



## **Semiconductor industry incentives**

Joint Semiconductor Committee – John Calhoun – 1.25.2023

Co-Chair Solman, Co-Chair Bynum, Vice Chair Wallan, Vice chair Knopp and members of the Committee, my name is John Calhoun and I am representing Tax Fairness Oregon, a network of volunteers who advocate a rational and equitable tax code.

We believe incentives should be targeted at recruiting new firms and expanding at existing companies eligible for federal funds from the CHIPS Act and not be broad-based tax credits available to many companies that will reduce funds available for recruiting new investments.

A little background is in order. I started with Intel in 1972 and in 1981 I was Intel's representative on the Semiconductor Industry Association's public policy committee when we lobbied Congress for the R&D tax credit to help the U.S. compete with Japan. The goal of the tax credit was to provide a shot of capital into the industry. In 1983 and 1984 I served as the Deputy Assistant Secretary for Science and Electronics at the U.S. Department of Commerce and I continued to lobby within the government for support of the federal R&D tax credit as part of the American trade policy.

A lot has happened since then. Semiconductor production facilities that used to cost tens or hundreds of millions of dollars now cost billions. The R&D tax credit is simply no longer a factor in providing the necessary capital for the industry or in keeping industry employment in the U.S. That is why Congress passed the CHIPS bill to provide massive funds for new U.S. manufacturing plants and research centers.

Oregon followed the federal government and enacted an R&D tax credit in 1989. However, in 2017 the credit was repealed because, as I testified then, it changed no behavior and resulted in no additional R&D in Oregon. The total tax credit benefit cost to the state was under \$10 million per year, while industry spent \$6 billion per year on R&D in Oregon. Even the industry acknowledged the state credit made no difference.

Business Oregon recently published an Innovation Index 2022 report (<https://www.oregon.gov/biz/Publications/InnovationIndex2022.pdf>). It says Oregon R&D was about \$8 billion in 2019, double what it was in 2009. A \$10 million tax expenditure is about 1/10<sup>th</sup> of 1 % of total R&D spending. This would not change corporate behavior or motivate more R&D. Increasing it tenfold to \$200 million per biennium would equal only 1% of industry R&D—again, not enough to change behavior.

However, \$200 million per biennium plus the proposed increase in academic funds would be close to the total the Governor indicated was her target for additional spending for semiconductor incentives. Where will we get the funds for other incentives to locate or expand semiconductor investments in Oregon?

So, what is the solution? We recommend using targeted grants or forgivable loans for semiconductor companies relocating to or expanding in Oregon. As Al Thompson from Intel and Matt Chapman from Microchip just urged, upfront cash is critical because of the size of investments and the long time between initial construction and production becoming revenue. If the incentives are to motivate any industry decisions, they must be meaningful. That means they cannot be spread thin by making hundreds or thousands of companies eligible for the funds. Let's remember that Ohio, New York, and Texas each offered over \$2 billion to just one company.

I would also like to mention that Oregon modified its tax policies significantly over the years to accommodate Semiconductor companies. A change to single sales factor means companies like Intel that sell most of their production outside the state pay very little income tax. The formula for the Corporate Activities Tax is also based on Oregon sales so Intel will not pay much. We created SIP property tax relief to minimize property taxes on semiconductor fabs. Lastly, because Oregon has no sales tax investments in billions of dollars of equipment go untaxed versus other states that have a sales tax. Overall, the result is that serious semiconductor company operations in Oregon pay minimal taxes. Providing another tax break provides little benefit compared to upfront grants or forgivable loans.

We agree on the goal of making Oregon competitive in recruiting and growing companies eligible for the federal dollars from the CHIP Act. We are concerned that some of the proposals will not accomplish this goal and will not use Oregon tax funds wisely.

***We read the bills and follow the money***