OREGON CENTER for PUBLIC POLICY

Joint Committee on Tax Expenditures

May 5, 2023

Testimony on Research & Development Tax Credits

Co-Chairs Meek and Nathanson, and Members of the Committee,

My name is Daniel Hauser (he/him), Deputy Director for the Oregon Center for Public Policy and I respectfully submit this testimony on research and development (R&D) tax credits.

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 Joint Committee on Tax Expenditures to reject proposals to create a costly R&D tax credit that will divert resources away from essential public services to subsidize corporate research. I've included resources in the record we've previously published on the ineffectiveness of Oregon's previous R&D tax credit.

Doubling down on a failed policy is a recipe for even greater failure. Some argue that the previous R&D tax credit didn't work because it wasn't big enough. Throwing more than $150 million at R&D since 2010 wasn't enough, they argue, so just give these large, often very profitable corporations, even more public money. Will it ever be enough?

The best thing the legislature can do is refuse to bring back the failed R&D tax credit. The next best thing it can do is to keep it well-targeted.

The various amendments to SB 5 keep an important need front and center – staying focused on the semiconductor industry. This is the right approach. Furthermore, focusing on refundability for small businesses and eliminating the potential for credit transfers, as all of the current amendments except for -3 do, increases the likelihood every dollar goes directly to the business.

However, more needs to be done to stay focused and prioritize the businesses in greatest need of support. One clear opportunity is to only allow the credit for employers with fewer than 500 employees, eliminating it for large corporations. The credit cap should also be brought down to $5 million per business for businesses with 500 or fewer employees. This ensures Oregon's limited resources are available to more small- and medium-sized businesses while still making it a significant sum.

If the credit is prorated rather than allocated on a first-come first-serve basis, then the combination of a cap and a large credit percentage could result in businesses — including small businesses — claiming large credits but only getting a small portion of the tax benefit. This is one clear reason why the legislature should exclude large employers entirely. Don't let them cut into the limited pot of funds available for small, start-up businesses.

If you offer such a generous credit at 25 percent of the tax credit base, then the cost could very quickly get out of hand. We had tens of millions of dollars claimed each year when we only had a 5 percent credit. A narrow cap, something like $20 million or less per year, is the right approach to minimize the reduction in funding available for important public services, such as housing, childcare, and more over the next six years. While the workgroup referenced a total cap, one only appears in the -3. Capping the cost before it runs away from us and erodes funding for core public services is essential.

Finally, don't forget that you've already spent more than $200 million making Oregon competitive for CHIPS Act funding through SB 4 in a way that much more closely aligns with the Department of Commerce's guidance. They encouraged, "…investments in workforce, education, site preparation, or infrastructure (including transit or utilities)…" Conversely, they also noted, "…the Department will place less weight on incentives (such as direct tax abatements) with less potential for spillover benefits." SB 4 was a reasonable effort to make us competitive for CHIPS Act funding. SB 5 is not.

This debate centers on priorities, and I hope you'll prioritize the Oregonians in greatest need by not creating an R&D tax credit at all and leaving those funds to be invested in core public services or other more impactful tax credits before JCTE. But, if you have to, ensure this credit is carefully targeted at small CHIPS Act businesses where it could make a difference.