

Chair Hass, Vice Chair Boquist and members of the Committee,

My name is John Calhoun and I am a resident of Portland. I am here today speaking against SB 174.

I have recently retired from a career in the tech industry. I started with Intel in 1972 when it was a small company. Over the next decade the semiconductor industry was targeted by Japan and Intel was eventually forced out of the memory chip business. One of the tools that Japan used to give it a competitive edge was subsidized low cost capital enabling Japanese semiconductor companies to build expensive wafer fabrication plants at a lower cost than American companies.

The Semiconductor Industry Association argued for the creation of the federal R&D tax credit that was passed in 1981 as a means to counter the Japanese advantage. I know this because I was Intel's representative on the SIA public policy committee then when we lobbied for the tax credit. In 1983 and 1984 I served as the Deputy Assistant Secretary for Science and Electronics at the International Trade Administration in the U.S. Department of Commerce and I continued to lobby within the government for the federal R&D tax credit as part of the American trade policy in our trade war with Japan.

A lot has happened since then. Companies like Intel now earn billions in profits every year and are not short of capital. While much of the R&D for the U.S. high tech companies remains here in the U.S., much of the manufacturing is now based in other countries. Plants that used to cost tens or hundreds of millions of dollars now cost many billions. **The R&D tax credit is simply no longer a factor in providing the necessary capital for the industry or keeping industry employment in the U.S.**

The Oregon R&D tax credit is even more ridiculous. The total tax credit benefit offered by the state is only \$9 million per year. This simply accomplishes nothing for the large companies and is not a factor for smaller players. After I left Intel in 1991 I spent the next 25 years working in startup companies in other tech sectors like software and medical devices.

For startups the tax credit is not helpful since most of the businesses lose money during the product development stage of the business and therefore pay no income taxes. Once they become profitable the tax credit is still not a factor in their business planning or R&D expenditures. The tax credit is an afterthought managed by the accountants. As the CFO of one of these smaller companies I was usually reminded by a

tax accountant when we made money that we should start reporting our R&D expenses to get some of the credits. **In no company where I was a CFO or investor did the Oregon R&D tax credit factor into any management decision on R&D nor did it provide any meaningful funds to assist our business.**

Frankly the Oregon R&D tax credit today is the purest example there is of a tax expenditure which is a total waste of state resources and which provides no quantifiable benefit to the state. A similar expenditure at one of our state research universities would provide more benefit to the state and frankly to the industry. Those who tell you otherwise are simply going through the motions of protecting an unnecessary subsidy.

At a time when we are facing a \$1.8 billion deficit and you are going to have to make many painful cuts, this should be one of your easiest decisions. Do not renew this tax expenditure.