



SB 1084: A \$3 billion bill with an overly generous, wasteful R&D tax credit

Senate Committee on Finance and Revenue – John Calhoun – 4.5.2023

My name is John Calhoun and I am representing Tax Fairness Oregon, a network of volunteers who advocate a rational and equitable tax code.

SB 1084 is really a combination of two distinct efforts. One is the extension of sunsets for a variety of business incentives and the other the creation of a new R&D tax credit.

We urge you not to act on SB 1084 as it could cost \$3 billion in lost property tax and General Fund revenue between now and 2035 by extending the Standard Enterprise Zones, the Long-Term Rural Enterprise Zone, Gain Share, and the Industrial Site Readiness Program in addition to creating a new Research and Development Tax Credit. Our estimates of the costs are derived by using the costs for the coming biennium in the Tax Expenditure Report and extending it over the length of time each program is extended or using annual caps in the law (R&D and RSIS).

It is a violation of the spirit of our sunset review process to extend these programs en masse for a dozen years without review. Each deserves individual discussion and evaluation regarding both their merits and potential reforms.

Tax Fairness Oregon has testified previously to this committee and to the Semiconductor Committee about the uselessness of an R&D tax credit. We recently did an analysis of data from the Commerce Department and the National Science Foundation using additional information from each state on whether they had an R&D tax credit and if so how much they had. We then ranked each state by the amount of private R&D in the state as a percent of the state's GDP. The state with the highest ratio was Washington and Oregon was number 4. Neither state currently provides an R&D tax credit.

Further analysis indicates little if any correlation between private R&D spending and a tax credit. There is also no correlation between the size of the tax credit and research spending.

If passed, SB 1084 would arguably be the most generous and most expensive R&D tax credit in the country. It is based upon the Arizona law, but Arizona has a \$5 million cap on refundable credits and does not allow transferable credits. SB1084 allows both, but the cap is \$100 million per year. Since Arizona increased their credit to the current level in 2011 research in the state has grown less than the national average and much less than in Oregon even though we eliminated our own credit in 2017.

The inclusion of transferable tax credits is a terrible idea since a good slice of the funds goes not to the company doing the R&D, but to the bankers, lawyers, and investors buying the credits. If the legislature wants to help subsidize companies that cannot benefit from the tax credit because they don't owe any taxes, just make it refundable at 75% or 80% of value, as some other states do. At least the funds would go to subsidize companies performing R&D.

Ostensibly, the need for Oregon to pass a new R&D tax credit after ending the prior credit in 2017 due to lack of corporate interest is to help in the recruitment of companies investing with CHIPS Act money from the federal government. However, SB 1084 has no limitation and could be used by any company

doing any research in the state. Since Oregon has one of the highest research expenditures as a percent of state GDP, this could make it more expensive than other states that do less research than Oregon. To deal with that issue, the bill limits the total credits issued per year with a cap of \$100 million.

However, even the cap of \$100 million per year is a lot of money and will cost the General Fund \$600 million by the time of the 2030 sunset. Currently our understanding is that there are no funds set aside for additional tax credits in the current Co-Chairs budget. Without an increase in revenue in the next forecast, passage of SB 1084 would require cutting other tax credits or expenditures that also have their supporters, including potentially members of this committee.

SB 1084 extends business tax incentives without proper review and uses the semiconductor CHIPS Act as an excuse to create the most generous R&D tax credit in the country untied to the CHIPS Act funding.

Tax Fairness Oregon urges you to vote no on SB 1084.

We read the bills and follow the money