



Before the House Committee on Revenue, April 5, 2017, Public Hearing for House Bill 2243

Chair Barnhart and members of the committee, Business Oregon is here today to thank you for taking up HB 2443 and to urge your favorable consideration of such legislation for extending, expanding and enhancing the **investment tax credit (ITC) for electronic commerce activities**, currently in 15 enterprise zones. This particular program started in 2001 with four such e-commerce zone overlays; six were added a few years later, and five more in 2014. As we could describe further, an overlay can also augment the property tax benefit that primarily induces business investment in all 69 zones. Coupling the state ITC with that local benefit has been an increasingly powerful tool.

Local filings in 2016 for local property tax abatements included 51 business firms that had indicated in their initial enterprise zone application that the proposed investment would involve e-commerce operations in one of the 15 e-commerce zones. New, full-time employees with these investments number nearly 2,400, from which we rather conservatively estimate \$15.8 million of personal income tax revenue over the medium-term. That alone approximates 41 percent of the corresponding revenue impacts from both ITC use and the property tax abatements. We are confident that full accounting of the following would more than make up the difference:

- Longer-term, local tax receipts on new property after the three to five-year abatement period.
- Economic impact of other/indirect jobs and employee spending and other public revenue effects.

As seen by local zone sponsors in working with typically existing companies, the added inducement of the ITC appears to significantly influence investment decisions related to the various ways that electronic commerce intertwines itself within our evolving economy. Therefore, the **first priority** is to advance by six years the sunset provisions for the ITC, which does not apply to investments made after the current (2017) tax year.

In order for local areas and the state economy to achieve more with this tool and to get the most of it over, only another six years, presumably, we also recommend the following changes to the electronic commerce enterprise zone program:

| Improvements in HB 2243 | Commentary |
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| Increase the number of enterprise zones allowed to have an e-commerce overlay by two a year over three years (2018, 2019 and 2020) for 21 in total | Currently 54 enterprise zones do not have an e-commerce overlay, for which several local zone sponsors are interested and could make use of them to a reasonably extent, including in rural areas. The overlays are locally designated as allowed on a first-come, first-serve basis. Any 2017–19 revenue impact should be minimal. |
| Have businesses include data about their claiming and using the ITC when they file annually for the property tax exemption | This would provide a source of public information directly about the ITC apart from the business’s confidential state income tax returns. Data would be used to more closely evaluate the program going forward. |
| In lieu of carry-forward provisions, allow a taxpayer to receive a refund at 80% of the credit’s otherwise unused face value, starting in 2019 | The incentive value of any income tax credit is often ineffective for many businesses – especially smaller companies or startups – that lack sufficient, concurrent state tax liability, mainly due to low, initial profitability. Some degree of refund-ability for this ITC would greatly increase its potency in spurring additional investment and hiring. Any 2017–19 revenue impact should be minimal. |
| In claiming the ITC, prescribe a form for businesses to use as part of their tax returns and make other technical changes | Most income tax credits involve a form, to help not only with tax administration, but tax advisors have wished for a form in this case for guidance. Other modifications in sections 6 and 7 would clean up administrative language and better specify claw-backs, etc. |