



HB 2078 Let the R&D Tax Credit Sunset

House Economic Development and Trade – Jody Wisner – 3.27.2017

Research and Development is essential to many companies, as essential as are utilities and manpower. That's why these expenses are fully deductible from income when preparing income or excise taxes. Let me say that again, R&D is essential to many companies. They do research in order to thrive, and deduct all the expenses from income when preparing their income taxes. The Research and Development Tax Credit asks the public to fund their core work in yet a second, more generous way. This is simply not an expense we can continue to ask the General Fund to afford.

Further, there is no evidence that this tax credit increases R&D spending in our state. In all the years of hearing testimony for public support of private businesses' R&D effort, we have not once seen evidence that there is any relationship between Oregon's state R&D subsidies and dollars companies spend on R&D.

Certainly, if you are going to consider an extension, you should see a list of the companies that are receiving up to \$1 million in the R&D in tax credit, and ask why so many of these credits are not used. According to the *Tax Credit Review: 2017 Session* research report, in 2014 while roughly \$85 million in qualified research activity tax credits were claimed, only \$15 million were used. Without that information, along with the taxes these businesses and their employees actually do pay, how can you evaluate whether increasing these companies' profitability is more important than helping families pay for child care so they can work at those or other companies? If the companies who want this tax break increase don't ask the Department of Revenue to release their names, or come and identify themselves and their benefits to the state, then obviously, the tax credit isn't that important to them. This tax credit is a good example of why we need better transparency from businesses using our tax benefits. Since 1989 the R&D Tax Credit has reduced the money available for the core responsibilities of the state, without any deep and transparent analysis of the ROI for the public.

In the April 2015 hearing on this tax credit, several representatives, both Republican and Democrat, voiced concern about whether the tax credit was really benefiting the state. Tektronix tax director, Mark Modjeski, admitted that the absence of the tax credit probably wouldn't have any significant impact on his company's decisions. Advocates for smaller companies alleged that making the tax credit refundable would benefit smaller companies and start-ups. They did not provide even a single shred of anecdotal evidence, let alone anything substantive.

Representative Bentz asked, "... why does this [R&D tax credit] make your presence here more productive than it might otherwise be? And I need specifics, because we've got to measure back why we're doing this."

After a pregnant pause, Mark [Modjeski, tax director for Tektronix replied](#) (video) "I think that's a tough question, in all honesty. I mean, would Tektronix be doing anything different in its business if did not have a credit on its books? I would say no. I'll be on record saying that."

It's time to let it sunset.

The federal R&D law is generous, and we participate at that level. The benefits of the Federal law already flow to new technologies, to drone startups, to financial services companies who are developing new software, and to paint companies as they develop new paint colors for the year. Let's let that federal subsidy be "enough" in R&D tax credit and let the normal business expense deductions be what Oregon offers. After all, R&D is the job of owners, investors, or crowd sourcing, not the job of the General Fund.