April 17, 2023

Co-Chairs Janeen Sollman and Janelle Bynum
Co-Vice-Chairs Tim Knopp and Kim Wallan
Joint Committee on Semiconductors
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Sent electronically

RE: Oregon Must Maximize the Economic Opportunity with an Inclusive R&D Credit

Dear Co-Chairs Sollman and Bynum, Vice-Chairs Knopp and Wallan, and Members of the Joint Committee,

Thank you for the opportunity to submit these comments on behalf of the Smart Growth Coalition to encourage you to support a robust research and development (R&D) tax credit. While it may be tempting to target research incentives to only a small subset of businesses, it comes at the expense of the economic opportunity lost from investments in all other sectors. If Oregon enacts an exclusive credit tailored only for recipients of federal CHIPS Act grants, the state would miss the spillover benefits and revenue gains arising from investments in the innovation economy. We strongly encourage you to embrace an inclusive policy that spurs new investments across all sectors, securing the state's position as a global research hub.

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

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.

Most states offer R&D credits because they effectively produce a return on investment. As an incremental credit, meaning it is based on the increase in expenditures from the previous year, the R&D credit only rewards businesses increasing their spending year-over-year. Since these activities require substantial investments in a highly skilled workforce, the personal income tax collections far outweigh any cost of the actual credit. In 2015, the Connecticut General Assembly estimated the revenue impacts of its R&D credit resulted in $1.24 to $2.36 in net revenue for every dollar claimed from the credit. The evidence is clear, the economic growth induced by research credits effectively pays for the credit, making it one of the best "investments" a government can make in its economy.

Oregon Should Utilize Its Tax Incidence Model

While a static revenue estimate of the R&D credit may show a revenue loss, the estimate does not consider the downstream economic benefits from increased investment in the state. Dynamic revenue scoring is crucial for evaluating the value of tax incentives, which, by definition, are intended to nudge certain behaviors in the economy. With the right incentives, businesses will increase their local research investments, resulting in high-paying jobs, improvements in productivity, and, consequentially, more tax revenues.

Oregon has one of the most advanced dynamic revenue scoring models in the country, helping the legislature make informed decisions about the behavioral changes economic players make due to a given tax policy. Since 1999, the legislature has used the Oregon Tax Incidence Model (OTIM) to evaluate the real-world impacts of tax increases and decreases. Considering the opportunity for the state and its economy, the legislature needs to utilize OTIM to shape the scope and size of an R&D tax credit to maximize the state's return on investment.

Spillover Impact of R&D Activity

When companies invest in R&D, they often hire highly skilled workers who not only contribute to the company's innovation but also bring new knowledge and expertise to the local economy. These highly skilled workers can help build a culture of innovation and entrepreneurship, attracting other innovative companies and highly skilled workers to the area. This creates a research hub, where the community collaborates and shares knowledge, leading to further productivity gains, innovation, and economic growth.

If Oregon narrowly targets an R&D credit to only a select few companies, it will significantly diminish its spillover value. By limiting the R&D tax credit, the state is essentially creating a closed system that does not allow for the free flow of ideas and knowledge. This will limit the

spillover value and potentially hinder economic growth. In contrast, an inclusive R&D tax credit available to all companies engaged in R&D activities will encourage the sharing of knowledge and the transfer of technology, leading to a greater spillover value and increased economic growth.

Conclusion

While we support the legislature's efforts to leverage the federal funding for semiconductor investments in Oregon, it is crucial the incentive policy unlock the full potential of the innovation ecosystem, driving growth and prosperity for all. Oregon should pursue an inclusive credit available to all industries and sectors. If the legislature maximizes the economic potential of an R&D credit, it will reward the state with economic gains which feed more revenue into the tax system to support essential programs and services.

Sincerely,

Jeff Newgard
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