

SMART GROWTH COALITION

April 5, 2023

Chair Mark Meek
Vice-Chair Brian Boquist
Senate Finance & Revenue Committee
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 Senate Finance & Revenue Committee,

Thank you for the opportunity to submit these comments on behalf of the Smart Growth Coalition to encourage you to support the restoration and enhancement of 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. While it may be tempting to target research incentives to just one industry, the potential of this moment spans much further. The legislature has an opportunity to spur new investments in innovations across all sectors, securing the state's position as a global research hub. We urge the committee to embrace the opportunity.

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

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2018. Oregon is now one of only 13 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. The benefits from research tax credits are not limited to the companies and sectors where these investments occur but also industries that use those innovations.

One important aspect of the R&D credit is that it is an “incremental credit,” meaning that it is based on the increase in research expenditures from the previous year. **This requirement is intended to encourage businesses to increase their investments in research and development activities over time, rather than simply maintaining their current levels of spending.** 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. It is no wonder why states compete so aggressively for these investments.

Oregon Research Spending Dropped After R&D Credit Expired

Opponents of the R&D tax credit, and, for that matter, incentives generally, tend to assert these activities would occur with or without a tax policy nudge. Recent data from the federal government disputes this claim. One year after the legislature allowed the R&D tax credit to expire, Oregon experienced a significant decline in business-performed research spending. **According to the National Science Foundation, Oregon firms reduced their research spending by 10 percent (\$861 million) in 2019, the most in a single year.** This occurred as the economy was booming and neighboring states experienced record growth in research spending. You can find a graph illustrating these changes at the end of this letter.

Conclusion

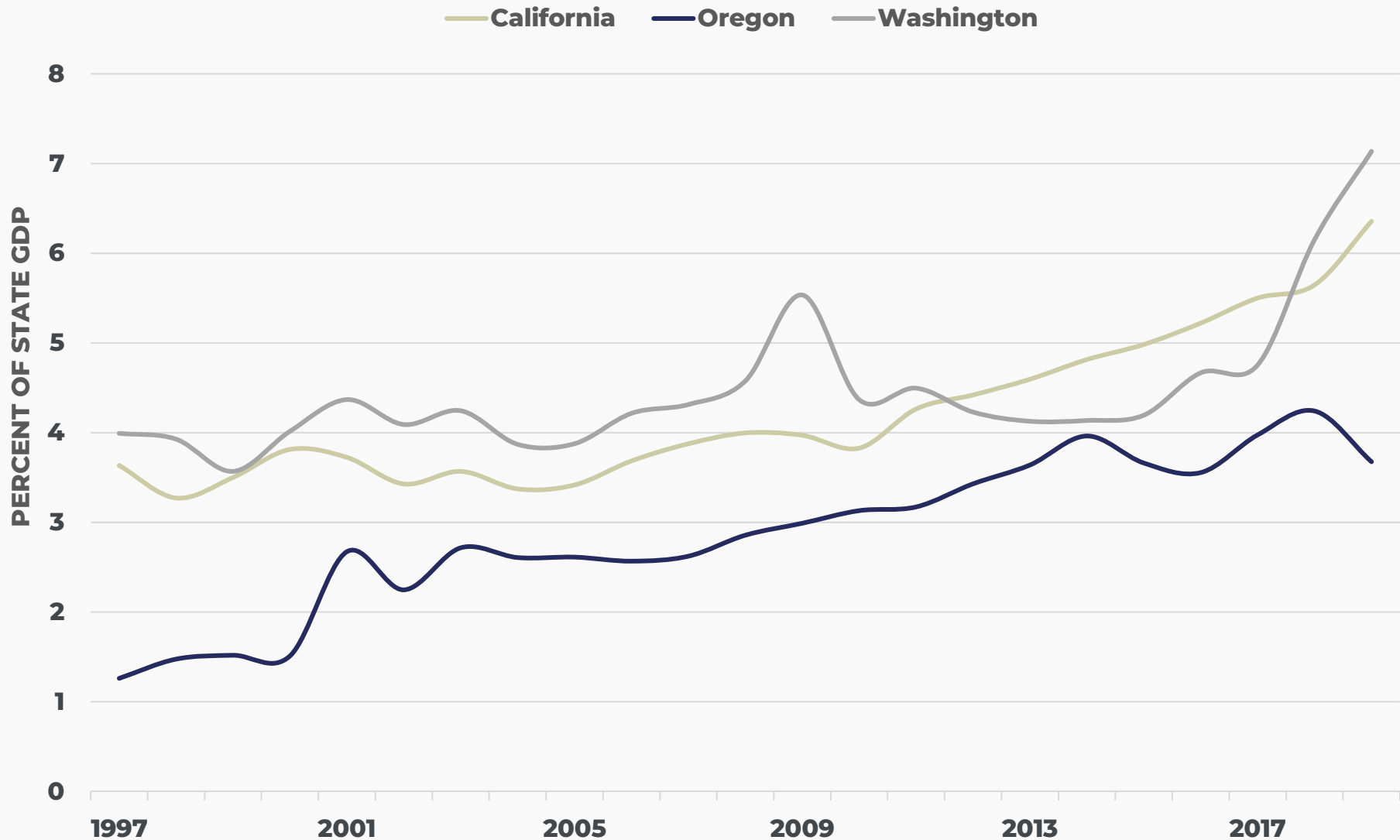
The Smart Growth Coalition supports the legislature’s efforts to restore and enhance the R&D tax credit across all sectors and industries. SB 1084 sends a clear message that Oregon is committed to supporting innovation and growth to create a more prosperous future for all. Thank you for your consideration.

Sincerely,

Jeff Newgard
Smart Growth Coalition

Business-Performed R&D

Quantifying the role of research and development in a state's economy by comparing private research spending to the state's gross domestic product.



Source: National Science Federation Business-performed domestic R&D/private-industry output | State Indicator S-45