

April 26th, 2023

Subject: R&D Tax Credit to support Oregon small business and innovation

To the Joint Committee on Semiconductors,

Rewire Neuro, Inc is an artificial intelligence (AI) startup in biomedical imaging that is proudly based in downtown Portland, OR. We are a high-value job creator, having led to more than two dozen machine learning, software, engineering, and scientific jobs since our inception in 2019. Nearly 25% of these jobs have relocated people into Oregon from other states. We have also infused nearly \$3 million into the Oregon economy resulting from sales, contracts, and state and federal grants.

Development of our AI technologies requires expensive and labor-intensive generation of high-quality annotation datasets for training of our machine learning models, which allow researchers and clinicians to more accurately study, diagnose, and treat diseases. These R&D activities have largely been possible due to our SBIR grant funding from the National Institutes of Health. These grants are a common and important mechanism for promoting high-risk, high-reward R&D activities at small businesses. However, companies like Rewire are taxed on these grant funds as though they were normal income, and payment of tax dues is not a permissible use of federal grant funds. **Thus, changes to federal R&D tax credits have created a significant financial burden to small companies, like Rewire, because R&D expenses are no longer allowed to be expensed within the year they are conducted.** Like Rewire, many early stage startups have limited capital outside of these grant fund, which creates a significant issue on Tax Day.

Without relief from state and federal R&D tax credits, companies like Rewire will make hard decisions about how to reduce operational expenses in order to account for this unnecessary expense, which can lead to layoffs, slowed growth, and reduced economic activities. **The current proposal for the Oregon State R&D tax credit falls short of solving the issue for companies like Rewire because of the limited focus on supporting R&D activities at companies benefiting from the CHIPS act.** While Rewire Neuro is a high-tech company, developing technologies in an area important for national competitiveness and security, we will not be granted the benefits of the Oregon R&D tax credit under the current proposal. If the Oregon R&D tax credit was expanded to include Rewire, it would likely enable the creation of two additional engineering positions at Rewire and validate our commitment to continuing to grow in Oregon.

I encourage the Committee to reconsider the current proposal and expand the bill to more broadly include non-CHIPS companies conducting high-value R&D activities, such as Rewire. This small change to the bill will have a dramatic and immediate impact on our ability to create more jobs in Oregon, accelerate our development activities, and bring more money into the Oregon economy.

Thank you for your consideration,
John Harkness



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