Testimony of Dan Agius Jr.
CFO and General Counsel
Before the Finance, Revenue & Bonding Committee
Hartford, CT
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Testifying in support of
HB 5488: AN ACT CONCERNING A RESEARCH AND DEVELOPMENT EXPENSES TAX CREDIT FOR PASS-THROUGH ENTITIES

Good afternoon, Senator Fonfara, Representative Scanlon, Senator Martin, Representative Cheeseman and members of the Finance, Revenue & Bonding Committee. My name is Dan Agius Jr., and I am the Chief Financial Officer and General Counsel for Nordex, Inc. ("Nordex"), located in Brookfield, Connecticut.

Nordex supports HB 5488.

Nordex is a family-owned, small to mid-sized manufacturer of precision, electro-mechanical parts and assemblies for the medical, factory automation, power transmission, robotics, defense, aerospace and semi-conductor OEM industries. We've been located in Connecticut since our founding in 1960. Over the course of these 62 years, there have been times when Connecticut was more favorable to manufacturers, reaping the benefits of the many high paying jobs in the manufacturing industry (many of which don't require college degrees). But there also have been times when Connecticut was less favorable to manufacturers.

Recently we've seen companies (including some of our customers) head to the exits, all too happy to move to *marginally* more favorable manufacturing environments in nearby states (like Massachusetts and New Jersey) to reap whatever tax benefits they can. This puts my business at a disadvantage, as customers that used to be (literally) within a 5-minute drive are now hours away (and far closer to our out-of-state competitors). This also puts Connecticut as a disadvantage as states like Massachusetts and New Jersey usurp jobs and tax revenue that previously belonged to Connecticut.

HB 5488 is an opportunity for Connecticut to reverse this trend. Many small to mid-size manufacturing companies are structured as S corporations, limited liability companies, and limited liability partnership companies, which collectively are referred to as pass-through entities. Due to the current tax structure, these companies are unable to take advantage of the research and development tax credit which can only be applied to the corporation tax.

Despite having a relatively minimal cost to the state, the R&D tax credit has proven to attract entrepreneurs, foster startup businesses, and promote private sector investment in Connecticut. As a CBIA member company, we as small to mid-size businesses wish to take advantage of this credit to offset some of the cost of developing new products

and services in the state. Utilizing this credit would put us on a level playing field with larger corporate competitors throughout the nation.

Connecticut's R&D tax credit requires that costs claimed by companies be thoroughly vetted to ensure there is a direct link between the costs and legitimate research and development activity. Further, the credit has demonstrated time and again to generate a substantial return on investment and create jobs in the state. In fact, a 2015 report by the nonpartisan Office of Legislative Research stated that the state earned between $1.24 to $2.36 in net revenue for every dollar of R&D credit claimed. Further, the report indicated that there were between 1,406 to 3,648 jobs added every year attributable to the credit.

Amending the law to allow pass-through entities to take advantage of this credit will not only improve the economic condition of the state, but it will help position the state to be a leader in key, high tech industries of the future.

In conclusion, we urge the committee to support HB 5488.