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Federal Business Tax Break Triggers Fiscal Emergency in Oregon

Oregon lawmakers must act or "dog that won't hunt" will bite state

(Silverton) Those looking for an emergency to justify this month's "special session" by the Oregon Legislative Assembly need search no more. The economic stimulus package President Bush will sign this week threatens to slash over \$100 million in Oregon tax revenue and sink the state into red ink, unless state lawmakers act to neutralize the impact of the federal legislation, according to the Oregon Center for Public Policy.

Although state economists issued a forecast on Friday predicting that Oregon will squeeze through the current budget cycle with a meager \$29 million to spare, that forecast does not account for the impact of the economic stimulus package on state revenue, said OCPP executive director Chuck Sheketoff.

Among the elements of the economic stimulus package that Congress sent to the President is a tax break that allows businesses to depreciate more quickly purchases of machinery and equipment. "It's an inefficient business tax cut that will wreak havoc on Oregon's budget," said Sheketoff.

A number of economists have noted that the inclusion of the bonus depreciation provision in the economic stimulus package will be largely ineffectual.

According to Mark Zandi, chief economist of Moody's Economy.com, bonus depreciation will generate only 27 cents of increased economic activity per dollar of cost. That compares to \$1.26 for the tax rebates at the center of the stimulus package and \$1.73 for a temporary increase in food stamp benefits, a stimulus measure that did not make it into the final legislation.

"Big business, Congress and the President sold the nation a dog that won't hunt," said Sheketoff of the bonus depreciation provision. "At the very least state lawmakers should make sure it doesn't bite us here in Oregon."

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The bonus depreciation provision in the stimulus package will reduce Oregon's tax revenue by approximately \$100 million, according to analysis by the Washington, D.C.-based Center on Budget and Policy Priorities.

"We're facing a real economic emergency here," said Sheketoff. "The depreciation tax break will blow the slim revenue cushion that we have and force cuts to public services that Oregonians count on. The legislature needs to take the necessary step to protect us."

That step is to "decouple" or "disconnect" from the tax break, said Sheketoff. Oregon is among the approximately two dozen states that automatically follow the federal definition of taxable income. For those states, congressional changes to the federal definition of taxable income automatically impact the states' revenue collection unless the states choose to decouple.

"We need to decouple from the stimulus package's fiscal nightmare, the bonus depreciation scheme," said Sheketoff.

The public policy research institute noted that some of the cost of the business tax break could be offset by another aspect of the stimulus package, but that prospect is unlikely given past practices of the Oregon legislature.

Sheketoff noted that most Oregonians who itemize will pay more in state taxes as a result of the rebate provision in the stimulus package, bringing about \$50 million in increased tax revenue to Oregon's coffers. While this would halve the damage caused by the business tax cut scheme, Sheketoff speculated that the legislature likely will choose to forego the extra revenue. The legislature gave up about \$17 million the last time Congress passed a special rebate.

"This time they will give a tax cut to the itemizers and forego the \$50 million," he predicted.

"Addressing the fiscal emergency caused by bonus depreciation is the ultimate test of whether this session is truly special and whether annual sessions can work," said Sheketoff. "Decoupling from the business tax break scheme is the fiscally responsible thing to do."

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.