

HB 2009 A STAFF MEASURE SUMMARY**Carrier:** Rep. Nathanson**Joint Committee On Tax Expenditures****Action Date:** 06/20/23**Action:** Do pass with amendments. (Printed A-Eng.)**House Vote****Yeas:** 5 - Marsh, Nathanson, Nguyen D, Smith G, Walters**Nays:** 1 - Levy B**Exc:** 1 - Reschke**Senate Vote****Yeas:** 4 - Boquist, Findley, Jama, Meek**Nays:** 1 - Golden**Fiscal:** Fiscal impact issued**Revenue:** Revenue impact issued**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 for tax years 2024 through 2029. 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 Oregon Business Development Department (OBDD) and requires a registration in 2023 to claim the tax credit in 2024, providing specified information to OBDD to be used by LRO to produce a report for the 2024 Legislature. Includes biennial tax credit program caps of \$35 million for 2023-25, \$80 million for 2025-27, and \$90 million for 2027-29; and a fiscal year cap of \$50 million for 2029-30.

Extends the Enterprise Zone and Long-term Rural Enterprise Zone programs through June 30, 2032, excluding fulfillment centers. Requires zone sponsors to post the terms of agreements on their website for 21 days prior to their effective date. Requires OBDD 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 an 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 respective school districts. The fee applies to years four and five for the EZ program and to years six and later for the LTREZ program. Clarifies that active agreements may continue should the EZ program sunset; applies the same policy to the LTREZ program. Changes apply to agreements made on or after the effective date of the Act.

Increases the eligibility thresholds for the Strategic Investment Program to \$150 million (urban) and \$40 million (rural) and then adjusts for inflation in later years. Maintains the tax threshold for urban projects but adjusts future levels for inflation. Increases the amount of real market value for rural projects 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 additional Strategic Investment Zones. Adds the requirement that the OBDD make negotiation training materials available to local

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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. Requires a program review by LRO in 2034. Changes apply to agreements made and property deemed eligible on or after the effective date of the Act for property tax years beginning on or after July 1, 2024. Extends Gain Share five years to 2030.

Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

- The intent of these policies being part of a broader effort this session for economic development
- The importance of creating a Research and Development tax credit
- R&D tax credit specifics such as credit percentage, taxpayer cap, refundability, and certification process
- Property tax exemption impacts on school funding
- Structure of an enterprise zone fee to support K-12 schools
- The interaction between local revenue and the state school fund for purposes of equalization
- How the proposed research and development tax credit compares to other states' similar tax credit
- The importance of extending the enterprise zone and Gain Share programs
- The importance of scheduling a legislative review for the Strategic Investment Program

EFFECT OF AMENDMENT:

Replaces the bill.

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.