



Date: May 5, 2023

To: Co-Chairs and Members of the Joint Tax Expenditure Committee

From: Scott Bruun, OBI

RE: Testimony and commentary on SB 5 / R&D Tax Credit

Vice Chairs Nathanson and Meek, and Members of the Committee,

I am Scott Bruun, director of tax, fiscal and manufacturing policy for Oregon Business & Industry. OBI is a statewide association representing businesses from a wide variety of industries and from each of Oregon's 36 counties. In addition to being the statewide chamber of commerce, OBI is the state affiliate for the National Association of Manufacturers and the National Retail Federation. Our 1,600 member companies, more than 80% of which are small businesses, employ more than 250,000 Oregonians.

First, I want to thank you. By my count this is the 6th or 7th hearing on an R&D tax credit this session. OBI certainly appreciates the opportunity to have a real conversation about a policy that would lead to capital formation and job creation in Oregon. This is a bright and welcome contrast to many of the policy ideas we have had to address in recent years, policies which lead to capital flight and job loss.

We know that we are having the conversation now because of the Federal CHIPS Act. Toward that, with SB 4 you passed a critical piece of the package. Thank you. But perspective is important: The \$200 million for up front grants is vital. But still, it's short term. It runs out. And when you heard testimony from VJ Vijerda of Clark Street Associates in DC, you heard that \$200 million was "mid-tier" among U.S. states. Not the best, not the worst.

At the same time, you did incredible work to free up industrial land. But even with the unprecedented short term zoning workarounds in SB 4, we still know that we are never going to fully compete with Ohio, Texas, Arizona or just about any other state from a land perspective.

But, where we can rise above other states, is by building on Oregon's strengths with a world class investment incentive. An R&D tax credit, the right R&D tax credit, is the crown jewel of our competitive efforts.

There are good things about SB 5, and again we are grateful to be having the conversation. However, there are two critical shortfalls of SB 5, and the presumptive -2 amendments, which I need to flag:

First, the bill lacks full refundability. It's great for small businesses, giving them full refundability. However it gives medium size companies only 50% refundability, which is too big

of a haircut, and provides no refundability for larger companies. This means that a larger company that does the majority of its sales outside of Oregon can't use the credit at all. This is not good policy because it will provide no incentive for those companies to maintain or invest in new Oregon R&D efforts, which also means Oregon will lose collecting income taxes from well-paid R&D workers. Without refundability, the credit is of no value and will not change behaviors.

The second issue is eligibility. Again, we all recognize that we are having this conversation now because of the federal prioritization of semiconductor manufacturing; but we still strongly encourage this committee to adopt a credit available to all Oregon research businesses. One that recognizes Oregon's research leadership in everything from wood products and wine, to running shoes and rifle scopes.

It's notable that the federal CHIPS Act provides more than \$50 billion in semiconductor grants, credits and investments. Great. But the also recently passed federal Inflation Reduction Act provides twenty times what CHIPS does in grants and incentives for clean energy, clean tech, hydrogen, energy storage, clean transportation and other industries which are right here in Oregon. All of these industries are research intensive. They would all benefit competitively from an R&D credit, and with it, would also be in better positions to access federal grants and incentives.

Respectfully, we encourage you to not pick winners or losers. Government generally doesn't do a good job at that, and we would note that no other state which has an R&D credit restricts it to the very narrow eligibility that is embodied in the -2 amendments. These shortcomings can be solved by making the credit available to all "advanced manufacturing" industries as defined by the federal government.

The right credit is the right thing to do for Oregon semiconductor jobs and investments. And it is the right thing to do for jobs and investments in Oregon's other vital industries.

Thank you.

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