SB4: Incentives – Direct to greatest needs and measures proven effective

Joint Semiconductor Committee – Jody Wiser – 3.1.2023

I want to start by making it clear: Tax Fairness Oregon supports the $210 million in incentives in SB 4. Direct spending that will get land ready, educate the workforce and provide grants and loans that will bring home new semiconductor investments is wise policy. The semiconductor industry is a vital and important part of Oregon's economic life and we all want to keep that so.

Since the Governor has acted to help businesses prepare applications, it may not be necessary to have that in SB 4. Her action is more timely.

Now that direct guidance from the Department of Commerce is out, the ways you should turn are clearer. The **Notice of Funding Opportunity** and the variety of documents included with it explain exactly what the department is - and is not - looking for.

"Applicants must be offered a state or local government incentive to be eligible for CHIPS Incentives." They want you to be engaging with leadership. They want the work and support of this committee, the Governor and local communities tied to each application from Oregon.

The guidance goes on to say "The Department encourages projects that include state and local incentive packages capable of **creating spillover benefits that improve regional economic resilience** and **support a robust semiconductor ecosystem**, beyond assisting a single company. Such incentives might include **investments in workforce, education, site preparation, or infrastructure** (including transit or utilities) that are not limited to the applicant, but designed to benefit both the applicant and the broader community. Likewise, the Department will **place less weight on incentives (such as direct tax abatements)** with less potential for spillover benefits." (emphasis added)

The higher ed research and training, the high school internships, and the site readiness efforts that you have focused on fit right into that guidance. Good for you, you read the tea leaves correctly. Oregon clearly needs to get more land shovel-ready which will benefit other businesses, not just the applicants. And we've been failing our community colleges and universities and their students as well as their research arms for some time.

You have heard that we are one of only 12 states without an R&D tax credit. That is not proof that it is an efficient or productive use of public funds. If it were proof, those states with the credit would all be at the top of the research spending profile and Oregon and Washington would be at the bottom.

As OCPP has shown, Washington and Oregon stopped their state tax breaks in 2015 and 2017, yet they remain in the 1st and 4th top positions for private R&D spending. The truth is, in a state with the equivalent of $**6.8 billion in R&D spending in 2017**, the $21 million of state tax credits actually used that year was insignificant. Further, **Oregon's R&D benefited only 160 of Oregon's 400,000 private businesses.**

The legislature stopped the credit. **Businesses went right on spending without it. Three years later annual R&D spending in Oregon reached $10.2 billion. Arizona increased the value of their R&D tax credit very significantly in 2010. Yet their place in private R&D spending has remained essentially flat.**

The likely cost in tax credits used in the coming biennium would be $64 million. Any new business efforts stimulated by the CHIPS Act would raise the cost even higher.

You clearly support R&D it as one of the uses for grants and loans in SB 4 (see the second bullet). The share of your $210 million devoted to research will benefit those businesses applying for federal CHIPs Act funding across the spectrum from university to private research centers, aligned research by those who build product components, to plan best supply chain solutions. Your research grants should support these parts of the semiconductor ecosystem.

You can see below how we arrived at the estimate of $64 million in cost for the coming biennium, just for the return of the R&D tax credit that 2017 legislators, following the advice of the Governor, let expire. There wasn't then and there isn't now evidence that state R&D credits have a significant effect on private R&D spending.

Instead of bringing back that or a different version of the credit, we encourage you to focus on workforce development and land preparation, and direct spending on research that will move our industries forward as the incentives upon which you focus. These will serve Oregon's younger citizens and our business competitiveness in the most productive ways.

Extrapolating forward from 2017 data and assuming growth like that in the past, restarting our old R&D tax credit would put the state on the hook for $120 million next biennium* to support Research and Development for ~160 current businesses. While likely cost in tax credits used would be $64 million because many credits would be carried forward by businesses without sufficient tax liability. Any unusual new business efforts stimulated by the CHIPS Act will raise the cost above $64 million.

The chart shows that by the time Oregon's last R&D tax credit ended, there were $105M in tax credits being carried forward from prior years and another $16M was added to that carryover total in 2017.

Our estimate is based on a LRO study of 2014 data and the LRO information on 2017 credits claimed. The 2014 data shows the vast majority of the credit value was being claimed by either companies with no taxable income (45%) or those with over $10 million in taxable income (48%). Clearly nearly half of the companies could not use their credit as they had insufficient tax liability and thus carried credits over to later years, maybe never getting the benefit of the credits. Even the large companies carried over about half of their credits.

Exhibit 3.12—Tax Year 2017 C Corporation Tax Returns
Carryforward Credit Usage

Credit	Number of Claims	Credit Carryforward from Previous Year ($ thousands)	Credit Awarded Current Year ($ thousands)	Number of Users	Total Amount of Credit Used ($ thousands)	Percent of Credit Used
General Corporation Credits						
Business Energy Credits*	94	$53,343	$14,484	65	$32,297	47.6%
Biomass Production/Collection	7	$1,253	$2,463	6 or fewer	$1,921	51.7%
Electronic Commerce Zone Investment	6	$15,125	$10,167	6 or fewer	$2,994	11.8%
Farm-Worker Housing Construction	10	$3,383	$1,162	7	$1,218	26.8%
Oregon Affordable Housing Credit	20	$1,857	$8,328	19	$9,307	91.4%
Pollution Control	11	$780	$153	7	$81	8.7%
Qualified Research Activities	422	$106,160	$37,425	158	$21,010	14.6%
Repatriation Credit	78	$0	$19,768	65	$19,118	96.7%
Other Corporation Credits	17	$46,860	$10,467	7	$14,794	25.8%
Total	**665**	**$228,761**	**$104,417**	**328**	**$102,740**	**30.8%**

* Includes credits for Business Energy Facilities, Energy Conservation Projects, Renewable Energy Development, Transportation Projects, and Renewable Energy Resource Equipment Manufacturing Facilities.

Legislators might find helpful comparing the LRO study prepared for the 2017 legislature on 2014 data and the above data from 2017.

*$120 million assumes the $37.5 million claimed in 2017 increases 6.7% a year over the 7 years 2018-2024 similar to the growth in R&D spending in Oregon overall in years prior to 2014.

$64 million assumes the $21.10 million used in 2017 increases 6.7% a year over the 7 years 2018-2-24.