

Joint Committee on Tax Expenditures-Oregon Legislature hearing 5 May 2023

My testimony will be divided into the following segments.

1-Who I am and how the research tax policy affects my decisions.

2-Why I am qualified to speak on this subject.

3-Changes required in proposed research tax credit plan.

4-Why these changes are important

5-Closing comments

1- Who I am and how the research tax policy affects my decisions.

Accushape Inc. is located in Albany. Accushape is a critical supplier of a special form of titanium powder used by the fast-growing orthopedic industry and now is a critical supplier to the hydrogen clean energy initiative. The hydrogen clean energy industry will be the next decades growth industry. It is important that Oregon establishes fundamental technology positions in this critical new industry.

Accushape is currently in the process of developing a specific new process for the reduction of titanium because the current sources of supply are not adequate to meet existing and expected demand. Accushape has 5 employees in that business. If our research efforts are successful, the currently indicated demand would likely increase our employment to 20 to 50 employees.

Accushape would not qualify for CHIPS Act grants, and therefore would not qualify for the proposed research tax credits.

I have a choice of expanding in Oregon or Utah. That choice will be influenced by the tax structure in Oregon as compared to Utah.

2-Why I am qualified to speak on this subject.

Starting in the venture capital technology industry some 60 years ago as the 2nd employee of Marine Capital Corporation that had received license #3 from the SBA for what was the beginning of the venture capital industry.

After moving on from the venture capital industry, my companies in California made critical components for the space program, including a bunch still on the moon I held in my hands.

When I came to Oregon, we developed a new technology for precision investment casting of titanium enabling the production of advanced jet engines. That

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industry is dominated by 4 companies in Oregon, 3 in Albany with more than 2,000 employees.

I have been a member of the OBI tax and fiscal policy committee for more than 20, years with a clear understanding of Oregon's tax and fiscal structure. As member of that committee, I made the resolution that Oregon Business would support the transfer of the Corporate Kicker to the Rainy-Day Fund. (Disclaimer-Nothing in my testimony should in anyway be construed to represent to position of OBI)

3-Changes required in proposed research tax credit plan.

The credit must be available to all industries. Why discourage new technologies.

The credit must be allowed to be carried back to prior years to encourage existing manufacturers to develop new technologies.

The credit must be transferable to successor entities to achieve maximum benefit.

I do not favor sales or transfer of such credits to parties not related to the entity conducting the research. Experience suggests the potential for abuses.

4-Why these changes are important

It would be a serious mistake to limit research incentives in Oregon to Chips act grant recipients placing Oregon behind in the race for the biggest change in economic activity as clean energy replaces fossil fuels. Or for other technologies not yet visible. Neither you nor I know what new technologies may be developed.

While various forms of clean energy to charge batteries are available the only currently viable method to replace fossil fuels with a continuous source of energy is the hydrogen process. Ships, planes, and trucks that move goods need a continuous source of energy.

The Federal government has already committed over \$26 billion in funding and 100 billion in tax credit. Does Oregon want to loose out on this program.

Oregon is a small state. Most manufacturers in Oregon sell a very large portion of their products to places outside Oregon.

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For Accushape 100% of our sales are outside Oregon, 80% are exports. In simple terms customers outside Oregon are paying the wages of those employed in Oregon, and effectively paying the taxes paid by companies and employees to fund the State of Oregon.

Stimulating investment in Oregon technology is not an expenditure, but rather an investment to generate revenue for funding services in Oregon.

5-Closing comments

Fundamentally, tax and fiscal policy have two dimensions, dollars and message images.

If fiscal policy says we only want semiconductor companies to expand in Oregon, business developers get the message to look where they are wanted. That is a bad message to send.

In simple terms tax and fiscal policy has 3 legs,

- 1-Economic activity that general wages and income
- 2-Tax policy that generates income for needed public services
- 3-Fiscal policy that allocates public resources.

Your policy decisions have the potential to experience the joy of dividing a bigger pie or the agony of a partisan fight to divide a smaller pie.

Robert G. Lee, President, Accushape Inc.