HB 2752
Expansion of R&D Tax Credit and Making it Refundable
House Revenue Committee, Jody Wiser 4.2.2015

If you vote for HB 2752, you will be pitting an increase in the cost of the R&D tax expenditure against the Public University Venture Development Fund tax credit (also being discussed in a work session elsewhere at this hour) and against the sunsetting tax credits for health, (rural medical, disabled, veterans' home), working families (child care, Individual Development Accts, child and dependent care, employer provided dependent care and long term care insurance) and NMTC which are all competing for $14 million. It is your charge to value the tax credits before your committee in light of the options.

R&D is essential to companies, as essential as are utilities and manpower. That's why these expenses are fully deductible from income. Let me say that again, R&D is essential to many companies. Consequently, there is already and always will be a tax deduction for these important business expenses. There is also the federal R&D tax credit. Every R&D dollar of tax credit allowed is essentially a direct investment by the public in a private enterprise, but with no ownership interest granted.

The bill before you today, potentially doubling the public's R&D investment to $2 million per business per year, will increase the cost of R&D to families, families that can least afford it, those who receive the public support under our sunsetting tax expenditures for families. That is self-evident.

What is not evident is that it will increase R&D spending in our state. In all the years of hearing testimony for public support of private businesses' R&D effort, we have not once seen evidence that there is any relationship between Oregon's state R&D subsidies and dollars companies spend on R&D.

The proposed increase from $1 to $2 million will be used by businesses big enough to be spending huge amounts of money on R&D. Before you consider this, shouldn't you have a list of the companies that are maxing out the current $1 million R&D tax credit, and also of those receiving the tax credit that have less than $1 m in Oregon sales? You need that information to estimate the cost and to evaluate whether you believe that increasing these companies' profitability is more important than helping families pay for child care so they can work at those or other companies. If the companies who want this tax break increase won't allow DOR to release their names, then obviously the tax credit isn't that important to them.

The 100% increase is one part of the bill. The other part of HB 2752 makes the tax credit into a refundable tax credit. I believe the Earned Income Tax Credit is Oregon's only refundable tax credit. Do they seem equivalent?

The refundable element is for companies with less than $1 m in Oregon sales, but which companies are those? Without data about how much of the unused $70 million shown on the chart below is for companies with less than $1 m in sales, you can't estimate the cost of making the tax credit refundable. Without names, you can't judge whether this is something you believe is important or not. The potential cost, judging from the chart, would be something less than $140 million a year.

We believe that making the tax credit refundable is untenable. With HB 2752, you would essentially be allowing any company that can characterize some of its activities as R&D to receive up to $2 million a year from taxpayers, without so much as filling out a grant application, as long as their Oregon sales are less than $1 million. This will include both extremely large and rather small traded sector companies, small Oregon businesses, and startups that are not yet experiencing significant sales. Thus, taxpayers would become investors, at the rate of up to $2 million a year per business, but with zero equity interest in return for the investment. The definition of R&D expenses allowed in federal law is generous. The benefits would flow to the new technology or drone start up, but they will also flow to financial services companies who are developing new software, and to paint companies as they develop new paint colors for the year, all without so much as a grant application. Remember, these expenses are already deductible from income.

R&D is the job of owners, investors, or crowdsourcing, not the job of the General Fund.

Exhibit 3.12—Tax Year 2012 C Corporation Tax Returns
Qualified Research Activities
Credit Usage by Industry Sector and Taxable Income

Industry Sector	Number of Taxpayers Claiming Credit	Amount of Credit Claimed ($ thousands)	Number of Taxpayers with Reduction in Tax Liability	Amount of Credit Used ($ thousands)
Construction	6	$189	6	$77
Manufacturing	118	$33,258	108	$4,530
Wholesale Trade	32	$7,565	29	$639
Information	48	$14,398	45	$1,920
Professional, Scientific, and Technical Services	69	$16,498	61	$1,698
Management of Companies and Enterprises	17	$7,970	16	$2,500
All Other and Unknown	17	$1,177	14	$243
Total	**307**	**$81,056**	**279**	**$11,607**