INITIATIVE PETITION 28

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Much of corporate tax hike unlikely to hit consumers

CHUCK SHEKETOFF
IN MY OPINION

Oregonians deserve accurate information when it comes to public policy proposals that would have far-reaching consequences. So it was disappointing to read The Oregonian's recent editorial disparaging Initiative Petition 28, a proposal to raise corporate income taxes.

The editorial engaged in an apples-to-oranges comparison in wrongly portraying IP28 as a hidden sales tax. In doing so, the paper misinformed readers about a proposal that promises to boost much-needed funding for schools, health care and senior services.

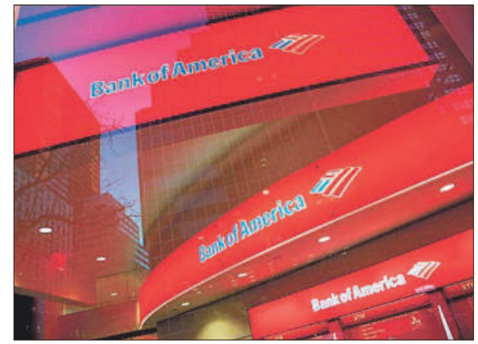
Since 1929, corporations that don't pay enough under Oregon's profits tax must pay an alternate minimum tax. As noted by The Oregonian, IP28 modifies the current minimum tax by levying a 2.5 percent tax on Oregon sales of $25 million or more a year. This new bracket would only apply to C corporations – corporations like Walmart and Bank of America that are taxed separately from their shareholders. IP28 would affect a narrow slice of all corporations doing business in Oregon. Only about 1,000 of the some 30,000 C corporations – fewer than 4 percent of all C corporations doing business in Oregon – would pay the new minimum tax. That doesn't even factor in the tens of thousands of S-corporations, limited liability companies, partnerships and sole proprietorships that would be unaffected.

The Oregonian editorial board based its argument against the measure on a report by the Oregon Legislative Revenue Office (LRO) on the imaginary impact of a broad gross receipts tax. That's the main flaw in The Oregonian's editorial: LRO's guesstimate assumed a tax that would apply across the board to all businesses, not just 1,000 or so large C corporations. This makes comparison of the LRO hypothetical estimate to IP28 one of apples to oranges.

Although the editorial noted that IP28 "differs in some ways" from the broad gross receipts tax modeled by LRO, it nevertheless declared that "the effects would be generally similar." There is, however, no basis for The Oregonian editorial board to reach that conclusion. Testifying before a legislative committee about its hypothetical broad gross receipts tax, the head of LRO acknowledged that the impact of IP28 "will be different." He also noted that LRO's predictive model produces "a gross simplification" of the real world.

There is a very good reason to believe that much of the impact of IP28 would not be passed on to consumers: competition. Most companies doing business in Oregon won't be subject to IP28. Nor will many online retailers selling all over the country. This competition will help deter the relatively few corporations impacted by the tax from passing it on to consumers. To stay competitive, these firms may simply pay for it by reducing the profits going to shareholders or spread the costs across the country. With Oregon accounting for only 1 percent of the national economy, a bump in costs here is barely a blip for a nationwide retailer.

What, if any, portion of IP28 would actually be passed on to consumers will be hard to verify and prove. If IP28 becomes law, academics will be debating that for decades to come. What is clear is that if IP28 becomes law, it will be a game-changer. It will enable Oregon to finally dig itself out of the hole created by Measure 5 and provide our children the kinds of schools they deserve.



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Initiative Petition 28 would levy a 2.5 percent tax on Oregon sales over $25 million by C corporations, such as Bank of America.

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