



Testimony in opposition to SB 1084

Chair Meek, Vice-Chair Boquist, and Members of the Committee,

My name is Nhi Nguyễn, Policy Analyst for the Oregon Center for Public Policy, and I respectfully submit this testimony in opposition to SB 1084 on behalf of the Center.

The Oregon Center for Public Policy is a nonpartisan think tank dedicated to improving the economic outcomes for all Oregonians, particularly low-income families and Oregonians of color, through research and analysis.

We encourage the legislature to reject this proposal to create a costly and ineffective R&D tax credit that will divert important public resources to subsidize corporate research. If lawmakers insist on proceeding to develop an R&D tax credit, we offer a set of amendments to **target small, startup companies; safeguard Oregon's resources, and ensure accountability and transparency.**

The new research and development (R&D) tax credit as described in SB 1084 would be capped at *\$200 million per budget period, making it the most expensive state corporate income tax subsidy in Oregon.* It also allows the credits to be transferable. This pulls some of the value of the credit away from research activities and creates a transaction cost. This contrasts with a refundable credit, where all of it is targeted to the business.

In 2017, the Oregon legislature chose not to renew the Qualified Research Activities tax credit in the absence of sufficient evidence that this R&D tax credit resulted in companies undertaking activity that otherwise wouldn't occur. Time has shown that letting the tax credit expire was the correct decision.

Even without the tax credit, industry's spending on research and development in Oregon, adjusted to 2020 dollars, continued to climb. In 2017, the last year the old R&D tax credit was in place, businesses spent \$7.8 billion dollars in R&D in Oregon.



In 2020, the year with the most recently available data, that figure had risen to \$10.2 billion, a 30 percent increase.

Should lawmakers choose to proceed despite the evidence showing how costly and ineffective R&D tax credits are, we recommend amending the bill so that it **targets small, startup companies, safeguards Oregon's resources;** and **ensures accountability and transparency.** A full memorandum, submitted for the record, explains these recommendations in greater detail.

Target the credit to small, startup companies:

- The credit should only be available for companies with less than \$50 million in national gross receipts
- Smaller companies can qualify for a bigger, partially refundable credit
- To target startups, companies can only claim the credit for up to 5 tax years

Safeguard Oregon's resources

- Set a total credit cap of \$20 million per tax year
- Cap the size of the credit that individual companies can claim at \$2.5 million per company
- Cap the qualified percentage at 7% for activities in urban counties and 10% in rural counties
- Limit to only businesses eligible for Oregon CHIPS Act funding (semiconductors and advanced manufacturing firms only)
- Do not permit the credit to be transferred

Demand accountability and transparency

- Require credits to be certified by the Department of Revenue
- Require companies receiving the tax credit to disclose certain tax and financial information
- Require a study of the effectiveness of the R&D tax credit

As currently drafted, SB 1084 would create a costly and ineffective R&D tax credit and should be opposed. However, some modest improvements to the policy can help to target the policy where it has the most potential for good. At a time when Oregon is trying to address a housing crisis, invest in behavioral health services, and expand access to child care, I'd encourage this committee to carefully consider your priorities.

