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Testimony in support of HB 3174
Extension of the Oregon Qualified Research Tax Credit
Jim Craven, TechAmerica
Joint Committee on Tax Credits
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TechAmerica is the leading voice for the U.S. technology industry, which is the driving force behind productivity growth and jobs creation in the United States and the foundation of the global innovation economy. Representing approximately 1,200 member companies of all sizes, it is the industry's largest advocacy organization and is dedicated to helping members' top and bottom lines.

We urge passage of HB 3174, which would extend the sunset date for the state's research and development tax credit. While there is no specific sunset date in the printed bill, we would suggest a six-year extension in line with previous actions by this Assembly.

The Oregon R&D tax credit is quite simple. It uses determinations and formulas found in the federal R&D credit and awards a five percent incentive for investments in Oregon. The federal credit has a core metric: in order to qualify, a company must increase its investment in R&D compared to a base year. In other words, the credit is designed to be successful by its very nature.

Since the initial passage of this credit back in 1989, Oregon has made tremendous strides in becoming a research and innovation economy. Some basic facts from the National Science Foundation tell the story about the past decade or so. Oregon has greatly increased its research capacity in terms of the share of the state's gross domestic product, and most of this increase has occurred in the private sector.

R&D as a share of gross domestic product by state

Oregon went from spending $1.91 billion in 1998 to spending $4.3 billion in 2007
1998 Oregon spent 1.89% of GDP on R&D making it the 22nd state at 77% of the U.S. average
2007 Oregon spent 2.62% of GDP on R&D making it the 14th state at 105% of the U.S. average

Business performed R&D as a share of private industry output by state

Oregon business went from spending $1.3 billion in 1998 to spending $3.6 billion in 2007

1998 Oregon business share was 1.52% making it the 25th state at 71% of the U.S. average
2007 Oregon business share was 2.61% making it the 9th state at 119% of the U.S. average

(Source: NSF Science and Engineering Indicators, 2010)

Why is research spending important? Because research drives innovation and the development of new products. And research-intensive jobs generally are much higher-paid than other types of employment.

In the high-tech sector alone, we've seen the payoff in terms of employment and wages. According to TechAmerica's most recent study of employment and wages in the States, the sector employs 86,000 Oregonians at an average wage of $80,000 – that's 104%, or nearly double, the average private sector wage in Oregon. We generate a total payroll of $6.9 billion. For a state highly dependent on the personal income tax, such high wages help generate revenues to fund needed public services.

The R&D tax credit is not limited to high tech alone, and can be used by a wide range of sectors in Oregon that perform research here in the state.

Certainly, we are not claiming that all of this tremendous success in Oregon is due solely to the existence of the credit. But from what my member companies tell me, it is a contributing factor, part of the mix of factors – including our quality of life, existence of other tax incentives, and our position on the Pacific Rim – that all add to creating a climate here that is inductive to making this a growing research center.

Some 40 states have a form of tax incentive related to research. Some states have recently expanded the value of their credits. In 2010, Minnesota doubled the allowable percentage of its credit from 5 to 10% and made the credit refundable. Oregon's credit, which amounts to 5% of the federal allowed amount, stands about in the middle of other states, which range from an effective rate of 0.2% to a high of 20%.

Two key facts about the R&D credit that bear emphasis:

***The credit goes to companies that accelerate their spending on research over a base year. That is, it is not an entitlement for doing the same think year after year. In other words, it only kicks in if companies do what the incentive is designed to encourage.

***The Oregon credit also can be used for monetary donations to academic institutions for sponsored research, so this credit benefits our well-deserving institutions of higher education.

According to estimates from the Legislative Revenue Office, the extension of the Oregon R&D tax credit will have a revenue impact of $1.9 million in the 2011-13 biennium, and $7.4 million in the 2013-15 biennium.

All this being said, let me attempt to answer the Joint Tax Credit Committee's 8 questions:

1. Purpose and timeline?

The purpose is straightforward – to encourage companies to accelerate their investments in research in Oregon. If a company doesn't meet this purpose, then the credit is not extended. There's no fixed timeline for the credit; it's an ongoing incentive.

2. Who benefits?

Any Oregon company performing research here that meets the criteria outlined in the federal Internal Revenue Code. The credit is thus available to a wide range of industries, from high tech, to biotech, to wood products, metals, food processing, and the like.

3. What happens if it sunsets? Could it be scaled down? What is the impact of a 50% cut?

Would research occur in Oregon without the credit? Most certainly. But would Oregon be a less attractive place to perform research? Likely. As to scaling it down, Oregon already has a modest credit relative to other states, and also has a monetary cap that other states don't have. We can't predict the impact of a 50% cut.

4. What background is available from other states?

See chart attached to testimony on credits in other states.

5. Is this credit effective and efficient?

Yes. It is only available to a company after the fact if the company increases its spending on research in the state. Therefore it is guaranteed to work. It is efficient because it is based on a set of federal regulations, so there is no extra administrative burden to Oregon agencies. It allows Oregon companies to direct their own research on their own timelines.

6. What other incentives are available the achieve a similar policy goal?

We're not aware of another incentive that is similar to this one. Certainly, many Oregon companies also pursue direct research partnerships with the federal government and with academic institutions. And a small group of Oregon companies participate in such programs as Oregon Inc.

7. Could it be modified to be more effective?

It already is a very efficient and streamlined incentive, with little government overburden or bureaucracy involved. As mentioned above, many other states have a more robust credit without monetary caps.

TABLE A2
States with a R&D Tax Credit as of January 2007

State	Year Enacted	Legislated R&D Credit Rate	Effective R&D Tax Rate *
Hawaii	2000	20.0%	20.0%
Rhode Island	1994	16.9%-22.5%	16.9%
California	1987	15%-24%	13.7%
Arizona	1994	11%-20%	11.0%
Georgia	1998	10.0%	10.0%
Indiana	1985	10.0%	10.0%
New Jersey	1994	10.0%	10.0%
Massachusetts	1991	10%-15%	10.0%
Louisiana	2003	8%-20%	8.0%
Iowa	1985	6.5%	6.5%
Connecticut	1993	6.0%	6.0%
Utah	1999	6.0%	6.0%
Idaho	2001	5.0%	5.0%
Montana	1999	5.0%	5.0%
Oregon	1989	5.0%	5.0%
South Carolina	2001	5.0%	5.0%
Texas	2001	5.0%	5.0%
North Carolina	1996	1%-15%	5.0%
Wisconsin	1986	5.0%	4.6%
North Dakota	1988	4%-8%	4.0%
West Virginia	1986	3.0%	3.0%
Minnesota	1982	2.5%-5%	2.5%
Delaware	2000	10.0%	0.9%
Maryland	2000	10.0%	0.9%
Pennsylvania	1997	10.0%	0.9%
Colorado	1989	3.0%	0.8%
Ohio	2004	7.0%	0.5%
Illinois	1990	6.5%	0.5%
Missouri	1994	6.5%	0.5%
Maine	1996	5.0%	0.4%
Kansas	1988	6.5%	0.4%
Nebraska	2006	3.0%	0.2%
Arkansas	1985	10.0%	N/A
Kentucky	2005	5.0%	N/A
Michigan	2006	3.9%-6.5%	N/A
New York	2005	4%-9%	N/A
Washington	2004	0.75%-1.5%	N/A
Oklahoma	2005	$500 per new R&D job	N/A
Mississippi	1989	$1,000 per new R&D job	N/A
New Mexico	2005	N/A	N/A

Source: Wilson (2007), Billings (2007) and authors' revisions.
* Wilson (2007)'s estimates.