

## Doing Well For Themselves, Not Oregonians: Corporate profits are high in Oregon, but not corporate income taxes

by Michael Leachman

Corporations operating in Oregon are doing well for themselves, but less well for Oregonians. In the last few years, corporations have seen their profits in Oregon skyrocket, more than doubling since the beginning of the decade and hitting record levels last year. Unfortunately for Oregon's individual income taxpayers, corporate income taxes remain low by historical standards. Even though corporations made record profits last year, individual Oregonians are still picking up the slack for corporations who pay less in corporate income taxes as a share of the economy than they used to.

During the high tech boom years of the late 1990s, corporations made between about \$5 billion and \$6 billion annually in profits in Oregon.<sup>1</sup> When the recession hit in 2001, profits declined somewhat to about \$4.9 billion. Then, after 2001, corporate profits skyrocketed. In 2006, corporations raked in nearly \$13 billion in profits in Oregon, more than double their annual profits during the high tech boom (Figure 1). The corporate profit take in 2006 was the highest on record.

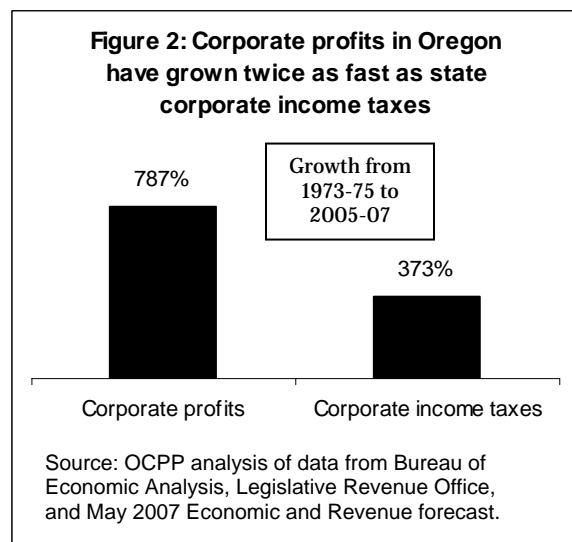
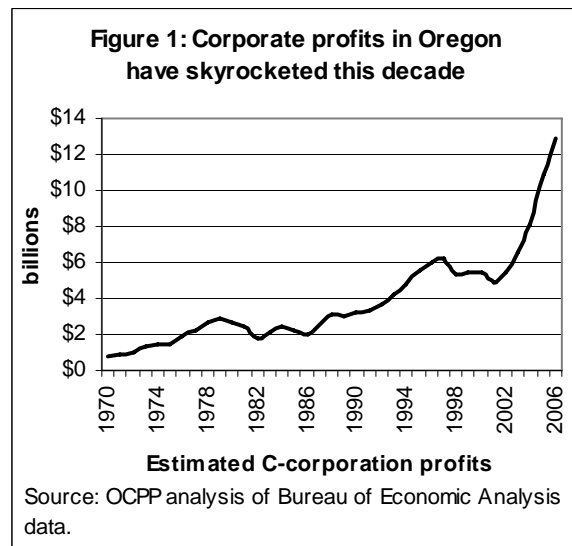
Since the 1973-75 budget cycle, corporate profits have grown nearly 8 times over but corporate income taxes have increased less than half as quickly. Specifically, corporate profits are up 787 percent, while corporate income tax revenues have risen only 373 percent (Figure 2).<sup>2</sup>

### *As a share of the economy, corporate profits are as high as in the early 70s . . .*

As a share of the economy, corporate profits have shot up to early 1970s levels.<sup>3</sup> OCPP estimates that corporate profits as a share of state Gross Domestic Product were about 8.5 percent in 2006. In the first half of the 1970s, corporate profits as a share of state GDP also averaged 8.5 percent (Figure 3). After peaking in the late 1970s, corporate profits dipped as a share of the economy and then flattened out until the recent profit burst began in 2002.<sup>4</sup>

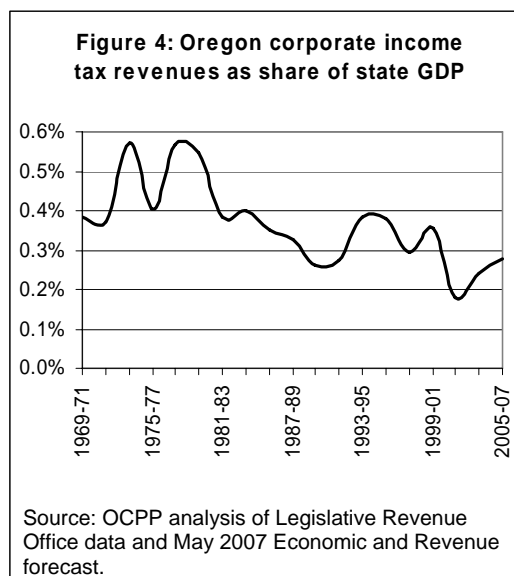
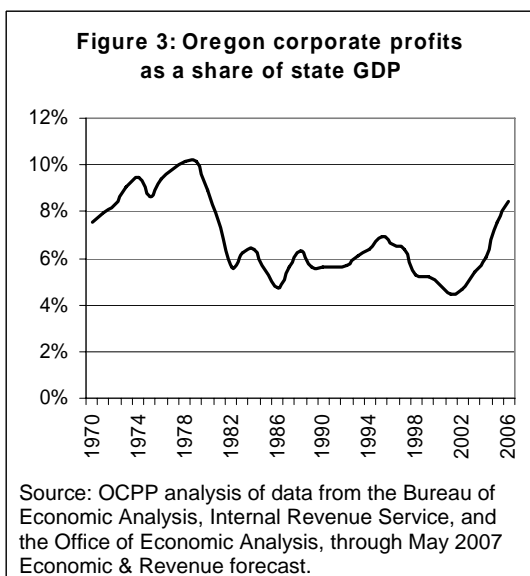
### *. . . but corporate income taxes are down substantially since then.*

While corporate profits in Oregon as a share of the state economy last year stood at early 1970s levels, corporations are still paying less in income taxes as a share of the economy than they were in those years.



In the 1973-75 budget cycle, corporations operating in Oregon paid income taxes totaling \$176 million, or 0.57 percent of the nearly \$31 billion state economy during that budget cycle.<sup>5</sup> Later in the same decade, during the 1977-79 budget cycle, corporate income taxes again hit 0.57 percent of the state economy.

By contrast, in the current 2005-07 budget cycle, corporations will pay state corporate income taxes totaling about \$834 million.<sup>6</sup> That total equals just 0.28 percent of Oregon's projected \$299 billion economy during 2005-07 (Figure 4), half the level of the peak years in the 1970s and only about three-fourths the level of the weakest budget cycles in the 1970s.<sup>7</sup>



## Conclusion: Oregonians are picking up the slack for corporations

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Corporations cannot claim that their income taxes have declined as a share of the economy because their profits are down. On the contrary, profits as a share of the economy are as high as in the early 1970s, when corporate income taxes as a share of the economy were significantly higher.

Because corporations are paying less in income taxes as a share of the economy than they used to, individual Oregonians must cover more of the costs for public structures such as schools, the Oregon Health Plan, and the court system. Corporations today are doing well for themselves, not for Oregonians.

**Endnotes:**

<sup>1</sup> Includes the profits of C-corporations only, not the profits of S-corporations, which pass through their profits to shareholders. To estimate C-corporation profits in Oregon, OCPP started with the same method that is used by the state economist's office to estimate corporate profits as part of the quarterly economic and revenue forecasts. Specifically, OCPP started with annual estimates of total U.S. corporate profits produced by Bureau of Economic Analysis, then used the ratio of Oregon personal income to U.S. personal income in each year to estimate the share of U.S. corporate profits that were made in Oregon. OCPP then estimated the share of all corporate profits that were made by C-corporations. To do this, OCPP used national data from the Internal Revenue Service's Statistics of Income on the annual share of all corporate net income that was reported by C-corporations. This method produces a rough estimate of C-corporate profits in Oregon in the absence of the data necessary to determine corporate profits precisely.

<sup>2</sup> Historical data on corporate income tax revenues from Legislative Revenue Office, 2007 Oregon Public Finance: Basic Facts, p. A6. Estimate for corporate income tax revenues in 2005-07 from May 2007 Economic and Revenue Forecast.

<sup>3</sup> State GDP (previously known as Gross State Product) data from the Bureau of Economic Analysis (BEA), downloaded May 17, 2007. BEA estimates of state GDP are available through 2005. OCPP estimated 2006 state GDP by inflating 2005 state GDP by the rate of Oregon personal income growth from 2005 to 2006, as reported by BEA.

<sup>4</sup> Total corporate profits, including the profits of C- and S-corporations, are at their highest levels since at least 1969. Including the profits of both C- and S-corporations, corporate profits stood at 13.6 percent of state GDP in 2006, easily eclipsing the previous high of 10.9 percent of state GDP reached in 1978 and 1979. If both C- and S-corporate profits are included, corporate profits are seen to reach 1970s levels in the mid-1990s, dip when the recession hit earlier this decade, and then skyrocket beginning in 2002.

<sup>5</sup> Corporate income tax revenue data from Legislative Revenue Office, 2007 Oregon Public Finance: Basic Facts, p. A6. State GDP (previously known as Gross State Product) data from the Bureau of Economic Analysis (BEA), downloaded March 21, 2007.

<sup>6</sup> May 2007 Economic and Revenue Forecast.

<sup>7</sup> OCPP projected state GDP in 2005-07 and subsequent biennia based on personal income growth, as projected in the May 2007 Economic and Revenue Forecast.

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