



# ISSUE BRIEF

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## Oregon's Business Tax Burden: Lowest in the Nation?

Oregon has the lowest business tax burden in the country, according to a new study written by the accounting firm Ernst & Young and published by the Council on State Taxation (COST).<sup>1</sup> COST is a Washington, D.C.-based independent trade association, originally an advisory committee to the Council of State Chambers of Commerce.

The COST study examines initial tax incidence and includes all state and local taxes paid by businesses. Oregon ranked lowest among all states (50<sup>th</sup>) for business taxes as a percent of private sector economic activity and for business taxes as a percent of capital income. Total state and local business taxes as a percent of private sector economic activity were 4.8 percent nationally, but just 3.4 percent in Oregon. Total state and local business taxes as a percent of capital income were 15.6 percent nationally, but just 8.7 percent in Oregon.

On two other measures of tax burden, business taxes per employee and business share of all state and local taxes, Oregon ranked 49<sup>th</sup> and 48<sup>th</sup> respectively. State and local business taxes per employee were \$3,737 for the average of all states and just \$2,618 in Oregon. Oregon businesses pay 35 percent of all state and local taxes, compared to U.S. average of nearly 43 percent.

**Oregon's ranking among all 50 states for business tax burden  
Finding from the COST study FY 2003**

	Oregon	US Average*	Oregon's Rank
Business taxes per \$ of private sector economic activity	3.4%	4.8%	50
Business taxes per \$ of capital income	8.7%	15.6%	50
Business taxes per employee	\$2,618	\$3,737	49
Business share of all state and local taxes	35.0%	42.6%	48

\*US Average figures for taxes per dollar of private sector economic activity, capital income, and per employee are OCPP calculations of COST study data.

Source: Total State and Local Business Taxes: A 50-State Study of the Taxes Paid by Businesses in FY 2003.

### The Report's Major Shortcomings

The COST study contains some major flaws. As a result, it may not be a good measure of the State's tax "competitiveness." Instead, it may only be a good measure of the mix of industries, the degree of capital intensity of the businesses in the state, and other economic factors.

The COST study makes highly questionable choices regarding which taxes are considered "business" taxes, including a broad range of

taxes that most economists agree are not fully borne by owners of capital, such as unemployment insurance and property taxes on rental property. COST also classifies property taxes paid by businesses such as farmers on their personal, owner-occupied homes and telecommunications taxes that are directly billed to consumers, as "business" taxes. In addition, COST considers all non-profit organizations as "businesses," thus adding their taxes to the business tax burden. By including so many taxes that are not actually

paid by businesses, the COST study represents a seriously inflated measure of the initial incidence of business taxes.

The COST study pays considerable attention to increases in the business share of taxes over the last two years, but ignores the long-term downward shift in the business share of taxes, which is documented in other COST studies. A comparison of this recent COST study with a previous COST analysis shows that, nationwide, businesses paid 42.6 percent of total state and local taxes in FY 2003, down from 46.5 percent in 1980.<sup>2</sup> The recent increase in business tax burden nationally is likely the result of the extent to which businesses pay property taxes that generally did not decline in the recession that began in 2001.<sup>3</sup>

Finally, readers of the COST study should be careful not to equate a state's tax burden with its "business climate." As the study acknowledges in the text, a state's overall business tax burden is influenced not just by tax policy, but by the mix of industries located in a state, as well. The level and quality of public services and infrastructure are also key components of a state's "business climate."

### **Implications for public policy debate**

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The COST study is based on an inflated measure of business tax burden, but its conclusion that Oregon's tax burden is low is consistent with other studies that do not share the flaws of the COST study. Studies by the Pennsylvania Economy League and the Utah State Tax Commission confirm Oregon's low business tax burden. As voters decide a variety of changes to Oregon's tax system, including temporary and permanent changes to taxes paid by businesses, and the Legislature's Joint Tax Reform Committee develops recommendations for a planned June special session, they should consider this and other studies showing Oregon's business taxes are among the lowest in the nation.

### **Endnotes:**

<sup>1</sup> *Total State and Local Business Taxes: A 50-State Study of the Taxes Paid by Business in FY2003*, prepared by Ernst & Young for the Council on State Taxation, January 2004. Available on-line at [http://www.statetax.org/Content/ContentGroups/Home\\_Page\\_Content/Right\\_Column\\_Area/50-StateStudy.pdf](http://www.statetax.org/Content/ContentGroups/Home_Page_Content/Right_Column_Area/50-StateStudy.pdf). The COST homepage is located at <http://www.statetax.org/COSTHome.cfm>.

<sup>2</sup> Compare the current study cited in endnote 1 with Table A-2 in *A Closer Examination of the Total State and Local Business Tax Burden*, prepared by Ernst & Young for the Council on State Taxation, January 3, 2003. Available on-line at [http://www.state.tn.us/taxstructurestudycommission/joe\\_crosby\\_backup.pdf](http://www.state.tn.us/taxstructurestudycommission/joe_crosby_backup.pdf)

<sup>3</sup> In Oregon, some businesses, notably food processing facilities, were able to lower their property taxes as a result of the changing economic climate.