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

Joint Committee on Tax Expenditures – John Calhoun – 5.5.2023

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 the legislature wants to spend additional funds on encouraging the semiconductor industry growth, the return would be higher and our state program more highly rated if the spending went to university research. The Department of Commerce guidance advised you:

*"[T]**the CHIPS Program Office will not facilitate or participate in a race-to-the-bottom to divert vital state and local revenues to corporate bottom-lines**. The CHIPS Program Office will give preference to 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 as incentives that include investments in workforce, education, site preparation, or infrastructure. **The CHIPS Program Office will accord less weight to incentives, such as direct tax abatements, with less potential for spillover benefits."***

Simply stated, the federal government is not interested in state incentives that will flow through to shareholder value and it will not reward a competition between the states over benefits for companies.

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:

- Make it available only to companies receiving CHIPS Act grants.
- Set the credit at no more than 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 only for amounts of qualified research under $2.5 million.
- Discount any refundable credits as other states do.
- Do not include the alternative R&D tax credit (few know what it is)
- Cap the credit at $1 million per business as the old law did.
- Make the sunset four years
- Cap annual expenditures

- Require DOR to certify the credits and require companies receiving it 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 small enough, 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.