Oregon Revenue Roundtable

Revenue Raising Proposals

January 2019

This Oregon Revenue Roundtable document is not intended to lay out a complete tax reform package for the legislature to enact. Lawmakers may want to raise even more revenue than we suggest in the proposed corporate tax package. There is also a need to improve the system by reducing taxes on low-income taxpayers through reduced tax rates, enhanced tax credits, or other changes to Oregon's tax system. We are also intentional about not dedicating or allocating the funds. The needs of Oregonians are many, be it education, housing, health care, or other essential services. Our intent is to chart a path to raise revenue, not debate where it is best spent. Finally, we do not claim these proposals are the only way for Oregon to advance the principles we articulate, simply that they are an effective way. Organizations that participated in the development of these principles and policies include: [1]

AARP
American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
American Federation of Teachers (AFT)
Children First for Oregon
Human Services Coalition of Oregon (HSCO)
League of Women Voters of Oregon
Main Street Alliance (MSA)
Neighborhood Partnerships (NP)
Oregon Center for Public Policy (OCPP)
Oregon Coalition of Christian Voices (OCCV)
Oregon Food Bank
Oregon Public Education Network (OPEN)
Oregon School Employees Association (OSEA)
Oregon Student Association (OSA)
Oregon Women's Rights Coalition
Partners for a Hunger-Free Oregon
Tax Fairness Oregon (TFO)
Upstream Public Health
Urban League of Portland

Participation by a group should not be construed as that group's endorsement of any individual concept in this proposal.

All amounts cited in this document are estimates of additional revenue raised by that policy change for a full biennium.

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The quality of life and well-being of Oregonians depends greatly on our system for raising revenue. That system determines whether or not Oregonians enjoy quality schools, access to affordable housing, and much more.

Oregon's current tax system is inadequate to meet the expectations of our people. It fails to raise enough revenue to fund the services Oregonians depend on.[2] Furthermore, Oregon's poorest taxpayers are asked to pay a larger share of their income in taxes than the richest 1 percent.[3] The legacy of discriminatory tax policies has erected barriers for communities of color in Oregon.[4] Oregon's tax system can move in a healthy direction and counter these issues.

This document sets out a basic set of principles to guide tax reform, based on the shared values of the Oregon Revenue Roundtable — and, we believe, the vast majority of Oregonians. Next, it lays out the tax policy change that best aligns with these principles. The document concludes with a series of complementary revenue raising policies for lawmakers' consideration.

Principles
The Oregon Revenue Roundtable has developed a set of essential and preferred principles to guide tax policy decisions. Essential principles are those that must be reflected in any tax policy proposal, while preferred principles should be considered in any tax policy proposal, but rank below the essential principles.

<u>Essential</u>

- **Progressivity**: Tax policies should ensure Oregonians with more income and wealth contribute a larger share of their resources to support the common good than those with less.
- **Adequacy**: Tax and revenue policies must raise enough revenue to fund the public structures that create opportunity for all Oregonians.
- **Equity**: As in many other areas of public policy, tax policy has at times fostered inequitable outcomes based on race, ethnicity, and gender. New policies should remove these barriers and inequities and advance Oregonians' economic opportunity.
- **Viability**: The policy must have a viable path towards enactment in the legislature and be defendable at the ballot.

<u>Preferred</u>

- **Simplicity**: Tax policies should be straight-forward, easy to understand, comply with, and administer, and difficult to manipulate.
- **Stability**: Revenue from a tax should grow with the economy with minimal volatility.
- **Horizontal fairness**: Similarly situated taxpayers should be treated the same.
- **Neutrality**: Economic decisions should be made on their own merits, not to take advantage of tax subsidies.

Top priority: fix Oregon's corporate taxes

Corporate income taxes as a share of all Oregon income taxes has shrunk from 18.5 percent in the 1973 – 1975 biennium down to 6.8 percent in the 2017 – 2019 biennium. Yet, corporations continue to receive valuable services from the state such as education and infrastructure supporting them, their employees, and their employees' families. Recognizing this disconnect — and its fundamental unfairness to all Oregonians — the Oregon Revenue Roundtable proposes as its top priority a package of corporate tax reforms estimated to raise between $1.4 billion and $1.8 billion in a full biennium when considering interactions between the corporate income tax and corporate minimum tax.[5] In cases where there are variable tax rate options, the Roundtable would encourage lawmakers to lean towards the options that raise adequate revenues for the shared services all Oregon residents and businesses value.

The Oregon Revenue Roundtable prioritized this package of policies explicitly because of how well it aligns with the essential tax reform principles. Some taxes, such as sales taxes, are largely paid by consumers, while other taxes, such as the corporate income tax, are largely paid by investors.[6] Focusing on taxes primarily paid by investors, instead of consumers, advances the principles of progressivity and equity because investors are disproportionately wealthy and white.[7] Not only that, these shareholders live throughout the United States and the world, spreading more of the cost of this tax increase throughout the economy and not concentrating it in Oregon.[8] This package should:

Increase corporate income tax rates: Oregon applies a set of tax rates to the profits reported by C-corporations on their Oregon corporate income taxes. This proposal would increase those rates. For a comparison between the two alternate rate structures below and the existing tax rates, please see the appendix.

- Increase the tax rates to 7.6% on the first $1 million in taxable income, add a bracket for between $1 million and $10 million at 9.6%, and assess a rate of 11% on all profits above $10 million. **$320 million**[9]

OR

- Match the corporate income tax rates and brackets to the personal income tax rates and brackets for a single tax filer of 5, 7, 9 & 9.9%. **$340 million**

Fix the corporate minimum tax: C-Corporations pay the larger of their tax based on the income tax rates or the corporate minimum tax. The corporate minimum starts at $150 and then steps up based on the receipts of a corporation to a cap at $100m. This proposal would use a consistent rate applied to receipts over $500k to calculate the minimum tax, without a cap. For a comparison between the two alternate rate structures below and the existing tax rates, please see the appendix.

- Set the rate at 0.3% of receipts. **$652 million**

OR

- Set the rate at 0.45% of receipts. **$1.1 billion**

Expand the corporate tax base to promote fairness

- **Enact "Complete Reporting" for large corporations** **$376 million**[10]
  This policy would target corporations who shift profits overseas by including in tax calculations their worldwide business activity instead of just the activity occurring within the United States.[11]
- **Extend the corporate minimum to more out-of-state businesses** **Unknown**
  This policy change would extend the corporate minimum tax to businesses that sell goods in Oregon but do not have a physical presence, and therefore are not currently required to pay Oregon corporate taxes.
- **Change how Oregon treats certain groups of corporations** **Unknown**
  This policy change would shift Oregon from the "Joyce" method of apportioning income to the "Finnigan" method, which is a more effective and complete means to determine taxable and apportioned income to Oregon.[12]

Close business tax loopholes

- **Disconnect from the federal 1031 like-kind exchange tax break** **$85 million**
  The 1031 like-kind exchange federal tax policy allows taxpayers to avoid capital gains taxes when they sell an investment property and buy a similar property. Oregon mirrors this policy and it is both costly and regressive with the benefit flowing to corporations or Oregonians wealthy enough to afford investment property. This policy change would apply to both C-corporations and pass-through businesses.
- **Disconnect from the federal Opportunity Zone/Fund tax breaks** **$15 million**
  The federal tax package passed in 2017 included new tax breaks for investment in so-called "Opportunity Zones." Analysts expect these tax breaks will catalyze gentrification and provide generous benefits to high-income investors.[13] Since this policy has not been in place for a full tax year, revenue estimates could differ substantially from current estimates.

Complementary tax policies

Corporate tax reform alone will not make Oregon's tax system sufficiently equitable, progressive, or raise enough new revenue. The Revenue Roundtable reviewed a range of tax policy choices – especially those whose effects have compounded over time, such as property tax measures 5 and 50 and taxes on specific products.

On top of fixing Oregon's corporate income taxes, Revenue Roundtable members support an array of complementary tax policies. Some of these do a better or worse job of aligning with certain principles, but all have the support of some members of the Revenue Roundtable. For example, while Oregon's property tax system produces very stable revenue, it shows little progressivity, equity, fairness or neutrality. There are documented cases of a property owner paying only 38% of the property taxes paid by a similarly situated property owner in the same tax districts.[14]

These complementary reforms, not ordered by priority or level of consensus, would:

Eliminate special pass-through business tax rates **$302 million**

- These rates could also be scaled back to where only taxpayers with less than $100,000 in income would benefit, but taxpayers with more income would not. This would raise significantly less revenue.

Fix property taxes for commercial and industrial properties

Property tax revenue estimates are for all jurisdictions, not just the state.

- Return assessed values on commercial and industrial properties to real market value. **$1.2 billion**
- End early or on-time payment discounts for commercial and industrial properties. **$72 million**
- Repeal the gigabit property tax exemption. **$35 million**

Raise personal income taxes

- Increase tax rate to 11% on joint filers earning more than $250k. **$358 million**
- Add an additional tax bracket for joint filers earning more than $1 million at a 13% tax rate.[15] **$295 million**

Raise other taxes and permit the use of the new revenue beyond current distributions

- Raise the taxes on wine, beer, tobacco, and marijuana to the average of neighboring states' excise and sales taxes on those products. **$730 million**
- Raise the transient lodging tax from 1.8% to 5%, a level still below the national average. **$145 million**[16]

Appendix: Current and Proposed Rate Structures

Corporate Income Tax						2 Year Revenue Estimate
Current						
Brackets	0 - $1m	$1m +				
Rates	6.6%	7.6%				
Proposal 1						
Brackets	0 - $1m	$1m - $10m	$10m+			
Rates	7.6%	9.6%	11%			$320,000,000
Proposal 2						
Brackets	0 - $7,000	$6,900 - $17,600	$17,600 - $250,000	$250,000 +		
Rates	5%	7%	9%	9.9%		$340,000,000

Corporate Minimum Tax			
Brackets	**Current**	**Proposal 1**	**Proposal 2**
0 - $500k	$150	$150	$150
$500k - $1m	$500	0.30%	0.45%
$1m - $2m	$1,000	0.30%	0.45%
$2m - $3m	$1,500	0.30%	0.45%
$3m - $5m	$2,000	0.30%	0.45%
$5m - $7m	$4,000	0.30%	0.45%
$7m - $10m	$7,500	0.30%	0.45%
$10m - $25m	$15,000	0.30%	0.45%
$25m - $50m	$30,000	0.30%	0.45%
$50m - $75m	$50,000	0.30%	0.45%
$75m - $100m	$75,000	0.30%	0.45%
$100m +	$100,000	0.30%	0.45%
2 Year Revenue Estimate		$652,000,000	$1,110,000,000

Personal Income Tax (Joint)						2 Year Revenue Estimate
Current						
Brackets	0 - $7,000	$6,900 - $17,600	$17,600 - $250,000	$250,000 +		
Rates	5%	7%	9%	9.9%		
Proposal 1						
Brackets	0 - $7,000	$6,900 - $17,600	$17,600 - $250,000	$250,000 +		
Rates	5%	7%	9%	11.0%		$357,800,000
Proposal 2						
Brackets	0 - $7,000	$6,900 - $17,600	$17,600 - $250,000	$250,000 - $1m	$1m +	
Rates	5%	7%	9%	11%	13%	$653,300,000

Endnotes

[1] Principally drafted by Daniel Hauser (contact at dhauser@ocpp.org or (503)970-4614) and Juan Carlos Ordóñez, both of the Oregon Center for Public Policy, and Bob Estabrook, Oregon School Employees Association.

[2] Quality Education Commission, 2018 Quality Education Commission Report, August 2018, available at https://www.oregon.gov/ode/reports-and-data/taskcomm/Documents/QEMReports/2018QEMReport.pdf.

[3] Daniel Hauser, It's time to fix Oregon's regressive tax structure, Oregon Center for Public Policy, November 2018, available at https://www.ocpp.org/2018/11/02/oregon-regressive-tax-structure/.

[4] Juan Carlos Ordóñez, Undoing the legacy of racism through better tax policy, Oregon Center for Public Policy, November 2018, available at https://www.ocpp.org/2018/11/28/racism-tax-policy-oregon/.

[5] These aggregate estimates are reduced by interaction effects, since C-corporations pay the greater of the corporate minimum tax and the corporate income tax, these two policy increases interact with each other. The Oregon Legislative Revenue Office estimates that these polices lose between $52 million and $110 million to interaction effects when combined.

[6] Kimberly A. Clausing, Who Pays the Corporate Tax in a Global Economy?, National Tax Journal, 2013, available at https://www.ntanet.org/NTJ/66/1/ntj-v66n01p151-84-who-pays-corporate-tax.html.

[7] Jesse Bricker et al., Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances, 2012, available at https://www.federalreserve.gov/Pubs/Bulletin/2012/articles/scf/scf.htm.

[8] Steven M. Rosenthal, Slashing Corporate Taxes: Foreign Investors Are Surprise Winners, Tax Notes, October 2017, available at https://www.taxnotes.com/tax-notes/corporate-taxation/slashing-corporate-taxes-foreign-investors-are-surprise-winners/2017/10/23/1x78l.

[9] All amounts cited in this document are estimates of additional revenue raised by that policy change for a full biennium. Unless otherwise cited, they come from the Oregon Legislative Revenue Office.

[10] This revenue estimate comes from the Oregon Center for Public Policy. Daniel Hauser, Oregon Can Raise $376 Million by Clamping Down on Offshore Corporate Tax Avoidance, Oregon Center for Public Policy, November 2018, available at https://www.ocpp.org/2018/11/15/complete-reporting-worldwide-corporations/.

[11] Ibid.

[12] Matthew Gardner, Before the Maryland Business Tax Reform Commission, Institute on Taxation and Economic Policy, November 2010, available at http://btrc.maryland.gov/BTRsub/documents/InstituteonTaxationEconomicPolicy.pdf.

[13] Opportunity zones provide tax benefits to capital gains income, which is predominantly earned by high-income Oregonians. For more information see Highest Earning Oregonians Pull Away, Oregon Center for Public Policy, October 2017, available at https://www.ocpp.org/2017/10/04/fs20171004-highest-earning-oregonians/. Adam Looney, Will Opportunity Zones help distressed residents or be a tax cut for gentrification?, Brookings Institute, February 2018, available at https://www.brookings.edu/blog/up-front/2018/02/26/will-opportunity-zones-help-distressed-residents-or-be-a-tax-cut-for-gentrification/.

[14] League of Oregon Cities, Revenue Reform/Cost Containment, September 2018, available at http://www.orcities.org/Portals/17/Legislative/Priority-RevenueReform.pdf.

[15] Amount of revenue reported here is the additional revenue from adding the $1 million bracket. Amount reported in appendix is the total revenue raised from both personal income tax increases.

[16] This estimate is derived by taking the 2017 and 2018 (preliminary) revenue figures from the existing state transient lodging tax of 1.8 percent to calculate a level of sales in each of those years. This figure is then extrapolated based on the rate of growth from 2017 to 2018 (5.9%) to estimate the sales amounts for Oregon in 2019 and 2020. The rate of 5% is then applied to these sales totals to calculate the revenue raised of $144.7 million in the 2019-2021 biennium.