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Fact Sheet

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4 reasons why Oregon's corporate minimum tax is too low

By Juan Carlos Ordóñez

Oregon's corporate minimum tax needs a significant boost for it to meet its intended purpose — ensuring that all corporations make a meaningful contribution to the common good. Corporations benefit from the education system, public safety, and many other public services funded through the Oregon state budget. The primary means for corporations to contribute to that system is a tax on corporate profits.[1] Oregon also has a backstop in place: a corporate minimum tax based on total Oregon sales. The impact of that minimum, however, is minimal — which is why lawmakers should raise it significantly.

1. The corporate minimum tax brings in little revenue

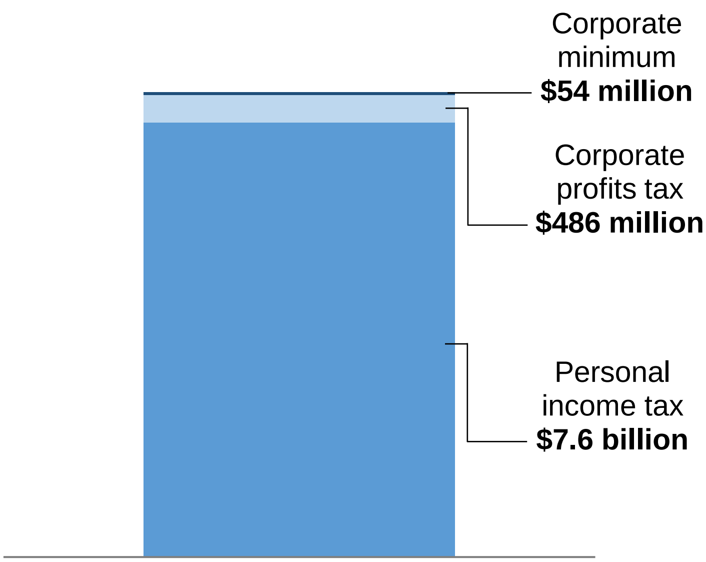
Oregon's corporate minimum tax brings in a very modest amount of revenue. Income taxes — personal and corporate — account for more than nine out of every 10 dollars that flow into Oregon's General Fund budget, the principal way Oregon pays for services like education and other essential services. But it is the personal income tax, which individuals and families pay, that brings in the lion's share of the public resources. In 2016, the personal income tax brought in about $7.6 billion.[2] By contrast, the corporate income tax brought in $541 million, with the corporate minimum tax accounting for $54 million of that amount. [3] Thus, the corporate minimum tax made up just 0.7 percent of all income taxes collected by the state.

The negligible amount generated by Oregon's corporate minimum tax is not surprising, given how low it is set. The corporate minimum tax kicks in when a corporation would pay less under the profits-based tax. The minimum starts at $150. The tax amount increases according to a schedule based on the amount of the corporation's sales in Oregon. In nearly every instance, the tax comes out to no more than one-tenth of 1 percent of sales — in other words, 10 cents for every $100 dollars of sales. The percent is even lower for the biggest corporations, those with sales over $100 million, given that the tax amount tops out at that level of sales.

As such the corporate minimum tax falls short of its intended purpose. The corporate minimum tax recognizes that corporations (or their owners) benefit from state services — an educated workforce, public safety, a court system that adjudicates commercial disputes, and so on. Putting aside the meaning of "profits" in the tax context (see point 3, below), corporations don't stop benefiting from public services just because they're unprofitable in a particular year. Even unprofitable corporations benefit from these services and have a responsibility to support the common good. Additionally, the corporate minimum recognizes that corporations can exploit a combination of tax subsidies and loopholes that fully wipe out their tax liability in a way the legislature did not intend. For the corporate minimum to fulfill its purpose as a backstop to the corporate income tax, it has to be set at a meaningful level.

Corporate minimum raises little revenue

Corporate minimum tax, corporate profits tax, and personal income tax payments received in the 2016 tax year in Oregon



Source: OCPP analysis of Oregon Department of Revenue data.

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2. More than two-thirds of corporations pay the minimum

In 2016, more than 30,000 corporations filed a tax return in Oregon. Of these, 68.6 percent paid the minimum tax. In other words, more than two-thirds of corporations paid the minimum.[4]

That is not an aberration. From 2000 to 2016, the share of C-corporations paying the minimum has averaged 68.8 percent.[5] The percentage has fluctuated modestly over the years, and there is every indication a significant share of corporations will continue paying the minimum.

3. Many profitable corporations pay the minimum

In 2016, more than 3,300 corporations that reported Oregon taxable income — profits for tax purposes — paid the minimum tax. Of these, 67 corporations had more than $1 million in Oregon profits, including 13 with profits over $10 million in the 2016 tax year.[6]

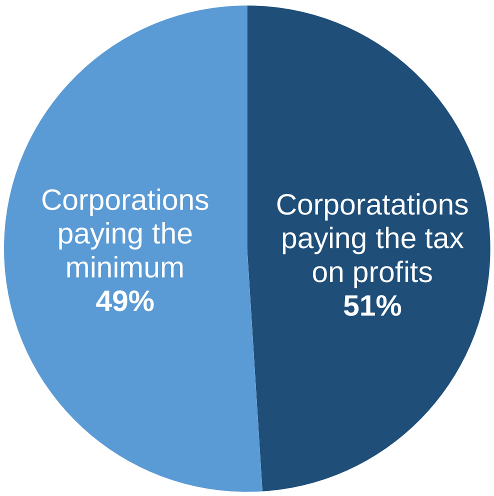
While the vast majority of corporations paying the minimum reported zero taxable income or a loss, that doesn't necessarily mean that these corporations failed to report profits to their shareholders. Corporations have engineered different ways of shrinking their taxable income. Multinational corporations, for example, often reduce their U.S. and Oregon taxable income through accounting maneuvers that make profits earned in the U.S. appear as profits earned overseas.[7] Corporations also take advantage of favorable tax rules, industry specific tax breaks, and tax loopholes to make their profits for tax purposes disappear or to reduce the taxes due on the profits they do report.[8]

4. Among the largest corporations, half pay the minimum

In 2016, there were 300 C-corporations with sales in Oregon totaling $100 million or more. Of these, 147 paid the minimum. In other words, 49 percent — nearly half — of the Oregon corporations with the highest sales paid the minimum.[9] Each of these corporations with more than $100 million in sales only contributed $100,000 through the corporate minimum tax.

Half of Oregon's highest-sales corporations pay the minimum

Share of Oregon C-corporations with $100 million or more in sales paying the corporate minimum and corporate profits tax for 2016 tax year



Source: OCPP analysis of Oregon Department of Revenue data.

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Conclusion

Oregon's corporate minimum tax is set too low, thus doing little to ensure that all corporations contribute a meaningful amount to the common good. For the well-being of all Oregonians, the 2019 Oregon legislature should enact a significant boost to the corporate minimum tax.

Endnotes

[1] While S-corporations are also corporate entities, they do not pay the same income tax or minimum tax as applied to C-corporations. This publication exclusively discusses C-corporations and any reference to "corporate" or "corporation" only refers to C-corporations. This document also uses "corporate income tax" to refer to the corporate excise tax. Nearly all readers and Oregonians engaged with the tax process call the excise tax an income tax – and this paper conforms to that expectation for the sake of simplicity.

[2] Oregon Personal Income Tax, Characteristics of Filers, 2018 Edition, Oregon Department of Revenue, available at https://www.oregon.gov/DOR/programs/gov-research/Documents/or-personal-income-tax-statistics_101-406_2018.pdf.

[3] Oregon Corporate Excise and Income Tax, Characteristics of Corporate Taxpayers, 2018 Edition, Oregon Department of Revenue, available at https://www.oregon.gov/DOR/programs/gov-research/Documents/corporate-excise-income_102-405_2018.pdf.

[4] Ibid.

[5] Oregon Center for Public Policy analysis of Department of Revenue data.

[6] Op. Cit. 3.

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

[8] Matthew Gardner, et. al., Institute on Taxation and Economic Policy, The 35 Percent Corporate Tax Myth: Corporate Tax Avoidance by Fortune 500 Companies, 2008 to 2015, March 9, 2017, at 13-16, available at https://itep.org/wp-content/uploads/35percentfullreport.pdf.

[9] Op. cit. 3.