REVENUE IMPACT OF PROPOSED LEGISLATION

82nd Oregon Legislative Assembly
2023 Regular Session
Legislative Revenue Office

Bill Number:	**HB 2009 - A**
Revenue Area:	**Income and Property Taxes**
Economist:	**Easton/Olen**
Date:	**6.20.23**

Only Impacts on Original or Engrossed Versions are Considered Official

Measure Description:

Creates corporate and personal income tax credit available to qualified semiconductor companies that exceed specified minimum spending parameters for qualified research expenses made in Oregon. Defines terms. Determines tax credit in accordance with federal research expenses tax credit contained in section 41 of the Internal Revenue Code, except where specified otherwise. Requires research to be conducted in Oregon by a qualified semiconductor company in support of a trade or business directly related to semiconductors. Specifies credit is equal to 15 percent of entity's qualified and basic research expenses that exceed a historical amount determined by specified formula. Limits annual credit to no more than four million dollars for any taxpayer. Specifies credit is 75 percent refundable for taxpayers with fewer than 150 employees in Oregon; 50 percent refundable for taxpayers with at least 150 employees in Oregon but fewer than 500; and 25 percent refundable for taxpayers with at least 500 employees in Oregon but fewer than 3,000. Allows unused credits to be carried forward for five succeeding tax years. Requires taxpayers to be annually certified by Oregon Business Development Department (OBDD) prior to claiming the credit. To be eligible for tax credit for tax year 2024, requires taxpayers to register with OBDD before December 1, 2023. Limits biennial credit certification to $35 million in 2023-25, $80 million in 2025-27, $90 million in 2027-29, and $50 million for fiscal year 2029-30. Applies to tax years 2024 through 2029.

Increases the taxable portion of a Strategic Investment Program (SIP) project in a rural area, depending on project size: from $25M to $40M, from $50M to $75M, and from $100M to $150M. Increases the maximum SIP community service support fee from $2.5M to $3M and requires it to be indexed for inflationary increases annually, if any. Extends enterprise zone programs by moving sunset date from June 30, 2025, to June 30, 2032. Establishes a K-12 school support fee in enterprise zones.

Revenue Impact (in $Millions):

	Fiscal Year			Biennium		
	2023-24	2024-25		2023-25	2025-27	2027-29
General Fund (R&D tax credit)	$0	-$24.8		-$24.8	-$55.5	-$63.6
Local Government Impacts						
SIP taxable portion	$0.0	$0.0		$0.0	$1.3	$2.6
SIP community services support fee	$0.0	$0.0		$0.0	$1.0	$2.0
SEZ extension	$0.0	$0.0		$0.0	-$37.7	-$71.1
LTREZ extension	$0.0	$0.0		$0.0	-$59.7	-$128.6

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Impact Explanation:

The table above contains estimates for the establishment of a tax credit for research and development (R&D), an increase in the taxable portion of a SIP project, an increase and inflation index for the SIP maximum community service support fee, and the extension of the standard enterprise zone (SEZ) and long-term rural enterprise zone (LTREZ) programs. Although not reported in the table above, the establishment of a K-12 school support fee in SEZs and LTREZs will have a revenue impact on local governments, the amount of which will depend on the negotiated agreement between the zone sponsor(s) and the school district.

General Fund

The newly established tax credit for qualified research expenses provides a potential tax benefit to taxpayers with qualified research expenses made during the tax year that exceed a historical amount of such expenses (calculation of historical amount is contained in federal statute). The credit is available to qualified semiconductor C-corporations and pass through entities. Credit amount is based on the amount of 'excess' qualified research expenses in Oregon. Such expenses can consist of qualified research done by the taxpayer and/or basic research payments made by the taxpayer to qualified organizations for research expenses done in Oregon and on behalf of the qualifying taxpayer and for qualifying purposes.

The revenue impact estimate of the proposed research and development tax credit was informed by an analysis of Oregon's previous research and development tax credit, recent semiconductor related Oregon employment data, and private sector research and development expenses made in Oregon as reported by the National Science Foundation. About thirty entities are expected to qualify for the proposed Oregon research and development tax credit. As the credit amount is determined based on the amount of excess research expenses in Oregon, taxpayers with the greatest expenses will generally qualify for larger credit amounts, though the annual credit cap of $4 million places a credit limit per taxpayer. Refundability of credit is also expected to provide a relatively consistent revenue loss amount as all qualifying taxpayers with fewer than 3,000 Oregon employees will benefit from the refundable portion of the credit regardless of tax liability of the taxpayer. The use of the non-refundable credit (or portion thereof) to reduce tax liability will vary depending on underlying tax liability of such qualifying taxpayers. Unused credit amounts can be carried forward for up to five succeeding tax years and can be used to reduce future tax liability in such years. Estimated revenue loss is expected to increase in future biennia reflective of underlying growth in research expenses in Oregon by entities below the $4 million cap.

Local Governments

For SIP, the estimated revenue impact assumes that there will be two new rural projects at the beginning of each biennium, with one being a small project with a minimum cost of $500M or less and one being a medium project with a minimum cost of $500M to $1B. This assumption is based on analysis of the Department of Revenue's Tax Expenditure Report back to the 1997-99 biennium, which shows that there are one or two new SIP projects per biennium, depending on the time frame of analysis. Imbedded in this assumption is that the new projects will not be a fulfillment center and will satisfy the minimum project cost requirements of $40M in a rural area and $150M in an urban area. There is only one SIP project in an urban area currently. Due to this measure, small projects in rural areas will have their taxable portion increase by $15M (from $25M to $40M) and medium projects in rural areas will have their taxable portion increase by $25M (from $50M to $75M). The taxable portion increases 3 percent per year under current statute. The long-term average non-bond tax rate for SIP projects is approximately $15 per $1,000 of assessed value. The revenue impact for local governments is the increase in the taxable portion

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for new projects, multiplied by the non-bond tax rate. The changes to the SIP taxable portion apply to new projects on or after the effective date.

The SIP maximum community services support fee will increase from $2.5M to $3M and will be indexed for inflationary increases annually, if any. The total cost of the small project is assumed to be $150M and the total cost of the medium project is assumed to be $700M, based on actual project costs for the two projects that are furthest in the approval process currently. The estimated revenue impact is the assessed value of the project, multiplied by the long-term average non-bond tax rate for SIP projects, for amounts that are higher than $2.5M and up to $3M (indexed for inflationary increases, if any). The small project has no impact because it does not result in a fee that is higher than the original maximum of $2.5M.

The extension of SEZ and LTREZ from June 30, 2025, to June 30, 2032, will have a revenue impact for local governments. The estimated impact is based on recent trends of the number of exempt business firms, the reduction in assessed value per exempt firm, the average non-bond tax rate (approximately $13 per $1,000 of assessed value for SEZ and $14.50 per $1,000 of assessed value for LTREZ), and the grandfather clause for these programs. There is no impact in the 2023-25 biennium because the programs are effective in that biennium under current law. Although reservation enterprise zones and reservation partnership zones do not have a sunset date, there are no zones that currently have this designation, and therefore all zones sunset at the same time.

The school support fee is 15-30 percent of the property taxes that would have been due without the exemption for business firms in enterprise zones, only for new agreements after the effective date. The fee applies after the third year of exemption for SEZ and after the fifth year of exemption for LTREZ. The revenue impact on local governments will depend on the applicable percent of property taxes that would have been due without the exemption, 15-30 percent, that is negotiated in the agreement between the zone sponsor(s) and the school district. The SEZ impact starts in the 2027-29 biennium due to its applicability to new agreements after the effective date and applicability after the third year of exemption for a business firm. The LTREZ impact starts in the 2029-31 biennium due to its applicability to new agreements after the effective date and applicability after the fifth year of exemption for a business firm. Although not shown in the table above, the potential impact of the fee in the 2029-31 biennium, based on the SEZ and LTREZ estimates in this analysis, is in the range of $45-90M ($2.5M-$5M for SEZ and $42.5M-$85M for LTREZ). The fee will count towards local revenue for purpose of State School Fund distributions per ORS 327.011(1)(g).

Creates, Extends, or Expands Tax Expenditure: Yes ☒ No ☐

The policy purpose of the research & development tax credit is to increase Oregon's employment base across firms that support the semiconductor sector.

The policy purpose of the Strategic Investment Program is "to improve employment in areas where eligible projects are to be located" and to "hire employees from the region in which the eligible project is to be located whenever practicable" (ORS 285C.603).

The policy purpose of enterprise zones is to "stimulate and protect economic success […] throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance […] by providing tax incentives for employment, business, industry and commerce" (ORS 285C.055).

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