative Goode, and Distinguished Members of the Joint Standing Committee on Taxation:

My name is Beth Bordowitz. I am the Chief Executive Officer at the Finance Authority of Maine. I live in Portland and offer this testimony in support of L.D. 743.

FAME very much appreciates Senator Valentino's interest in and support of the Maine Seed Capital Tax Credit Program over the years. As many of you know, FAME administers the program in conjunction with Maine Revenue Services on behalf of the state.

We welcome support for this successful program, especially the bill's goal of increasing the overall program's statutory limit of \$30 million. The program reached its limit in January and we have as a result been required to cease processing applications or issuing tax credits.

The Maine Seed Capital Tax Credit Program is designed to encourage equity and near-equity investments in eligible Maine businesses, directly and through private venture capital funds. FAME may authorize state income tax credits to investors for up to 60% (50% for investments made in private venture capital funds) of the cash equity they provide to eligible Maine businesses. Investments may be used for fixed assets, research or working capital.

Since the program's inception in 1988, Maine businesses have availed themselves of it a total of 382 times and venture capital funds have done so on six occasions. Such activity resulted in the issuance of 1,676 tax credits for a total of \$30 million. These credits have further leveraged a total of \$75,276,899 in investments. The program has helped to create 2,018 Maine jobs and retain an additional 5,369 jobs.

Under the existing statute and program rules, businesses must be located in Maine, have annual gross sales of less than \$3 million, and meet one of the following criteria: (1) be a manufacturer; (2) provide goods or sales with 60% of sales derived

outside the state or to out-of-state residents; (3) develop or apply advanced technologies; (4) bring significant permanent capital to Maine; or (5) be certified as a visual media production company. The business also must be the professional, full-time activity of at least one of the principal owners. Investors may collectively own less than an aggregate of 50% of the business. Principal owners and their immediate relatives are not eligible.

In addition to increasing the overall program cap, FAME supports other proposed changes in the bill, including: increasing the required maximum annual sales limit for a company from \$3 million to \$5 million; reducing the tax credit for individual investors to 50%; clarifying that producers of value-added natural resource products are eligible; removing the ambiguous term for businesses that "bring capital into the State"; specifying that eligible businesses must certify that the investment is necessary to allow the business to create or retain jobs in the state; and requiring that an investor in a venture capital fund requesting a refundable tax credit may not file for a refund until the calendar year after the calendar year in which the investment is made.

One suggestion we would offer concerns private venture funds in Section 3 of the bill. The proposed language would modify existing 10 M.R.S.A. § 1100-T(2-C) paragraph (D) to increase the limit on tax credits for private venture capital funds from \$500,000 to \$4 million. This is a rather larger increase from the current limit. We think a more modest increase of \$1 million is preferable and would better limit the fiscal impact of the bill.

Thank you for this opportunity and I would be happy to answer any questions you have at the work session.

MAINE SEED CAPITAL TAX CREDIT PROGRAM

Cumulative Activity

	Tax Credits <i>[Dollars in Thousands]</i>	Investments	# of Businesses with investments	# of Investors	# Credits Issued	# of Venture Capital Funds
FY89	\$ 27,000	\$ 90,000	2	7	7	0
FY90	\$ 68,700	\$ 229,000	2	13	13	0
FY91	\$ -	\$ -	0	0	0	0
FY92	\$ 34,500	\$ 115,000	3	5	5	0
FY93	\$ 187,716	\$ 625,720	5	21	21	0
FY94	\$ 319,200	\$ 1,064,000	6	44	45	0
FY95	\$ 371,585	\$ 1,238,616	7	49	52	0
FY96	\$ 352,320	\$ 1,174,401	9	32	32	0
FY97	\$ 168,765	\$ 562,550	9	31	31	0
FY98	\$ 397,155	\$ 1,323,851	14	59	61	0
FY99	\$ 815,547	\$ 2,718,489	15	86	88	0
FY00*	\$ 1,320,684	\$ 4,902,229	23	129	150	0
FY01**	\$ 2,096,803	\$ 6,017,008	31	107	119	1
FY02	\$ 673,118	\$ 1,750,463	15	53	56	0
FY03	\$ 2,773,598	\$ 7,367,613	22	170	175	0
FY04	\$ 1,608,501	\$ 3,856,752	22	66	73	0
FY05	\$ 1,074,000	\$ 1,802,208	17	44	51	1
FY06	\$ 1,941,939	\$ 5,109,399	23	110	114	0
7/1/06 - 12/31/06	\$ 1,253,407	\$ 2,858,516	16	44	45	0
CY 2007	\$ 4,298,390	\$ 9,400,391	26	112	123	0
CY 2008	\$ 1,796,125	\$ 3,987,935	31	101	110	0
CY 2009	\$ 730,099	\$ 1,646,620	16	28	30	0
CY 2010	\$ 3,363,343	\$ 8,255,943	21	89	95	1
CY 2011	\$ 1,381,066	\$ 4,130,165	20	68	69	2
CY 2012	\$ 2,744,014	\$ 4,670,030	24	90	104	1
CY 2013	\$ 202,400	\$ 380,000	3	7	7	0
TOTALS	\$ 29,999,975	\$ 75,276,899	382	1565	1676	6
LIMIT	\$ 30,000,000					
REMAINING	\$ 25	02/28/13				

