

SB 5 STAFF MEASURE SUMMARY

Joint Committee On Semiconductors

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Sub-Referral To: Joint Committee On Tax Expenditures

Meeting Dates: 4/19, 4/26

WHAT THE MEASURE DOES:

Reinstates corporate excise tax credit for qualified research activities in semiconductor or other advanced manufacturing industries. Sets maximum credit amount at \$9 million. Uses tiered credit percentages based on amount of increase in qualified research expenses. Increases tax credit percentage to 24 percent, if excess amount is \$2.5 million or less and 15 percent, if excess amount is more than \$2.5 million in accordance with federal credit for increasing research activities. Makes it 75 percent refundable for companies with fewer than 150 employees. Sets maximum credit amount at \$9 million and makes it transferable. Exempts from definition of commercial activity subject to corporate activity tax amount of research credit allowed against corporate excise tax. Applies to tax years beginning on or after January 1, 2024, and before January 1, 2030. Takes effect on 91st day following adjournment sine die.

ISSUES DISCUSSED:

- Conditioning eligibility for tax credit on receipt of CHIPS Act funds
- Scope of Research and Development (R&D) tax credit
- Economic impact of R&D tax credit
- Differences between previous R&D tax credit and current proposal
- Inability of supply chain companies to utilize R&D tax credit as proposed
- Refundability and transferability of R&D tax credit
- Impact of tax credits on business behaviors

EFFECT OF AMENDMENT:

No amendment.

BACKGROUND:

In July 2022 Congress passed the \$52 billion Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act to strengthen domestic semiconductor manufacturing, design and research, fortify the economy and national security, and reinforce America's chip supply chains.

Shortly, after the passage of the CHIPS and Science Act, the Oregon Semiconductor Readiness Task Force (Task Force) was convened, led by U.S. Senator Ron Wyden, former Governor Kate Brown, and Portland General Electric President Maria Pope. The Task Force was charged with analyzing the state of the semiconductor industry in Oregon and how the industry can continue to grow and develop a strategy to secure CHIPS Act funds to expand Oregon's semiconductor design and manufacturing sector. The Task Force report recommended action on five key factors that impact the growth of the semiconductor industry and ability to drawdown CHIPS Act funds:

- Research & Development: Oregon should focus on solidifying a world-class innovation ecosystem around chip research and production.
- Talent: Oregon needs to invest across the talent and workforce continuum.
- Land: To attract and retain semiconductor research and development and manufacturers, Oregon needs more buildable industrial land proximate to infrastructure, talented workers, and specialized suppliers.
- Incentives: Other states offer incentive packages that are both larger and more specifically tailored to the semiconductor industry than Oregon. Oregon needs to preserve and strengthen existing tools and consider

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new ones such as a research tax credit and workforce training incentive programs.

- Regulation: Oregon needs a streamline regulatory framework that aligns with the speed of market demands.

In response to the recommendations of the Task Force, the Legislative Assembly passed Senate Bill 4 in April of 2023, establishing the Oregon CHIPS fund to provide grants and loans to qualifying businesses for the purpose of growing the semiconductor and advanced manufacturing industry in Oregon and providing the Governor the authority to bring within existing urban growth boundary (UGB) designated lands for purposes of providing lands available for industrial uses as part of the state's covered incentive for semiconductor industry that relate to the semiconductor industry, advanced manufacturing or the supply chain for semiconductors or advanced manufacturing.

Senate Bill 5 further responds to Task Force recommendations, the measure reinstates the tax credits only for corporations with qualified research activities essential to the semiconductor industry or other advanced manufacturing industries. The bill increases the maximum credit amount to \$9 million and makes the credit partially refundable to taxpayers with fewer than 150 employees anywhere.