April 2, 2015

House Revenue Committee
900 Court Street Northeast
Salem, Oregon 97301

RE: Qualified Research Activities Credit, HB 2752

Chair Barnhart and Members of the Committee,

During the recession of the early 1980s, Oregon experienced a sluggish recovery because of our disposition to the booms and busts of the natural resource economy. The restrictions on harvesting timber on public lands created a significant hurdle to overcome. This, combined with fundamental weaknesses embedded within our tax code that prevented foreign investment, made the economic recovery exceptionally difficult. Gov. Vic Atiyeh understood the value of a diversified economy and unveiled a bold new strategy for recruiting businesses to Oregon. The governor outlined a pathway forward that would utilize economic development incentives and repeal ailments to the tax code that barred foreign investment, such as the obscure unitary tax. It worked. Our economy has diversified significantly and is becoming an international business hub for a new economy as we transition from wood chips to computer chips.

In order to be competitive in the global economy, historically we need to have targeted provisions in our tax structure encouraging companies to locate their operations in Oregon. The Qualified Research Activities Tax Credit has successfully driven the creation of thousands of jobs, billions in private investment dollars, downstream spending and support of the research industry. Oregon's qualified research credit anchors companies performing R&D now, and provides incentives to attract other companies to Oregon. Without this important credit, some of our premiere companies will certainly be wooed to greener pastures.

The critical importance of Oregon's innovation community cannot be understated. Oregon companies, large and small, are revolutionizing our world every day. Whether they are researching the next generation semiconductor or discovering groundbreaking new manufacturing models that allow for greater efficiency and sustainability, Oregon plays a critical role in global innovation efforts. Nevertheless, Oregon's innovation incentive is not capable of being fully utilized by small businesses and startup companies when they are in their most fragile state. These companies are not eligible to claim the credit simply because they do not have enough tax liability.

The knowledge spillover of research and development has a ripple effect throughout the entire economy and these small businesses play a fundamental role in the innovation community. Larger companies rely on small businesses and startups for their new technological discoveries to advance and improve their own product lines.

HB 2752 is an opportunity to strengthen Oregon's innovation credit, spurring greater investments from the small business and startup communities to benefit from the credit and reinvest dollars towards their innovation activities. Additionally, the bill would increase the credit to $2 million, sending a message to the global business community that Oregon understands innovation is the future.

The Smart Growth Coalition is comprised of technology and manufacturing corporations that are dedicated to fiscally sound policies for Oregon's business environment. Our members advocate for a business environment in Oregon that is conducive to growing companies and attracting new business through sound tax policies. An emphasis of this work is validating relevant provisions allowed under Oregon's system of tax credits. As a matter of practice, our members are always monitoring and supporting the divisions of our companies that will drive sustained growth and allow us to create jobs and innovative products. Oregon can do this, too, by strengthening the Qualified Research Tax Credit provision. The Smart Growth Coalition believes that HB 2752 is the next step forward for Oregon's innovation economy.

Sincerely,

Paul Phillips

Paul Phillips
on behalf of Smart Growth Coalition