SB 5: Any R&D tax credits should be limited

Joint Committee on Semiconductors – John Calhoun – 4.19.2023

My name is John Calhoun and I am representing Tax Fairness Oregon, a network of volunteers who advocate a rational and equitable tax code.

As many of you know, Tax Fairness Oregon has documented the historic disconnect between state R&D tax credits and research expenses. The data shows no correlation between tax credits and increasing research at the macro level.

If you want to spend additional funds on encouraging the semiconductor industry growth, the return would be higher if you spend it on land acquisition and development or university research.

However, we are also aware of support to resurrect a new tax credit this year. If the legislature revives it, then the best result would be one with a small revenue impact. Below are suggestions to limit the tax credit:

- Keep the tax credit limited to companies receiving CHIPS Act grants.
- Set the amount of the credit to 15%. None of the top 20 R&D states has a tax credit above 15% and none of the states likely to compete for federal research grants offer more than 15%, except Arizona which offers more for amounts of qualified research under $2.5 million.
- Discount any refundable credits by 25-30% as other states do.
- Do not include the alternative R&D tax credit (few know what it is)
- Keep the former $1 million cap per business
- Make the sunset four years
- Put a cap on total tax expenditures for any year
- Require DOR to certify the credits and require companies receiving the tax credit to disclose certain tax and financial information in order to study of the effectiveness of the R&D tax credit

If the total could be kept below $25 million per year for four years, then it will be easier to find viable revenue enhancements that would support the Governor's goal of making the addition of this tax credit revenue neutral. We support the Governor's goal.

We read the bills and follow the money