

## SB 5 -2, -3, -4, -5 STAFF MEASURE SUMMARY

### Joint Committee On Tax Expenditures

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**Meeting Dates:** 5/5

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#### WHAT THE MEASURE DOES:

Reinstates corporate tax credits allowed for qualified research activities conducted in Oregon and based on similar federal income tax credit. Limits credits to qualified research essential to the semiconductor industry or other advanced manufacturing industries. Specifies tax credit equal to fixed percentage multiplied by excess amount, which is amount of qualified research expenses that exceeds a calculated base amount. Specifies credit percentage of 24 percent if excess amount is \$2.5 million or less, and 15 percent if excess amount exceeds \$2.5 million. Increases maximum annual amount of credit from \$1 million to \$9 million. Allows 75 percent of credit to be refundable for taxpayers with fewer than 150 employees, wherever located, at close of tax year. Applies to tax years 2024 through 2029. Takes effect on 91st day following adjournment sine die.

#### ISSUES DISCUSSED:

##### EFFECT OF AMENDMENT:

-2 Replaces content of measure.

Reinstates corporate tax credits allowed for qualified research activities conducted in Oregon and based on similar federal income tax credit. Limits credits to qualified research conducted by a qualified semiconductor company. Defines terms. Increases tax credit percentage from 5 percent to 25 percent of research expenses that exceed calculated base amount. Specifies maximum annual amount of credit as \$5 million if taxpayer employs fewer than 150 employees, or \$10 million for all others. Allows refundability of credit if taxpayer has fewer than 2,000 employees, wherever located, at close of tax year. Specifies full refundability of credit if taxpayer employs fewer than 500 in Oregon; 50 percent refundability if taxpayer employs at least 500, but fewer than 2,000 in Oregon. Requires Oregon Business Development Department to certify taxpayer as qualified semiconductor company. Applies to tax years 2024 through 2029. Takes effect on 91st day following adjournment sine die.

-3 Replaces content of measure.

Reinstates corporate tax credits allowed for qualified research activities conducted in Oregon and based on similar federal income tax credit. Limits credits to qualified research conducted by a qualified semiconductor company. Defines terms. Increases tax credit percentage from 5 percent to 15 percent of research expenses that exceed calculated base amount. Increases maximum annual amount of credit from \$1 million to \$15 million. Allows 80 percent of credit to be refundable for taxpayers with fewer than 150 employees, wherever located, at close of tax year. Allows credit to be transferred and limits amount of transferred credits claimed to no more than \$100 million per tax year. Limits biennial amount of potential tax credits allowed at time of certification to not exceed \$200 million for any biennium.

-4 Replaces content of measure.

Includes content of -2 amendment. Requires taxpayer seeking credit certification to include description of how proposed research and development activities will support taxpayer in conducting a business or trade directly related to semiconductors. Directs Oregon Business Development Department to consider applications for credit certification in chronological order in which applications are filed.

-5 Replaces content of measure.

## SB 5 -2, -3, -4, -5 STAFF MEASURE SUMMARY

Creates corporate tax credit allowed for qualified research activities conducted in Oregon and based on similar federal income tax credit. Limits credit to qualified research conducted by a qualified semiconductor company to support the taxpayer in conducting a business directly related to semiconductors. Defines terms. Specifies tax credit equal to 25 percent multiplied by amount of qualified research expenses that exceed a calculated base amount. Specifies maximum annual amount of credit as \$5 million if taxpayer employs fewer than 150 employees, or \$10 million for all others. Allows refundability of credit if taxpayer has fewer than 2,000 employees, wherever located, at close of tax year. Specifies full refundability of credit if taxpayer employs fewer than 500 in Oregon; 50 percent refundability if taxpayer employs at least 500, but fewer than 2,000 in Oregon. Requires Oregon Business Development Department to certify taxpayer as qualified semiconductor company. Applies to tax years 2024 through 2029. Takes effect on 91st day following adjournment sine die.

### **BACKGROUND:**

From 1989 to 2017, Oregon had two corporate tax credits for qualified research activities, commonly referred to as Oregon's R&D credit. While technically two credits, the credits are generally viewed as a single policy as they differ in formula rather than in policy. Oregon's R&D credit was allowed to sunset in 2018. Oregon's R&D credit was based on the existing federal R&D credit which has no sunset date. The purpose of Oregon's R&D credit was to promote a level of research activity in Oregon that is higher than if the credit were not available.

Oregon's R&D credit allowed corporate taxpayers a credit of up to \$1 million per year for Qualified Research Expenses (QRE) in Oregon that exceeded a base amount. The primary tax credit (ORS 317.152) was equal to five percent multiplied by the "excess amount" which was the amount of QRE exceeding the base amount. The alternative credit calculation (ORS 317.154) was equal to five percent multiplied by the "excess amount" which was the amount of QRE exceeding ten percent of Oregon sales.

In July 2022, Congress passed the \$52 billion Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act to strengthen domestic semiconductor manufacturing, design, and research; fortify the economy and national security; and reinforce America's chip supply chains.

Shortly after the passage of the CHIPS and Science Act, the Oregon Semiconductor Readiness Task Force (Task Force) was convened, led by U.S. Senator Ron Wyden, former Governor Kate Brown, and Portland General Electric President Maria Pope. The Task Force was charged with analyzing the state of the semiconductor industry in Oregon and how the industry can continue to grow and develop a strategy to secure CHIPS Act funds to expand Oregon's semiconductor design and manufacturing sector. The Task Force report recommended action on five key factors that impact the growth of the semiconductor industry and ability to drawdown CHIPS Act funds.