February 28, 2023

Chair Mark Meek
Vice-Chair Brian Boquist
Senate Committee on Finance & Revenue
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Sent electronically

RE: Support for Restoring Oregon's Qualified Research Activities Tax Credit

Dear Chair Meek, Vice-Chair Boquist, and Members of the Committee,

Thank you for the opportunity to submit these comments on behalf of the Smart Growth Coalition in support of SB 669, which restores Oregon's Qualified Research Activities Tax Credit. Our coalition has long advocated for the legislature to pursue strategic policies to spur investments in the state's innovation economy. We believe that restoring **and enhancing** the R&D tax credit is Oregon's best opportunity to reclaim its competitiveness for these investments and secure its position as a national leader in research and development.

About the Smart Growth Coalition

The Smart Growth Coalition is a consortium of traded sector businesses with significant operations in Oregon. Our coalition was formed in 1999 to add technical expertise to state legislative proceedings regarding proposed reforms to state tax law affecting businesses who have made investments in jobs and capital projects in the state. Our members are unified in their commitment to sound tax policies that encourage investment in Oregon and provide technical simplicity and clarity to the state tax code.

The Best "Investment" the State Can Make In Its Economy

While states seek to enhance their policy tools to attract coveted investments in research and innovation, Oregon's tax policy has not kept up with the pace of other states. In fact, Oregon actively chose not to compete for these investments by allowing the previous credit to expire in 2017. Oregon is now one of only 12 states without a tax credit seeking to spur private-sector research, putting the state at a competitive disadvantage in attracting investments to benefit our local economy.

Research incentives are highly effective at luring and sustaining direct investments in people, communities, and the future of our economy. These investments most often lead to additional innovations, including first-generation manufacturing and further product and process development. Also, very highly skilled individuals fill research positions that are highly paid, generating more opportunities for the state to expand its tax base. It is no wonder why states compete so aggressively for these investments.

The benefits from research tax credits are not limited to the companies and sectors where investments occur. Technological innovations improve productivity in industries that make innovations and those that use those innovations. The economic growth induced by research credits, such as high-wage jobs, effectively pays for the costs of the credit, making it one of the best "investments" a government can make in its economy.

Immediate Expensing of Research Expenses

In addition to the underlining bill, the legislature should use SB 669 to become a national leader in the tax treatment of research activity by restoring the ability to immediately expense the costs surrounding these investments. As one of several "pay fors" in the Tax Cuts & Jobs Act of 2017, Congress phased out a longstanding rule allowing businesses to immediately claim expense deductions for their research activity, instead requiring them to amortize those costs over five years. In effect, the change penalized investments in research.

If Oregon wants to stand out in the crowd of states competing to lure investments in research and innovation, the legislature should revert to the previous policy of allowing businesses to claim these expense deductions in the year the costs occur.

Conclusion

In conclusion, the Smart Growth Coalition supports the legislature's efforts to restore and enhance the state's research tax credit and looks forward to working with you as the session progresses. Thank you for the opportunity to submit these comments today.

Sincerely,

Jeff Newgard
Smart Growth Coalition