

For Immediate Release

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Oregon Doubles Its Venture Capital Without Income Tax Break

(Silverton) — Oregon doubled its take of venture capital last year without conferring special tax breaks to encourage the investment, according to the Oregon Center for Public Policy.

Oregon's venture capital investments rose to \$302 million in 2007 from \$153 million the prior year, OCPP found upon analyzing data associated with the MoneyTree™ Report by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Financial.

On a per capita basis, the growth catapulted Oregon to ninth place among all states (including the District of Columbia) from 19th place in 2006, OCPP noted. Oregon's venture capital investments per capita last year were at least double those of 32 other states.

Per capita venture capital spending is a benchmark of innovation in the Competitive Index, a publication of the Oregon Business Council and the Oregon Progress Board. OCPP's analysis updates the benchmark with MoneyTree Report data not available when the Competitive Index was last released.

“Last year was a banner year for venture capital investment in Oregon,” said OCPP policy analyst Michael Leachman. “This success came about without special tax breaks such as cuts to the income tax on capital gains.”

Oregon taxes income from capital gains — profits on investments such as stocks, bonds and real estate — at the same rate as income from work. Proponents of increasing venture capital spending in Oregon have pushed to cut or eliminate the income tax on capital gains and have proposed other tax breaks that they say are necessary to increase venture capital spending.

“The growth in venture capital investment shows tax cuts are not the answer,” said Leachman.

Oregon is not alone in attracting venture capital without special tax breaks, Leachman said. OCPP's analysis of the MoneyTree report found that

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Massachusetts and California ranked first and second, respectively, in per capita venture capital investments in 2007. Both states tax income from capital gains at the same rate, or higher, as income from work. Moreover, California's top tax rate on capital gains is higher than Oregon's.

"There's a reason why venture capital gravitates toward places like Boston and Silicon Valley, and it's certainly not the tax rate on income from capital gains," said Leachman.

More important than tax rates are factors such as the strength of public structures, particularly research universities, and proximity to markets and suppliers, according to Leachman. He said that the most effective thing Oregon can do to attract more venture capital is to invest in its public research institutions.

"Oregon is stuck in the middle among states for university spending on research and development and for producing science and engineering Ph.D.s," he said. "To foster more innovation, we should focus on improving in these areas."

To the extent that special tax breaks reduce revenue available for investment in public structures, they undermine a state's ability to compete for venture capital, according to Leachman.

Oregon has consistently ranked in the top half of the states in terms of per capita investments of venture capital, according to OCPP's analysis of MoneyTree Report data.

Though far from the \$105 billion peak recorded in 2000 at the height of the dot-com bubble, venture capital investment nationwide last year — \$29 billion — was the highest total since 2001, the MoneyTree Report revealed. Last year's surge in venture capital investing nationally "can be attributed to record investment levels in the Clean Technology and Life Sciences sectors as well as strong investment levels in Internet-specific companies," the report said.

The Oregon Center for Public Policy is a non-partisan research institute that does in-depth research and analysis on budget, tax, and economic issues. The Center's goal is to improve decision making and generate more opportunities for all Oregonians.

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NOTE TO REPORTERS AND EDITORS:

OCPP's calculation of the rank follows.

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Oregon ranked ninth among states and the District of Columbia for per capita venture capital investment in 2007		
State	Per capita venture capital investment, 2007	Rank
Massachusetts	\$540.97	1
California	\$377.61	2
District of Columbia	\$226.42	3
Washington	\$203.23	4
New Hampshire	\$124.18	5
Colorado	\$116.05	6
Maryland	\$113.08	7
Minnesota	\$82.19	8
Oregon	\$80.45	9
Connecticut	\$79.09	10
New Jersey	\$71.94	11
Utah	\$68.95	12
Pennsylvania	\$67.18	13
New Mexico	\$65.13	14
North Carolina	\$63.68	15
New York	\$61.94	16
Virginia	\$60.05	17
Texas	\$59.26	18
Georgia	\$48.50	19
Illinois	\$39.71	20
Florida	\$33.33	21
Kentucky	\$32.28	22
Arizona	\$31.66	23
South Carolina	\$20.67	24
Kansas	\$19.20	25
Wisconsin	\$15.64	26
Missouri	\$15.50	27
Ohio	\$14.83	28
Indiana	\$13.02	29
Tennessee	\$12.28	30
Nevada	\$11.46	31
Vermont	\$11.27	32
Idaho	\$10.80	33
Michigan	\$10.46	34
Delaware	\$7.52	35
Alabama	\$6.79	36
Rhode Island	\$6.33	37
West Virginia	\$5.63	38
Louisiana	\$5.59	39
South Dakota	\$5.02	40
Maine	\$5.01	41
Montana	\$4.18	42
Oklahoma	\$4.15	43
Hawaii	\$4.13	44
Mississippi	\$3.43	45
Iowa	\$2.11	46
North Dakota	\$0.78	47
Wyoming	\$0.38	48
Arkansas	\$0.07	49
Nebraska	\$0.00	50
Alaska	\$0.00	51

Source: OCPP analysis of PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, data: Thomson Financial, and Census Bureau data.