

## Jeff Newgard

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**From:** Jeff Newgard  
**Sent:** Wednesday, April 19, 2023 9:10 PM  
**To:** Sen Meek  
**Cc:** Rep.JanelleBynum@oregonlegislature.gov; Sen.JaneenSollman@oregonlegislature.gov; 'sen.timknopp@oregonlegislature.gov'; Rep.KimWallan@oregonlegislature.gov; erin.seiler@oregonlegislature.gov; andrew.hendrie@oregonlegislature.gov  
**Subject:** Following up on your question from this evening's committee hearing (SB 5)  
**Attachments:** OTIM\_2019 Session\_CAT Modeling.pdf

Senator Meek,

Thank you for your question today during the Joint Committee on Semiconductors hearing on SB 5. I tried to keep my response brief since the committee was short on time, but I wanted to provide you with some additional information and considerations on using OTIM as a guide to crafting the right policy for Oregon.

**About OTIM:** OTIM is a powerful economic tool often regarded as one of the country's most advanced state dynamic models. The model allows the Legislative Revenue Office (LRO), in partnership with Oregon State University, to provide an economist's best-educated guess on how individuals and businesses will react to a change in tax policy. Attached to this email is an example of the OTIM modeling the legislature relied on for crafting the corporate activity tax in 2019.

**Considerations for an R&D Credit:** There are several levers LRO could use for an OTIM simulation for the Research & Development credit. [IRS Form 6765](#), the document a taxpayer files to claim the federal credit, includes crucial data inputs for wages, cost of supplies, and contract research expenses. While it would be helpful if Oregon still had its previous credit because the state would have better access to location data (i.e., research occurring in Oregon), the old credit could provide a baseline on the types of taxpayers and their regular growth of credit-eligible expenses. (I am an avid spectator of these revenue analyses and I am confident LRO could come up with an appropriate set of inputs).

Another analysis that could (and arguably should) be done is examining the dynamic impact of Oregon's previous R&D credit. Using IRS and Department of Revenue tax data from years when the state credit was available, LRO could quantify the amount of year-over-year credit-eligible expenses and the personal income tax growth from those investments. This process should provide an analysis similar to the Connecticut Department of Revenue's estimate that their [R&D credit raised \\$1.24 to \\$2.36](#) in net revenue for every dollar claimed from the credit. While this may not be an apples-to-apples comparison, it should show that while Oregon loses static revenue through the corporate income tax there is a net-positive revenue gain through the spending generated by these credits.

If you have any questions or wish to discuss the suggestion to utilize OTIM for crafting the R&D credit, I am always happy to talk. I will submit this email as testimony for further visibility, but I wanted to send something directly to you since you asked the question.

Thank you and the committee for your efforts this year.

Sincerely,

Jeff

# MCAT Option 2A

(effective 1-1-2020):

4/8/2019

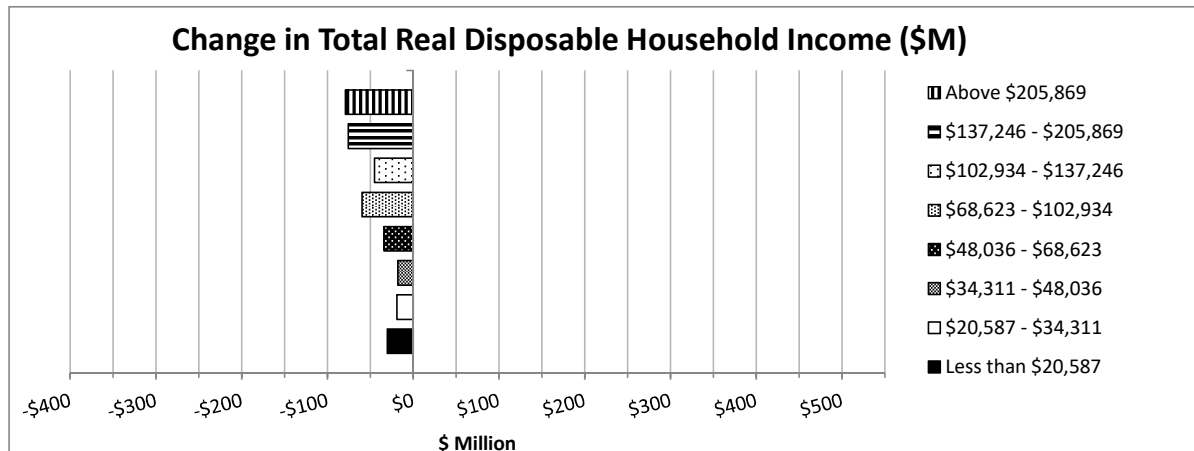
1. Create a Modified Commercial Activities Tax of 0.49% (applied to sales above \$1M)  
 Exempt: Petroleum, Medical Provider Taxpayers, and Groceries  
 Inputs deduction of 25%
2. Change PIT rates from 5 / 7 / 9 / 9.9 to 4.75 / 6.75 / 8.75 / 9.9

2020 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
<b>Private Sector</b>				
Nominal Personal Income (\$M)	\$222,637	\$222,664	+\$26	+0.01%
Nominal per capita Personal Income (\$M)	\$51,417	\$51,443	+\$25	+0.05%
Employment (Thousand)	2,685.0	2,684.4	-0.6	-0.02%
Population (M)	4.330	4.328	-0.002	-0.04%
Investment (\$M)	\$18,554.40	\$18,540.74	-\$14	-0.07%
Wage Index	100.0	100.00	-0.00	-0.00%
Return to Capital	100.0	99.97	-0.03	-0.03%
Price Levels	100.0	100.32	+0.32	+0.32%
<b>Public Sector</b>				
State Spending (\$M)	\$31,491	\$32,481	+\$990	+3.14%
GF Revenue (\$M)	\$9,863.73	\$10,858.28	+\$995	+10.08%
OF Revenue (\$M)	\$21,627.47	\$21,622.93	-\$5	-0.02%
Local Govt Revenue (\$M)	\$19,146.23	\$19,138.83	-\$7	-0.04%
Federal Tax Paid by Oregonians (\$M)	\$40,440.42	\$40,356.54	-\$84	-0.21%

Static Revenue Impact (\$ Millions)	+\$993
Dynamic Revenue Impact (\$ Millions)	-\$10
<b>Net Revenue Impact (\$ Millions)</b>	<b>+\$983</b>
General Fund Change (\$ Millions)	+\$995
Other Funds Change (\$ Millions)	-\$5
Local Revenue Change (\$ Millions)	-\$7

## Total Real Disposable Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Holds	Mean Income Change per HH (\$)
Above \$205,869	\$40,162	\$40,083	-\$79.0	-0.2%	-180	-\$117
\$137,246 - \$205,869	\$35,370	\$35,295	-\$75.5	-0.2%	-230	-\$192
\$102,934 - \$137,246	\$27,547	\$27,502	-\$44.9	-0.2%	-157	-\$129
\$68,623 - \$102,934	\$33,752	\$33,693	-\$59.7	-0.2%	-191	-\$132
\$48,036 - \$68,623	\$22,269	\$22,235	-\$34.0	-0.2%	-24	-\$125
\$34,311 - \$48,036	\$15,070	\$15,052	-\$17.8	-0.1%	112	-\$132
\$20,587 - \$34,311	\$13,191	\$13,172	-\$18.8	-0.1%	107	-\$126
Less than \$20,587	\$11,111	\$11,081	-\$30.1	-0.3%	-120	-\$109
<b>TOTAL</b>	<b>\$198,471</b>	<b>\$198,111</b>	<b>-\$359.8</b>	<b>-0.2%</b>	<b>-685</b>	



# MCAT Option 2AL

(effective 1-1-2020):

4/8/2019

1. Create a Modified Commercial Activities Tax of 0.49% (applied to sales above \$1M)  
Exempt: Petroleum, Medical Provider Taxpayers, and Groceries  
Inputs deduction of 25%
2. Change PIT rates from 5 / 7 / 9 / 9.9 to 4.75 / 6.75 / 8.75 / 9.9

2020 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
<b>Private Sector</b>				
Nominal Personal Income (\$M)	\$222,637	\$223,943	+\$1,306	+0.59%
Nominal per capita Personal Income (\$M)	\$51,417	\$51,686	+\$269	+0.52%
Employment (Thousand)	2,685.0	2,688.7	+3.7	+0.14%
Population (M)	4.330	4.333	+0.003	+0.06%
Investment (\$M)	\$18,554.40	\$18,631.05	+\$77	+0.41%
Wage Index	100.0	100.66	+0.66	+0.66%
Return to Capital	100.0	100.11	+0.11	+0.11%
Price Levels	100.0	100.39	+0.39	+0.39%
<b>Public Sector</b>				
State Spending (\$M)	\$31,491	\$32,616	+\$1,125	+3.57%
GF Revenue (\$M)	\$9,863.73	\$10,953.24	+\$1,090	+11.05%
OF Revenue (\$M)	\$21,627.47	\$21,662.96	+\$35	+0.16%
Local Govt Revenue (\$M)	\$19,146.23	\$19,190.05	+\$44	+0.23%
Federal Tax Paid by Oregonians (\$M)	\$40,440.42	\$40,776.08	+\$336	+0.83%

Static Revenue Impact (\$ Millions)	+\$993
Dynamic Revenue Impact (\$ Millions)	+\$176
Net Revenue Impact (\$ Millions)	+\$1,169
General Fund Change (\$ Millions)	+\$1,090
Other Funds Change (\$ Millions)	+\$35
Local Revenue Change (\$ Millions)	+\$44

## Total Real Disposable Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Holds	Mean Income Change per HH (\$)
Above \$205,869	\$40,162	\$40,324	+\$162.1	0.4%	27	\$1,583
\$137,246 - \$205,869	\$35,370	\$35,507	+\$136.4	0.4%	117	\$654
\$102,934 - \$137,246	\$27,547	\$27,654	+\$107.9	0.4%	176	\$447
\$68,623 - \$102,934	\$33,752	\$33,870	+\$117.3	0.3%	326	\$274
\$48,036 - \$68,623	\$22,269	\$22,320	+\$51.8	0.2%	282	\$116
\$34,311 - \$48,036	\$15,070	\$15,086	+\$16.6	0.1%	203	\$13
\$20,587 - \$34,311	\$13,191	\$13,191	-\$0.1	0.0%	147	-\$44
Less than \$20,587	\$11,111	\$11,087	-\$24.3	-0.2%	-120	-\$83
<b>TOTAL</b>	<b>\$198,471</b>	<b>\$199,039</b>	<b>+\$567.8</b>	<b>0.3%</b>	<b>1,157</b>	

