EXECUTIVE SUMMARY

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Updated July 11, 2005

The QPAI Deduction in HB 2542-A:
A tax break for out-of-state investment and accounting gimmicks

by Michael Leachman and Charles Sheketoff

The American Jobs Creation Act of 2004 included the largest single tax cut for corporate America in years, a new deduction for "qualified production activities income," or QPAI. Under current law, the Legislative Assembly must choose to "connect" to this tax break before companies can use it. In early April, the House voted to allow the QPAI deduction as part of HB 2542-A.

- If Oregon connects to it, the QPAI deduction will cost the state $18.6 million in the upcoming 2005-07 budget cycle. In 2011-13, the first budget cycle in which the deduction will be fully phased-in at the federal level, the cost to Oregon will total $54.3 million.
- Fourteen states and the District of Columbia have already decoupled from the QPAI deduction.
- If Oregon connects to the QPAI tax cut, companies would get the full benefit of the QPAI deduction regardless of where in the U.S. their production occurs.
- Many corporations with major production facilities in Oregon will not benefit much from the QPAI deduction because Oregon is already eliminating or nearly eliminating their corporate income taxes through a previously enacted tax cut.
- Companies can increase their benefit from the QPAI deduction simply by changing their accounting practices.
- The Internal Revenue Service says QPAI will produce "a significant increase in controversies between taxpayers. This will increase the number of IRS appeals cases and litigated tax cases." If Oregon passes the QPAI deduction, the state may become similarly embroiled in related legal battles at taxpayer expense.
- The Internal Revenue Service says, "Many businesses, particularly small businesses, will find it difficult to understand and comply with these complex new [QPAI] rules . . . ."
- Corporate lobbyists sell the QPAI deduction as a tax break to make up for the loss of an illegal export subsidy Oregon must eliminate. In truth, the QPAI deduction reduces taxes for a grab-bag of businesses, not just exporters. The QPAI deduction will cost almost twice as much as eliminating the illegal export subsidy in the upcoming 2005-07 budget cycle.
- Staying disconnected from the QPAI deduction would require simple majority votes.
- If the Legislative Assembly wants to pass a tax cut to improve Oregon's economy, it would be wiser to expand Oregon's Earned Income Credit (EIC) than to offer the QPAI deduction.

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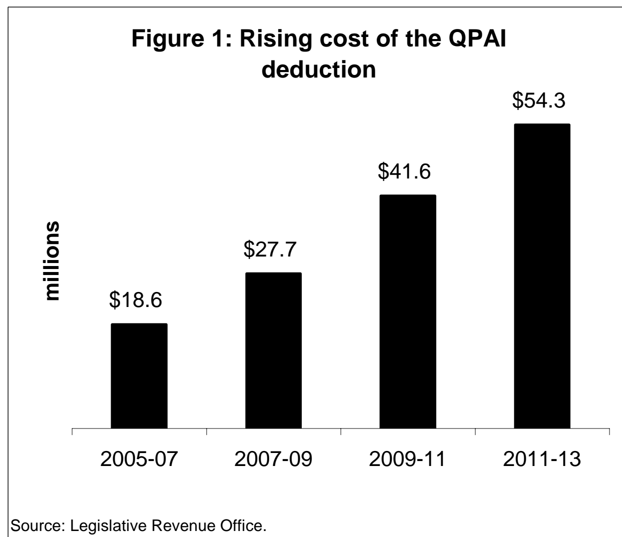
The American Jobs Creation Act of 2004 included the largest single tax cut for corporate America in years, a new deduction for "qualified production activities income," or QPAI. This tax cut allows certain companies to deduct from their taxable income a percentage of their profits from a range of "production" activities, including domestic manufacturing, mining, construction, filmmaking, software development, coffee roasting, electricity and natural gas production, food processing (not including retail food sales), and certain engineering and architectural services. The deduction will equal three percent of such profits in 2005, and will rise gradually to nine percent when fully phased-in in 2010.



The QPAI deduction is not part of Oregon tax law. Under current law, the Legislative Assembly must choose to "connect" to this tax break before companies can use it. In early April, the House voted to allow the QPAI deduction as part of HB 2542-A, a bill that connects Oregon to a number of federal tax law changes passed over the last two years. The House rejected a minority committee report that reconnected to many changes in the federal tax code while repudiating the QPAI deduction.

The Legislative Revenue Office estimates that the QPAI deduction, if Oregon connects to it, will cost the state $18.6 million in the upcoming 2005-07 budget cycle. In 2011-13, the first budget cycle in which the deduction will be fully phased-in at the federal level, the cost to Oregon will total $54.3 million (Figure 1).

States are rejecting the QPAI tax break

The QPAI deduction is bad public policy. It will fail to significantly stimulate Oregon's economy, and it will entangle Oregon in ongoing legal disputes.

Nineteen states and the District of Columbia have already decoupled, in whole or in part, from the QPAI deduction or are likely to do so as of this date. Arkansas, Georgia, Hawaii, Indiana, Maine, Maryland, Massachusetts, Mississippi, North Carolina, North Dakota, South Carolina,

Tennessee, Texas, West Virginia, and the District of Columbia have already decoupled. New Jersey partially decoupled. California, Minnesota, New Hampshire, and Rhode Island are likely to decouple, according to a survey by the Federation of Tax Administrators.[1]

QPAI would not benefit Oregon's economy

Independent tax experts have excoriated the federal QPAI deduction as an example of a tax cut that lowers taxes for a grab-bag group of businesses with little chance that the tax reduction will produce significant economic benefits. Jane Gravelle of the Congressional Research Service calls the QPAI deduction "bad policy" and the "worst" tax law change in the American Jobs Creation Act.[2] Reed College economist and international corporate tax expert Kimberly Clausing says the QPAI deduction has "little economic justification" and encourages companies to spend resources simply "shifting paper profits among divisions."[3]

Out-of-state producers disproportionately benefit

Under QPAI, companies who increase their profits by investing in new production facilities in other states will see lower taxes in Oregon as a result.

The QPAI deduction makes even less sense on the state level. If Oregon connects to the QPAI tax cut, the state will be rewarding companies for creating production jobs elsewhere. That's because companies get the full benefit of the QPAI deduction regardless of where in the U.S. their production occurs. Under QPAI, companies that increase their profits by investing in new production facilities in other states will see lower taxes in Oregon as a result.

In fact, corporations with major production facilities out-of-state will receive a disproportionate share of benefits if Oregon connects to QPAI. That's because many multistate corporations with major production facilities *in Oregon* are already seeing their taxes sharply reduced from a tax break previously enacted.

This tax cut - a change in the formula multistate corporations use to calculate how much taxes they owe in Oregon called "single sales factor apportionment" - is so massive that the QPAI deduction likely would be extraneous for companies with large amounts of property and payroll in Oregon but a small share of their sales in-state.[4] A company such as Intel, with virtually no sales in Oregon but significant property and payroll here, will see its corporate income tax liability eliminated or nearly eliminated under the new formula, making the QPAI deduction irrelevant. Under the single-sales apportionment formula, a hypothetical multistate firm with 20 percent of their property and payroll in Oregon and one percent of their domestic sales will see their state corporate income taxes fall by more than 90 percent (Table 1).

By contrast, multistate corporations whose major production facilities are located in other states are not likely to benefit from the apportionment formula change. In fact, some of these companies will see their Oregon taxes increase as the new apportionment formula phases in. A hypothetical firm with one percent of their sales in Oregon and 0.05 percent of their property and payroll will see their Oregon corporate income taxes rise by over 90 percent as Oregon switches to the single sales factor formula (Table 1).

If Oregon adopts the QPAI deduction, some of these out-of-state producers would see lower taxes in Oregon. The QPAI deduction would offset, partially or fully, the tax increase from the apportionment formula change. Hence, these

out-of-state producers are disproportionate beneficiaries of the QPAI deduction, even though their production jobs are located in other states. In the future, if these companies increase their production profits by investing more in their *out-of-state* facilities, their Oregon taxes would go down even more.

Under the single-sales factor apportionment formula, a hypothetical multistate firm with 20 percent of their property and payroll in Oregon and one percent of their domestic sales will see their state corporate income taxes fall by more than 90 percent.

Table 1: Impact of change to single-sales factor apportionment formula, hypothetical companies

	Large production company with major facilities out-of-state	Large production company with major facilities in Oregon
Sales	1.0%	1.0%
Property	0.05%	20.0%
Payroll	0.05%	20.0%
Percent of Profits Subject to Oregon Tax		
Equal-weighted (Pre-1991)	0.4%	13.7%
Double-weighted sales (1991-2003)	0.5%	10.5%
Super-weighted sales (2003-2006)	0.8%	4.8%
Super-weighted sales (2006-2008)	0.9%	2.9%
Single-sales factor (2008-onward)	1.0%	1.0%
Percent change from double-weighted	+90.5%	-90.5%
Percent change from equal-weighted sales	+172.7%	-92.7%

Source: Oregon Center for Public Policy.

Companies get the QPAI tax cut for using legal accounting gimmicks, not for creating new jobs

Companies can increase their benefit from the QPAI deduction simply by changing their accounting practices. Companies need only manipulate how profits are reported to maximize QPAI. For instance, as economist Clausing notes, "firms could be motivated to make those divisions subject to favorable tax treatment more profitable than those that do not receive such treatment."[5] New investment and new jobs are not necessary to increase tax savings from QPAI.

Because the QPAI deduction requires companies to develop new accounting procedures, accounting and other business service firms are excited about the business opportunities generated by the deduction. The Washington Society of Certified Public Accountants openly gushes, "Consulting-service opportunities abound to help clients revise accounting systems to capture the information necessary to maximize the new tax deduction."[6] The Council for International Tax Education, announcing a series of workshops for businesses on the QPAI deduction, promises attendees will "Acquire the latest strategies for allocating costs and maximizing qualified production activities income (QPAI)."[7]

The accounting firm Grant Thornton suggests that its clients "Increase [their QPAI] deduction with an Accounting Methods Review" and "other planning." Grant Thornton suggests, as an example, that firms maximize their tax cut by

"modifying contracts with vendors."[8] By billing vendors more for products that maximize QPAI and less for products or services that are not eligible for QPAI, companies can lower their taxes without changing their overall prices.

Should Tom DeLay and Bill Frist control Oregon's tax code starting in 2006?

Oregon's Constitution prohibits the state Legislative Assembly from delegating law-making authority to Congress, except with regard to the income tax. Shortly after that authority was granted in a constitutional amendment referred to the voters by the 1969 Legislative Assembly, the legislature chose to connect automatically to future federal tax code changes. In 1971, after the Legislative Assembly adjourned, Congress enacted changes that created a budget deficit in Oregon, necessitating a special session later that year. Having been burned by the automatic connection to federal tax code changes, the Legislative Assembly subsequently reverted to deciding which measures passed by Congress Oregon would connect to every two years.

Apparently unaware of or indifferent to the problems created when Oregon previously experimented with automatic reconnect to federal law changes, in 1997 the Legislative Assembly again chose to connect automatically to future federal tax code changes. Under the 1997 law establishing "rolling reconnect," when Congress changes the definition of taxable income, it automatically applies in Oregon. Oregon must affirmatively disconnect from federal changes.

After the fiscal problems of the 2001-03 biennium, caused in part by federal tax changes automatically applying to Oregon, the 2003 Legislative Assembly temporarily suspended the automatic reconnect. The suspension sunsets on December 31, 2005. HB 2542-A removes, and does not extend, the sunset. Thus, as passed by the House, HB 2542-A allows changes in the federal definition of taxable income enacted after December 31, 2005, to automatically apply in Oregon.

The Senate should consider removing rolling reconnect, either permanently or temporarily. By ending the rolling reconnect, Oregon's revenues would be protected from being eroded by decisions made in Washington, D.C.

IRS & Treasury say QPAI is too complex and expensive

In October 2004, the Internal Revenue Service (IRS) and the U.S. Department of the Treasury submitted a joint evaluation of QPAI to Congress. They noted that companies seeking to benefit from QPAI will need to expend significant resources altering their accounting practices to identify QPAI income and that the complexity and expense of doing so may overwhelm the capacity of some small businesses to take advantage of the tax cut:

> Many businesses, particularly small businesses, will find it difficult to understand and comply with these complex new [QPAI] rules, which will affect not only the computation of a taxpayer's regular tax liability but also its alternative minimum tax liability. It will be difficult, if not impossible, for the IRS to craft simplified provisions tailored to small businesses or other taxpayers…
>
> Taxpayers will be required to devote substantial additional resources to meeting their tax responsibilities, including not only employees and outside tax advisers, but also recordkeeping and systems modification resources. The resulting costs will reduce significantly the benefits of the

> proposal. Some small businesses may find that the additional costs outweigh the benefits, particularly during the initial phase-in period…[9]

QPAI: administrative costs, lawsuits, and enforcement problems

QPAI will generate substantial controversy between corporate taxpayers and the Oregon Department of Revenue. As companies push to maximize their tax savings under the complex rules of the deduction and using creative techniques suggested by accounting and business consulting firms, questions inevitably will arise over the legality of various maneuvers.

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In their joint analysis sent to Congress, the IRS and Treasury wrote:

> …we anticipate a significant increase in controversies between taxpayers and the IRS. This will increase the number of IRS appeals cases and litigated tax cases.[10]

If Oregon passes the QPAI deduction, the state may become similarly embroiled in related legal battles at taxpayer expense. In addition, the Oregon Department of Revenue would need additional auditing and enforcement resources to effectively monitor and control the use of the complex tax break.

These new legal and administrative costs can be avoided by not connecting to the QPAI tax break. If Oregon remains unconnected to the tax break, companies filing in Oregon would "add back" their QPAI deduction when calculating their Oregon income taxes. A straightforward "add back" of this sort does not impose an exceptional burden on companies filing in Oregon, nor on the Oregon Department of Revenue. It has become routine for states to decouple from specific provisions in federal tax law, and in this case Oregon would be joining a significant number of other states in decoupling from the QPAI deduction.

QPAI is not a fair swap for eliminating the illegal export subsidy

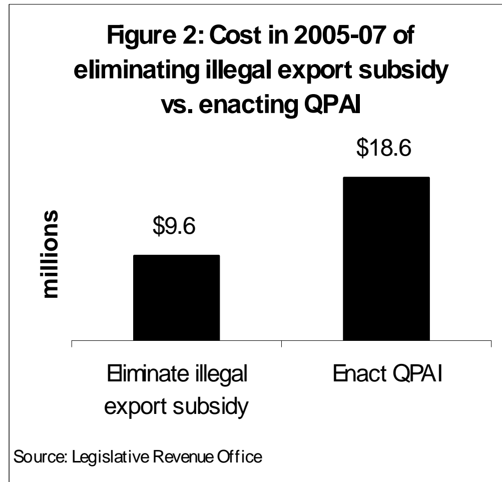
The heart of the American Jobs Creation Act of 2004 was the elimination of a subsidy for exporters – the "extraterritorial income exclusion" – that the World Trade Organization repeatedly ruled illegal under international law. Following WTO action, the European Union began imposing tariffs on American exports in protest over the illegal subsidy, forcing Congress to act.

Oregon recognizes the extraterritorial income exclusion because it was adopted during a time when Oregon automatically connected to changes in the federal tax code's definition of taxable income. The federal repeal of the illegal subsidy for exporters did not automatically apply to Oregon, however, because it occurred after Oregon temporarily repealed the automatic connection to the federal tax code (see *Should Tom DeLay and Bill Frist Control Oregon's Tax Code Starting in 2006?,* on page 4).

The QPAI deduction has been sold by corporate lobbyists as a tax break to make up for the loss of the illegal export subsidy. In testimony before the House Revenue Committee, Associated Oregon Industries lobbyist Joe Schweinhart said QPAI is "important because the deduction will help offset the additional tax liability from the [export subsidy] forced by the World Trade Organization."[11]

In truth, the QPAI deduction is not a fair swap for eliminating the illegal export subsidy. The QPAI deduction reduces taxes for a grab-bag of businesses, not just exporters. Beneficiaries include a wide-range of domestic "producers," including companies with profits from electricity and natural gas production, construction, filmmaking, software development, coffee roasting, food processing (not including retail food sales), and certain engineering and architectural services.

The QPAI deduction would cost nearly twice as much as removing the illegal export subsidy in the upcoming budget cycle.



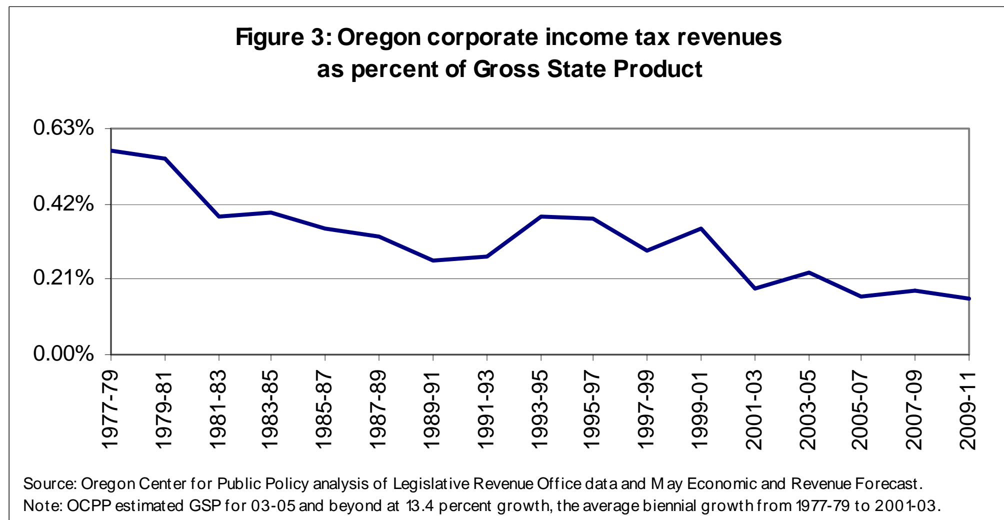
The Legislative Revenue Office estimates that eliminating the illegal export subsidy will increase corporate income tax revenues by $9.6 million in the upcoming 2005-07 budget cycle, while the QPAI deduction will cost almost twice as much - $18.6 million (Figure 2).

Oregon must eliminate the illegal export subsidy to avoid litigation and associated liabilities. Eliminating the illegal export subsidy is good public policy in its own right, and should not compel Oregon legislators to create a new tax cut to take its place.

Eliminating the illegal export subsidy does result in more tax revenues, but the reason why Oregon would eliminate the tax break is not to raise revenue. It is simply to comply with international law and changes in the federal tax code (see *Is a 3/5 vote necessary if QPAI is not in the bill?,* on page 7).

Corporate income taxes in Oregon are already very low

Corporate income taxes in Oregon as a share of the economy have dropped 71% since the late 1970s.



Corporate income taxes in Oregon are already at historically low levels and do not need to be pushed even lower by the QPAI deduction.

In *Corporate Tax Dodge*, an OCPP analysis released earlier this year, OCPP found that corporate income taxes in Oregon as a share of the economy have dropped 71 percent since the late 1970s (Figure 3).[12]

Even without the QPAI deduction, the state economist expects corporate income taxes over the current decade to fall by $192 million, while personal income taxes will rise by $4 billion.

A study written by the accounting firm Ernst & Young and published by the Council on State Taxation (COST) found that in 2004 business taxes in Oregon as a share of all state and local taxes ranked 50th among the states and the District of Columbia.[13] COST is an association of over 500 multistate corporations that works to influence state tax policies. It is an outgrowth of and is still associated with the Council of State Chambers of Commerce.

Is a 3/5 vote necessary if QPAI is not in the bill?

Some proponents of including the QPAI provision in the reconnect bill suggest it is necessary to make HB 2542-A "revenue neutral" to avoid a constitutional requirement that "bills for raising revenue" receive a supermajority for passage. The argument fails on two grounds.

First, the provision eliminating an illegal tax subsidy for exporters could be removed from the measure and addressed in a separate bill. Without this provision, HB 2542-A would result in a net revenue loss even if QPAI is rejected.

The separate bill ending the illegal export subsidy would only require a simple majority vote. The bill's main purposes could be expressed in the measure: to comply with the World Trade Organization rulings and to avoid liability in litigation. The fact that the revenue impact is positive would be incidental to the underlying reason the Legislature is enacting the law.

Second, even if the repeal of the illegal export subsidy is kept in the bill and the net revenue impact is positive, the bill is not a "bill[ ] for raising revenue" requiring a three-fifths vote. The measure does not authorize or provide for the levying of a tax; the bill merely secures the basis upon which taxes are levied by establishing rules for calculation of taxable income.[14] Testimony about the specific items focused primarily on whether they were good tax policy and whether it was appropriate for efficiency and other purposes to connect to federal law changes. The bill was never couched as a bill designed to raise revenue.

Improving Earned Income Credit would be better for Oregon's economy than QPAI

If the Legislative Assembly wants to pass a tax cut to improve Oregon's economy, it would be wiser to expand Oregon's Earned Income Credit (EIC) than to offer the QPAI deduction.

Both the federal government and Oregon have Earned Income Credits. The federal EIC is a tax credit targeted at low- and moderate-income workers, primarily families with children. It is designed to offset federal Social Security, and Medicare payroll taxes, to supplement earnings from work, and to help families make the transition from welfare to work.

The federal EIC is important for over 200,000 low- and moderate-income families in Oregon – about one out of seven taxpaying families. Studies show that these families primarily spend their EIC refunds on bills, rent, utilities, groceries, and other commodities.[15] Hence, much of the EIC is recycled through

Oregon communities, substantially enhancing the local economy. For the 2002 tax year, the federal EIC returned to Oregon $338 million, producing a sizable impact on community economies across the state.[16]

Oregon's EIC is currently set at five percent of the federal EIC, and is only available to the extent a taxpayer has tax liability. Expanding the credit and making it refundable would help thousands of low-income families make ends meet and improve the progressivity of Oregon's tax system. Currently, the income taxes paid by low-income families in Oregon are among the nation's highest (Table 2).[17]

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Table 2: Oregon's 2004 state income tax on working-poor and near-poor families

	Income	State income tax	Oregon rank (#1 is highest tax)
Families of four:			
With income at poverty line	$19,311	$289	7th
With minimum wage earnings	$14,664	$64	5th
With income at 125% of poverty	$24,139	$771	6th
Families of three:			
With income at poverty line	$15,071	$103	8th
With minimum wage earnings	$14,664	$0	-
With income at 125% of poverty	$18,839	$463	2nd

Source: Center on Budget and Policy Priorities. Rankings are among the 42 states with a state income tax.

On May 9, 2005, the House easily passed HB 2046-A, which would make Oregon's EIC refundable in 2007 and phase-in an increase of the credit to 10 percent of the federal EIC by 2009.[18] Under that schedule, the Legislative Revenue Office estimates the change will cost Oregon nothing in the 2005-07 budget cycle. Once fully phased in, in 2009-11, the EIC bill would cost $36 million.

If the legislature chose to implement immediately the EIC changes contained in HB 2046-A, rather than delaying and phasing in their implementation, the roughly $36 million cost would be absorbed in the upcoming 2005-07 budget cycle.

Expanding Oregon's EIC to 12% of the federal EIC would eliminate state income taxes for most Oregon families with one or two children living in poverty.

Table 3. At what level would Oregon need to set the EIC to eliminate taxes on families with children living in poverty? (tax year 2004)

	2 parents 2 children	2 parents 1 child	1 parent 2 children	1 parent 1 child	1 parent 1 child at full-time min. wage ($7.05/hr)
Income - 100% of poverty	$18,850	$15,670	$15,670	$12,490	$14,664
Federal EIC at that income	$3,492	$2,503	$3,956	$2,604	$2,503
State Tax before EIC	$423	$301	$350	$277	$424
Percent of EIC needed	12%	12%	9%	11%	17%

Source: Oregon Center for Public Policy

The QPAI deduction will cost $18.6 million in the upcoming budget cycle, about half the cost of immediately implementing the EIC improvements in HB 2046-A.

Over the next couple of budget cycles, though, the costs of QPAI will rise rapidly as it is phased-in on the federal level, while the cost of the EIC improvements, according to the Legislative Revenue Office, will decline slightly over time.[19] In the long-term, improving the EIC as outlined in HB 2046-A will be cheaper than the QPAI deduction.

The legislature could consider increasing the size of the EIC expansion contained in HB 2046-A. Expanding Oregon's EIC to 12 percent - instead of ten percent - of the federal EIC would eliminate state income taxes for most Oregon families with one or two children living in poverty (Table 3). Oregon is one of a handful of states imposing income taxes on families in poverty.

Conclusion

The QPAI deduction would not improve Oregon's economy or bring substantial new jobs to the state. It would reward companies who manipulate their books and invest in other states. It could easily entangle Oregon in costly legal battles.

On the other hand, expanding the state Earned Income Credit would clearly benefit Oregon's economy. Rather than handing out the QPAI deduction to a grab-bag of corporations for dubious reasons, the Legislature should expand the EIC.

Endnotes

[1] McNichol, Elizabeth and Nicholas Johnson, *States Can Decouple From the "Qualified Production Activities Income" Deduction*, Center on Budget and Policy Priorities, Revised June 15, 2005. Available at http://www.cbpp.org/1-13-05sfp4.htm. South Carolina and New Jersey acted after the FTA paper was released.
[2] Gravelle, Jane. *The 2004 Corporate Tax Revisions as a Spaghetti Western: Good, Bad, and Ugly*. Paper presented atr the National Tax Association's Spring Symposium, held May 20, 2005 in Washington, D.C. Paper dated April 2005. Available at http://classes.igpa.uiuc.edu/jgiertz/NTA-SS/2004corptaxnta.pdf.
[3] Clausing, Kimberly. "The American Jobs Creation Act of 2004: Creating Jobs for Accountants and Lawyers." *Tax Policy Issues and Options*, Urban-Brookings Tax Policy Center, No. 8, December 2004. Available at http://www.urban.org/UploadedPDF/311122_AmericanJobsAct.pdf.
[4] House Bill 2281, passed in 2001, implemented a "super sales factor" formula, under which in-state sales would account for 80 percent of the apportionment formula, beginning in 2003. House Bill 3183, passed in 2003, phased in the single-sales factor formula.
[5] Clausing, Kimberly. "The American Jobs Creation Act of 2004: Creating Jobs for Accountants and Lawyers." *Tax Policy Issues and Options*, Urban-Brookings Tax Policy Center, No. 8, December 2004. Available at http://www.urban.org/UploadedPDF/311122_AmericanJobsAct.pdf.
[6] Washington Society of Certified Public Accountants, "The New Manufacturers'/Producers' Deduction – New Consulting-Service Opportunities Abound," May 27, 2005. Available at https://www.wscpa.org/wscpa/ShortForm/050527/0527sf1.htm.
[7] Council for International Tax Education, Inc. (CITE), First Annual Conference Series on Maximizing U.S. Tax Benefits on Domestic Production Activities. Web announcement available at http://www.citeusa.org/Calendar2005/Maximizing/Domestic.pdf
[8] Grant Thornton, "Maximize Your Tax Savings: Domestic Production Activities Deduction, Section 199," May 5, 2005 webcast. Available at http://www.grantthornton.com/downloads/DPAD_webcast_May05_113332.pdf.
[9] Congressional Record, October 11, 2004. Available at http://frwebgate3.access.gpo.gov/cgi-bin/waisgate.cgi?WAISdocID=90579518668+0+0+0&WAISaction=retrieve.
[10] Ibid.
[11] Testimony before the House Revenue Committee on HB 2542 by Joseph Schweinhart, Legislative Representative, Associated Oregon Industries, March 22, 2005.
[12] Leachman, Michael. *Corporate Tax Dodge: The Decline of the Oregon Corporate Income Tax and the Shift to Individual Taxpayers*, Oregon Center for Public Policy, Revised May 27, 2005. Available at http://www.ocpp.org/cgi-bin/display.cgi?page=es050520dodge
[13] Cline, Robert, et. al., *Total State and Local Business Taxes*, Council On State Taxation, April 12, 2005. Available at

http://www.statetax.org/Content/ContentGroups/Home_Page_Content/Right_Column_Area/2005TotalStateAndLocalBusinessTaxes.pdf. The COST study emphasizes that state and local business taxes nationally rose more quickly than household taxes between 2000 and 2004. The study neglects to mention that corporate profits rose much more quickly than personal income over this period. Between 2000 and 2004, corporate profits nationally grew 44.5 percent, while personal income was up just 14.7 percent. The COST study focuses on the initial incidence of taxes (i.e. who gets the bill). Because individuals own, manage, operate and patronize businesses, individuals ultimately pay all taxes. Just which individuals ultimately pay for business taxes varies by circumstance. Shareholders may pay in the form of lower share prices; corporate executives may pay in the form of smaller compensation packages; line workers may pay in the form of reduced pay or benefits; and/or customers may pay in the form of higher prices.

[14] See Northern Counties Trust .v Sears, 30 Ore. 388; 41 P. 931 (1895] citing Mumford v Sewall, 11 OR 67 (1883) and Dundee Mortgagte Trust Investment Co. v. Parrish, 24 F. 197 (1885).

[15] One survey of EIC recipients in Chicago found that 75 to 80 percent of respondents planned to spend at least a portion of their refund on bills or commodities. See Smeeding, Timothy M., Katherin E. Ross, & Michael O'Connor, "The Economic Impact of the Earned Income Credit (EITC): Consumption, Savings, and Debt," Center for Policy Research Working Paper No. 13, Syracuse University, October 1999 [Revised April 2000].

[16] Author's analysis of IRS data compiled by The Brookings Institution, and available at http://apps89.brookings.edu:89/EITC/eitc.jsp. For the 2002 tax year, 209,603 taxpayers had claimed $337.7 million from the federal EIC in Oregon, an average claim of $1,611.

[17] For more information, see Leachman, Michael. *Investing in Working Families: Improving Oregon's Earned Income Credit*, Oregon Center for Public Policy, February 25, 2005. Available at http://www.ocpp.org/2005/es050225.htm

[18] The vote was 55-3.

[19] Legislative Revenue Office, *Impact of 1997 Legislation – Earned Income and Working Family Child Care Tax Credits in Oregon*, Research Report #6-04, December 2004. Available at http://www.leg.state.or.us/comm/lro/rr6_04earnedincome_taxcredit.pdf

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