

HB 2009 -9, -10, -11, -15 STAFF MEASURE SUMMARY

Joint Committee On Tax Expenditures

Prepared By: Chris Allanach, Legislative Revenue Officer

Meeting Dates: 6/2, 6/8, 6/8, 6/20

WHAT THE MEASURE DOES:

Creates a new Research & Development tax credit based on the federal research activities income tax credit. The credit percentage is 25 percent of the "excess amount" of qualified research activity, as defined in federal law, with the exception that the activity must be performed in Oregon and be essential to the semiconductor industry. The maximum tax credit is \$5 million for filers with fewer than 150 Oregon employees and \$10 million otherwise. The tax credit is fully refundable for filers with fewer than 500 employees and 50 percent refundable for filer with between 500 and 2,000 employees. Creates a biennial program cap for potential tax credits, but with no amount specified. The tax credit is applicable for tax years 2024 through 2029.

Extends the Enterprise Zone and Long-term Rural Enterprise Zone programs through June 30, 2030. Requires zone sponsors to post the terms of agreements on their website for 30 days prior to the effective date. Requires Oregon Business Development Department to provide technical assistance to zone sponsors and to submit a report on enterprise zone program transparency to the Legislative Assembly by September 15, 2024. Requires zone sponsor intending to enter into agreement that may increase infrastructure use outside zone boundaries to provide such notice to adjacent local governments. Excludes K-12 districts from the EZ property tax exemption for years four and five and from the LTREZ program for years six and later; applies to property tax years beginning on or after July 1, 2024. Clarifies that active agreements may continue should the EZ program sunset; applies the same policy to the LTREZ program.

Increases the eligibility thresholds for the Strategic Investment Program to \$150 million (urban) and \$40 million (rural) and adds an inflation adjustment factor. Increases the amount of real market value that is taxable depending on project size: from \$25M to \$50M, from \$50M to \$60M, and from \$100M to \$150M. Requires businesses to post related job announcements through WorkSource Oregon. Disallows the creation of new Strategic Investment Zones. Adds the requirement that at least one individual negotiating on behalf of the local government must have completed a training program prescribed by the Oregon Business Development Department that includes negotiation techniques. Increases the fee cap from \$2.5M to \$5M. Requires local entities that provide emergency services be part of the 75% threshold to reach an agreement. Reduces the maximum amount of annual Gain Share distributions received by any single county from \$16M to \$5M. Adds a sunset date of July 1, 2030. Changes become applicable on the effective date of the Act and apply to property tax years beginning on or after July 1, 2024.

Disconnects from the federal Opportunity Zone tax policy. Requires an Oregon personal and corporate addition to taxable income for any gain that is excluded from federal taxable income. Requires the calculation of Oregon taxable income to disregard any associated adjustment in basis. Allows a subtraction from Oregon taxable income for amounts previously required to be added to Oregon taxable income, if included in federal taxable income. Applies to tax years beginning on or after January 1, 2023.

Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

This summary has not been adopted or officially endorsed by action of the committee.

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-9 Replaces the bill. Creates a new Research & Development tax credit based on the federal research activities income tax credit. The credit percentage is 25 percent of the "excess amount" of qualified research activity, as defined in federal law, with the exception that the activity must be performed in Oregon and be essential to the semiconductor industry. The maximum tax credit is \$5 million for filers with fewer than 150 Oregon employees and \$10 million otherwise. The credit is refundable for businesses with fewer than 150 Oregon employees; 50% refundable if they have between 150 to 499 Oregon employees; and 25% refundable if they have between 500 to 2,999 Oregon employees. Non-refundable credits have a 5-year carryforward. Creates a certification process through OBDD and requires an application in 2023 to claim the tax credit in 2024, providing specified information to OBDD to be used by LRO in produce a report for the 2024 Legislature. Includes a blank program cap.

-10 Replaces the bill. Creates a new Research & Development tax credit based on the federal research activities income tax credit. The credit percentage is 25 percent of the "excess amount" of qualified research activity, as defined in federal law, with the exception that the activity must be performed in Oregon and be essential to the semiconductor industry. The maximum tax credit is \$5 million for filers with fewer than 150 Oregon employees and \$10 million otherwise. The credit is refundable for businesses with fewer than 150 Oregon employees; 50% refundable if they have between 150 to 499 Oregon employees; and 25% refundable if they have between 500 to 2,999 Oregon employees. Non-refundable credits have a 5-year carryforward. Creates a certification process through OBDD and requires an application in 2023 to claim the tax credit in 2024, providing specified information to OBDD to be used by LRO in produce a report for the 2024 Legislature. Includes a blank program cap.

Restores the two prior Qualified Research tax credits for tax years 2023 through 2029. Disallows taxpayers from claiming these and the new R&D tax credit.

-11 Replaces the bill. Creates a new Research & Development tax credit based on the federal research activities income tax credit. The credit percentage is 25 percent of the "excess amount" of qualified research activity, as defined in federal law, with the exception that the activity must be performed in Oregon and be essential to the semiconductor industry. The maximum tax credit is \$5 million for filers with fewer than 150 Oregon employees and \$10 million otherwise. The credit is refundable for businesses with fewer than 150 Oregon employees; 50% refundable if they have between 150 to 499 Oregon employees; and 25% refundable if they have between 500 to 2,999 Oregon employees. Non-refundable credits have a 5-year carryforward. Creates a certification process through OBDD and requires an application in 2023 to claim the tax credit in 2024, providing specified information to OBDD to be used by LRO in produce a report for the 2024 Legislature. Includes a blank program cap.

Disconnects from current federal law with respect to the deduction treatment for research expenses. This would change the treatment from a deduction taken over either 5 or 15 years to a full deduction in the years expenses were incurred (federal law prior to the 2017 Tax Cuts and Jobs Act).

-15 Replaces the bill. Creates a new Research & Development tax credit based on the federal research activities income tax credit. The credit percentage is 15 percent of the "excess amount" of qualified research activity, as defined in federal law, with the exception that the activity must be performed in Oregon and be essential to the semiconductor industry. The maximum tax credit is \$4 million for all taxpayers. The credit is 75% refundable for businesses with fewer than 150 Oregon employees; 50% refundable if they have between 150 to 499 Oregon employees; and 25% refundable if they have between 500 to 2,999 Oregon employees. Non-refundable credits have a 5-year carryforward. Creates a certification process through OBDD and requires an application in 2023 to claim the tax credit in 2024, providing specified information to OBDD to be used by LRO in produce a report for the 2024 Legislature. Includes a blank program cap.

Extends the Enterprise Zone and Long-term Rural Enterprise Zone programs through June 30, 2032. Requires zone sponsors to post the terms of agreements on their website for 21 days prior to the effective date. Requires Oregon Business Development Department to provide technical assistance to zone sponsors and to submit a report on enterprise zone program transparency to the Legislative Assembly by September 15, 2024. Requires zone sponsor intending to enter into agreement that may increase infrastructure use outside zone boundaries to provide such notice to adjacent local governments. Establishes a school support fee that ranges between 15% and 30% of property taxes that would otherwise have been due, but for the property tax exemption. Requires each zone sponsor to negotiate the rate with their intersecting school districts. The fee applies to years four and five for the EZ program and for years six and later for the LTREZ program ; applies to property tax years beginning on or after July 1, 2024. Clarifies that active agreements may continue should the EZ program sunset; applies the same policy to the LTREZ program.

Increases the eligibility thresholds for the Strategic Investment Program to \$150 million (urban) and \$40 million (rural) and adds an inflation adjustment factor. Maintains the tax threshold for urban projects but increases the \$100M to inflation. Increases the amount of real market value that is taxable depending on project size: from \$25M to \$50M, from \$50M to \$75M, and from \$100M to \$150M. Requires businesses to post related job announcements through WorkSource Oregon. Disallows the creation of new Strategic Investment Zones. Adds the requirement that the Oregon Business Development Department make negotiation training materials available to local governments.. Increases the fee cap from \$2.5M to \$3M and indexes it to inflation. Includes ports with cities and counties as governments that can enter into agreements. Requires local entities that provide emergency services be part of the 75% threshold to reach an agreement. Establish a review by LRO in 2034. Changes become applicable on the effective date of the Act and apply to property tax years beginning on or after July 1, 2024. Extends Gain Share five years to 2030.

BACKGROUND:

This bill is an omnibus bill that combines updates for certain economic development programs with the creation of a new research & development income tax credit. From 1989 through 2017 Oregon had two corporation income tax credits for Qualified Research Activities based on the federal research activities tax credit. This bill would reinstate those credits, with modifications. The Enterprise Zone and Long-Term Rural Enterprise Zone programs provide property tax abatements to qualifying companies and were established in 1985 and 1997, respectively. The Strategic Investment Program provides an exemption for large scale investments above certain value thresholds and Gain Share is a program that provide income tax reimbursements to to local governments related to these investments.