

PUBLIC HEARING

HB 3232, 3233, 2368

TAPES 101 A-B, 102 A

HOUSE REVENUE COMMITTEE

APRIL 6, 2005 1:30 PM STATE CAPITOL BUILDING

Members Present: Tom Butler, Chair
Rep. Vicki Berger, Chair
Rep. Brian Boquist
Rep. Sal Esquivel
Rep. Larry Galizio
Rep. Betty Komp
Rep. Andy Olson
Rep. Chuck Riley

Member Excused: Rep. Mark Hass

Witnesses Present: Paul Phillips, Smart Growth Coalition
Mark Modjeski, Tax Director, Tektronix, Inc.
Debra Buchanan, Dept. of Revenue (DOR)
Joe Schweinhart, Associated Oregon Industries (AOI)

Staff Present: Paul Warner, Legislative Revenue Officer
Lizbeth Martin-Mahar, Economist
Kristi Bowman, Committee Assistant

TAPE 101, SIDE A

002 Chair Butler Calls meeting to order at 1:35 p.m.

OPENS PUBLIC HEARING FOR HOUSE BILL 3232

012 Martin-Mahar Gives overview of HB 3232 and discusses revenue impact statement (Exhibit 1). The bill increases the maximum annual cap on the research and development (R & D) credit to \$1 M. The economic stimulus is phased in over 5 years.

047 Rep. Komp Asks for the revenue impact of the R & D credits used in recent tax years.

050 Martin-Mahar Responds that corporations had \$24.8 M for R & D credits in 2002, but only \$3 M were actually claimed. The average amount of credits claimed since 2002 is approximately \$3 M.

068 Paul Phillips

Testifies in support of HB 3232 and submits written testimony and handouts (Exhibit 2). Discusses history of previous legislative work regarding R & D credits.

- 083 Mark Modjeski Testifies in support of HB 3232 because it will increase research and development in Oregon. Summarizes written testimony (Exhibit 3). Discusses unused research tax credits. Comments that 14% of Tektronix budget is for research, so there needs to be an 8-9% payback in sales, generating more revenue for the state in taxable income.
- 152 Chair Butler Asks about a research study done by LRO staff regarding the spread of research dollars—74% of each dollar goes into labor; 20% into supplies; 2% overhead; 4% miscellaneous. How does that compare to Tektronix allocations?
- 158 Modjeski Responds that those figures closely match those of Tektronix. Discusses the impact of the labor component in research firms.
- 177 Chair Butler Discussion exchanged with Modjeski regarding a generalized profile of a research engineer and the challenge of recruiting them.
- 205 Chair Butler Expresses concern about research and development being outsourced overseas.
- 223 Modjeski Responds that there is a trend for technology companies to build facilities in China, for example, in order to serve the Chinese market.

Adds that there are many highly trained people overseas who are being actively recruited by American research firms.

- 245 Phillips Discusses the research reports included in written testimony (Exhibit 2). Discusses the maximum annual cap of \$1 M. Comments that the tax credit is only for research done in Oregon. Adds that there is a significant return on investment for R & D tax credits that is supported by quantifiable research data. c
- 359 Rep. Boquist Asks about the number of employees in Tektronix.
- 361 Modjeski Responds that there are approximately 2400 Oregon-based employees. Worldwide employees number approximately 4300 along with a recently acquired Texas operation. Additional discussion with Rep. Boquist regarding Oregon and worldwide operations.

CLOSES PUBLIC HEARING FOR HOUSE BILL 3232

OPENS PUBLIC HEARING FOR HOUSE BILL 3233

- 418 Martin-Mahar Gives overview of HB 3233 and the revenue impact statement (Exhibit 4). This bill concerns the marketing of R & D tax credits. Comments that the Dept. of Revenue has expressed concerns about administering this type of tax credit.

TAPE 102, SIDE A

- 031 Rep. Berger Asks if the R & D credits are sellable, would the claims be larger?
- 039 Martin-Mahar Responds that the tax credit sale has to be worth at least 75% of the value of the credit.
- 050 Martin-Mahar Additional discussion of the revenue impact of HB 3232. Questions and answers interspersed with Chair Butler regarding the revenue impact.
- 096 Rep. Riley Comments that figures used in the revenue impact statement reflect income from one company, offset by deductions from other companies.
- 105 Phillips Testifies in support of HB 3233 and reads from written testimony (Exhibit 5). HB 3233 has a fiscal impact this biennium. HB 3233 would extend a tax credit to small and medium sized businesses and generate capital. Adds that using innovative ways to create R & D credits would make OR attractive to start-up businesses.
- 209 Rep.Boquist Asks Martin-Mahar what portion of the static dollar amounts on the revenue impact statement would be new credits and which would be old credits.
- 213 Martin-Mahar Responds that the five years used in the revenue impact are carry-forward amounts as stated in current law. Adds that \$3M is the estimated annual average credit amount.

- 220 Rep. Boquist Comments that this type of R & D credit is similar to start-up capital for a business. Asks for more information about the credits.
- 241 Modjeski Responds that for small companies it takes a few years to develop a product while generating research. This credit allows them to “monetize” credit while their product is under development.
- 271 Rep. Boquist Questions and answers interspersed with Modjeski and Phillips regarding the sale of tax credits.
- 293 Rep. Komp Asks what type of companies don’t use their tax credits
- 295 Phillips Responds that most likely it would be the small start-ups who do not have tax liabilities.
- 317 Rep. Riley Asks: 1) can energy tax credits be sold now; 2) with the sale of credits, does it allow a company with no R & D credits to reduce their taxes by selling them.
- 333 Phillips Responds: 1) energy tax credits are only transferable now. HB 3233 proposes a new credit to sell them; 2) yes, that is the concept proposed in HB 3233. Suggests making limitations to target specific industries or establish a cap.

383 Rep. Boquist Asks if it wouldn't be better to have some kind of state investment corporation that invested money into R & D companies.

406 Phillips Responds that while there are a number of ways to approach the concept of selling R & D credits, there should be a consideration as to how much involvement the state should have in buying and selling R & D credits. Suggests keeping the buying and selling of credits between private entities due to the high-risk nature of R & D.

TAPE 101, SIDE B

022 Rep. Boquist Questions and answers interspersed with Phillips regarding the revenue impact.

036 Phillips Responds that this is a new concept and asks the committee to consider the objectives of R & D credits. Suggests further discussion on HB 3233.

056 Debra Buchanan Comments that she is doubtful that the DOR has the staff with the expertise required to process the tax credits proposed in HB 3233. Discusses the expertise needed. Regarding other transferable credits, energy credits can be transferred and is administered by the Dept. of Energy. The Farmworker Housing Credit can be transferred and is administered by the Housing & Community Services Dept. Currently the DOR does not administer any program that handles the transferability or sale of tax credits.

105 Chair Butler Responds that there would be a significant fiscal impact to have the DOR administer the credits. Suggests Buchanan work with Phillips on crafting language for the bill that would address the administrative responsibility of the sale and transfer of R & D credits.

CLOSES PUBLIC HEARING FOR HOUSE BILL 3233

OPENS PUBLIC HEARING FOR HOUSE BILL 2368

120 Martin-Mahar Gives overview of HB 2368. This bill increases the maximum annual cap on the R & D credit, has a carry-forward of 20 years, and does have a revenue impact (Exhibit 6).

150 Joe Schweinhart Testifies in support of HB 2368. Research and development is an important aspect and is the top credit used by member businesses. Adds that it is important to look to the future because of global competition in R & D. Comments that the 20 year carry-forward in HB 2368 would better encompass business cycles and alleviate the committee's concerns about revenue losses associated with the selling of R & D credits.

CLOSES PUBLIC HEARING FOR HOUSE BILL 2368

194 Chair Butler Adjourns meeting at 2:47 p.m.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee
Coordinator

Exhibit Summary:

1. 1. HB 3232, Revenue Impact Statement, Martin-Mahar, 1 pg., 04/06/05
2. 2. HB 3232, Testimony and Handouts, Phillips, 113 pp., 04/06/05
3. 3. HB 3232, Testimony, Modjeski, 2 pp., 04/06/05
4. 4. HB 3233, Revenue Impact Statement, Martin-Mahar, 1 pg., 04/06/05
5. 5. HB 3233, Testimony, Phillips, 3 pp., 04/06/05
6. 6. HB 2368, Revenue Impact Statement, Martin-Mahar, 1 pg., 04/06/05