



# EXECUTIVE SUMMARY

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## **Corporate Tax Dodge: The Decline of the Oregon Corporate Income Tax and the Shift to Individual Taxpayers**

by Michael Leachman

Oregon's state corporate income tax has dropped to very low levels, both as a share of the economy and as a share of all income taxes paid in Oregon.

- In the upcoming budget cycle, corporations operating in Oregon will pay 71 percent less in state corporate income taxes as a share of the economy than they did in the late 1970s.
- In the 1973-75 budget cycle, corporations paid 18.5 percent of all income taxes. In the upcoming 2005-07 budget cycle, corporations are expected to pay just 4.6 percent of Oregon's income taxes. By 2009-11, corporations are expected to pay just 4.4 percent of Oregon income taxes.
- If corporate income taxpayers still paid the same share of income taxes they paid in 1973-75, state revenue for the upcoming budget cycle would be \$1.8 billion higher than is now expected.
- Because corporate taxpayers have not sustained the 18.5 percent share of income taxes they paid in 1973-75, Oregon has lost a total of \$10.9 billion since that time. By 2009-11, the figure will reach \$15.2 billion.
- Over the current decade, as corporate income taxes fall by \$192 million, personal income tax revenues are projected to grow another \$4 billion.

The long-term decline in corporate income taxes is primarily because corporations have won a number of tax breaks, and because corporations have grown aggressive about employing abusive tax shelters that lawmakers never enacted or intended to allow.

- Of the 49 income tax breaks Oregon specially offers corporations, 40 were created since 1980.
- A tax break for companies with few Oregon sales but significant property and payroll in Oregon will cost Oregon \$73 million in the upcoming budget period and keep Oregon corporate income tax collections flat for the rest of this decade.
- Corporate use of abusive tax shelters has exploded. A study by the Multistate Tax Commission estimated the impact on Oregon at between \$66 million and \$94 million for fiscal year 2001 alone.

Multistate corporations enjoy the lion's share of potentially taxable profits collected in Oregon and hence are the primary beneficiaries of the declining corporate income tax. As the tax burden has shifted from corporations to individual taxpayers, low-income taxpayers have been the hardest hit with increases.

Neither the growth in "pass-through" businesses nor the growth in fees is responsible for the decline in corporate taxes.