



Date: February 14, 2023

To: Chair and Members of the Senate Finance and Revenue Committee

From: Scott Bruun, OBI

RE: Testimony in support of SB 55 / R&D Tax Credit

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Chair Meek and Members of the Committee,

I am Scott Bruun, director of tax, fiscal and manufacturing policy for Oregon Business & Industry. OBI is a statewide association representing businesses from a wide variety of industries and from each of Oregon's 36 counties. In addition to being the statewide chamber of commerce, OBI is the state affiliate for the National Association of Manufacturers and the National Retail Federation. Our 1,600 member companies, more than 80% of which are small businesses, employ more than 250,000 Oregonians.

Thank you for the opportunity to testify on this bill. OBI strongly supports SB 55 and we are grateful to Sen Findley for sponsoring the bill, and to Chair Meek for scheduling a hearing.

We believe that an R&D tax credit may be the most important economic growth and job-creating policy tool that the legislature can pass this session. We also believe that failure to pass a meaningful R&D tax credit this session will be seen nationally, even internationally, as a significant failure and lost opportunity on Oregon's part.

One of the wonderful things about our state is the tradition of research and innovation excellence that has existed here for decades. Oregon has long been a leader in high tech innovation – like Tektronix, and the spoke-like growth it created, to today's Silicon Forest and tech hubs in every part of the state. We too have always been a leader in forest products design and manufacturing, including revolutionary mass timber. We have long been a leader in freight and transportation technology, from shipbuilding in our history to railcar innovation, to cutting edge EV semi-trucks. And of course, we are a world leader in sports and recreational apparel design.

We all should be proud that In 2021, more than 3,700 new patents were issued in Oregon, which puts us 14<sup>th</sup> nationally. Interestingly, on a per populace basis for 2021, Oregon was ahead of both Texas and New York on issued patents and only slightly behind, yet comparable, with California, Washington and Massachusetts.

The bottom-line is that Oregon has long been a research and innovation leader.

However, our competitive standing today is in jeopardy. Partially, this is due to our changing and challenging business climate, including a greater overall tax burden in recent years and a complex and expensive regulatory environment.

And partially, this is due to increased and highly sophisticated competition from other states. Simply put, our top competitors – like Arizona, Texas, New Mexico, Ohio, even New York, have moved to improve their competitive positions. Every state worth its salt wants to compete for jobs and investments, and many are openly courting Oregon businesses for Oregon's jobs and Oregon's investments.

Oregon cannot standby and do nothing; we cannot afford to do nothing. We are one of only 12 states that does not have an R&D credit, and we are the only state who thinks itself in serious consideration for federal CHIPS Act investments without a version of the credit.

We sometimes like to tell ourselves that we're OK since we have other incentives, like enterprise zones and the SIP. Well, other states have those same tools or close equivalents, as well. But most states, in addition to having R&D tax credit programs, also have some form of a capital expenditure tax credit for machinery and equipment purchases. States do this because they want the economic growth, the job growth, and the expansion of their tax base that comes from those investments. In Oregon, we don't do this. Instead, we tax machinery and equipment like its simple property. This hurts us competitively.

SB 55 is an excellent bill which would improve Oregon's competitive position. SB 55 is written much like Arizona's existing and demonstrably successful R&D credit program. SB 55 would make Oregon's one of the most competitive R&D tax credit programs in the nation. It would secure and improve our position as a true research and innovation hub.

We are closely watching and are very supportive of the work of the Joint Semiconductor Committee. It is our hope and expectation that an R&D credit proposal will come from that. That may be SB 55, or it may be an enhanced version to better reflect the competitive and market demands necessary for Oregon to qualify for CHIPS Act investments. In any event, it is important that the legislature move quickly to pass an R&D credit. Pushing this into the end-of-session JTAX discussion will not work if we are serious about competing for CHIPS Act investments.

I'll close and just say that pursuing CHIPS Act investments is not the only reason to adopt an R&D credit - countless Oregon innovators in diverse industries other than the semiconductor industry would also benefit. But with billions in CHIPS monies on the table for Oregon, we certainly don't want to let this opportunity slip through our fingers.

Thank you.

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