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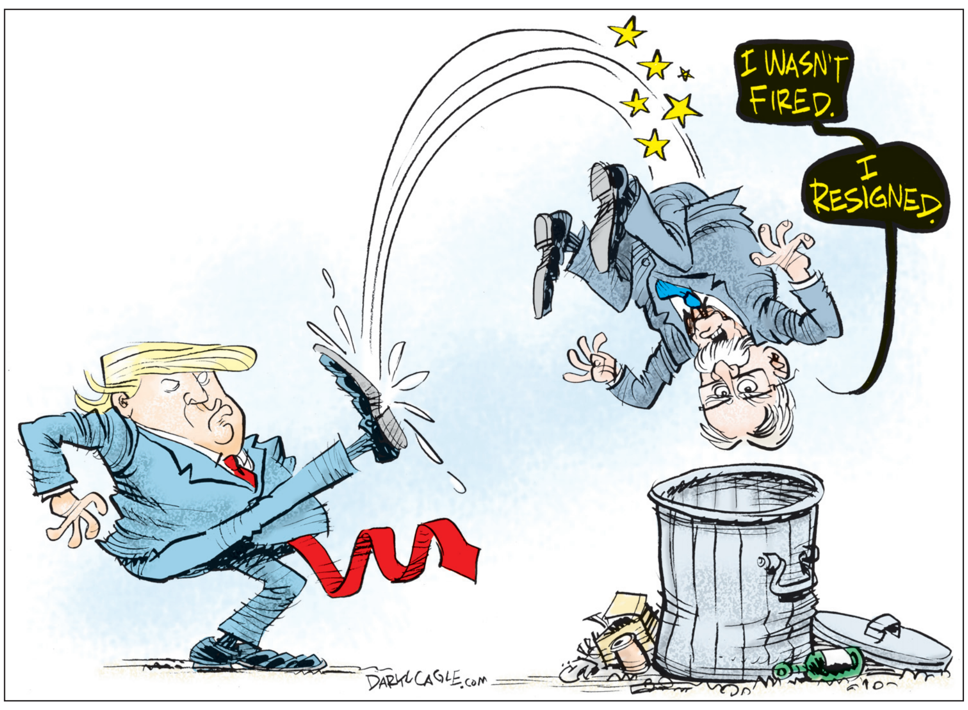
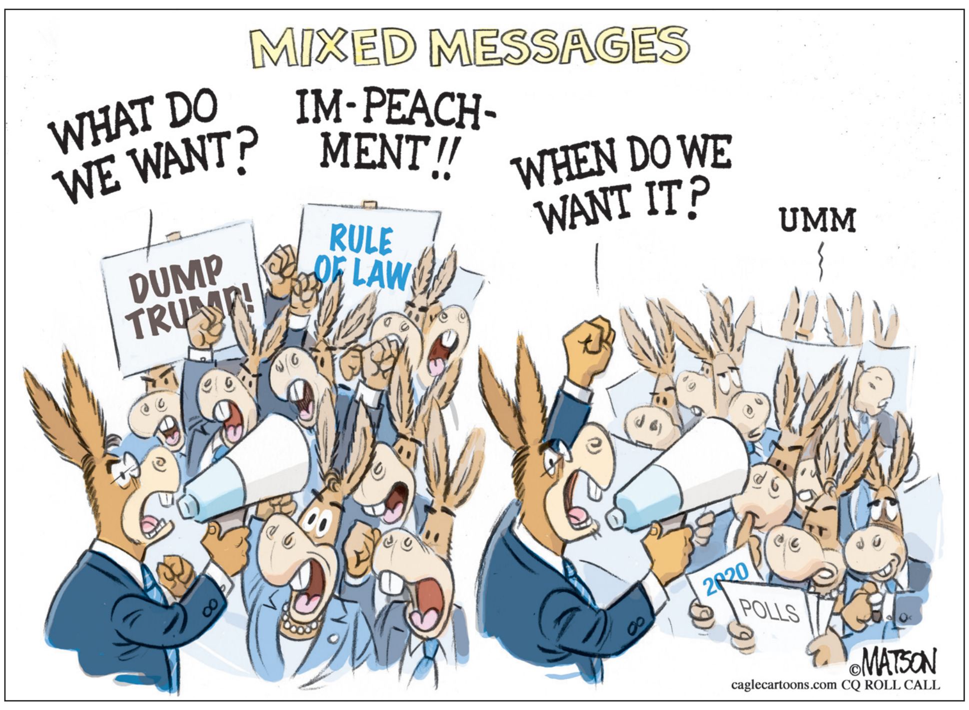
Opinion

The Observer





On the Fence

How will Oregon's new gross receipts tax impact small businesses and rural Oregon?

'The rich should contribute to the public expense'

RANDY KNOP
UNION COUNTY PROGRESSIVES/DEMOCRATS

"It is not hard to make decisions when you know what your values are." — Roy Disney

No aspect of state tax policy has been more controversial, or caused more discomfort for the rich, than allegations that some corporations, individuals and income groups don't pay their fair share.

On Jan. 1, 2020, Oregon businesses and individuals with annual in-state revenues exceeding $1 million in revenues will begin paying the new Corporate Activity Tax (CAT). The Legislature through bipartisan negotiations and with no opposition by Oregon Business and Industry, the state's largest business group, recognized what many Oregon businesses and residents already knew: "We were failing our children."

In a U.S. News 2019 ranking of states report in Willamette Week based on how well states perform for their citizens, Oregon ranked number 27. This was a sharp decline from the 2018 Best States report, where Oregon was number 16. Oregon's below-average rating is due to low rankings in education and opportunity. A rating that business and education leaders recognize as not good for Oregon, its business community and certainly not its citizens. One bright note: Oregon did place higher than most U.S. states in terms of infrastructure (energy, internet access and transportation) and economy.

Who benefits from the CAT gross receipts tax?

Education — the new tax is expected to add upward of $1 billion to our schools and educational system. Clearly something that parents, teachers and school districts in Union County will use to elevate Oregon and our children's chance at a better life.

Working families — this new law lowers tax rates for Oregon personal income taxes. Personal income tax rates, on average, will drop 0.25% across income tax brackets below $125,000 on Oregon-sourced income. This will directly benefit working people in Union County who needed relief.

Business — every industry, including insurance companies and financial institutions, will see their proportion of tax increase unless they are "excluded persons," a term that covers governmental entities as well as certain nonprofits, hospitals and long-term care facilities. Protecting these services that provide medical care, nonprofits that support good causes and care facilities that aid and provide for those in our community with the greatest of needs was a priority and will continue to be under this new tax.

But, do not think for one second that businesses were not able to lobby our representatives in Salem to get some favorable terms from this new tax.

There are 43 types of excludable gross receipts under the CAT. Just to name a few: interest income (other than interest on credit sales); receipts from the disposition of IRC Sec 1221 and 1231 assets; dividends, partner/shareholder's distributive share of income from a pass-through entity; sales to Oregon wholesalers who certify that the property will be resold outside of Oregon; and intercompany transactions among members of a unitary group.

In addition, there are special exclusions for many specific industries such as gas and fuel sellers, grocery stores, utilities, telecommunications service providers, heavy equipment providers, vehicle dealers and agricultural cooperatives. Clearly, your legislators understood where in our community those businesses that deal directly with consumers in product delivery and agriculture needed and should be excluded and did so by providing special exclusions.

In conclusion, I leave you with a few sage words from Adam Smith (1723-1790). The Scottish philosopher and economist who is best known as the author of "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776), one of the most influential books ever written. Echoing the message in Luke 21 that a few pennies from a poor woman's purse costs her more than many pieces of gold from a rich man's horde, Smith wrote in "The Wealth of Nations": "It is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion."

Well-intentioned policy will burden or extinguish local businesses

LAURA ECKSTEIN
UNION COUNTY REPUBLICANS

In rural communities, sometimes even well-intentioned policies decided from afar can have particularly devastating and often unforeseen impact. The domino effect from ill-conceived laws can have an exaggerated influence where there is less "cushion" than in larger markets. This is true of Oregon's new "gross receipts tax" law, which has the potential to cripple local businesses, which, by extension, will harm all of us who rely upon those businesses, whether as employees or consumers.

On May 16, 2019, Gov. Kate Brown signed House Bill 3427 into law, which imposed a new Corporate Activity Tax (CAT) on companies with annual in-state revenues of more than $1 million. The new law is set to take effect on Jan. 1, 2020, unless a special election halts its implementation. This new tax applies to virtually all forms of business, including C and S corporations, individuals, joint ventures, partnerships, trusts, estates and any entity that is disregarded for income tax purposes, such as certain LLCs.

Sound familiar? Oregon voters rejected a similar "gross receipts tax" just three years ago, when they overwhelmingly voted down Measure 97. Experts on both sides of this issue agree this new tax is likely to be put back before voters in a special election, which is likely to occur in early 2020. Despite a strikingly clear mandate from the people with the defeat of Measure 97, lawmakers made a dramatic end-run around the express will of the people. Aside from misjudgment in doing so, the practical effects of pursuing such a course of action will be long felt.

So just what is a gross receipts tax? Historically (and uniformly elsewhere), businesses are taxed on their actual/net income, after business expenses. Under the new law, a business will be taxed on its gross receipts (yes, you read that right). Many small- and medium-sized businesses carry a significant proportion of overhead (e.g., payroll, licensure, etc.). To tax these businesses on their gross revenues — rather than their income — will have a dramatically disproportionate effect when compared to large corporations, as their margins are smaller and there is less "cushion" to absorb such a significant burden. This equates to downsizing and lost jobs and would be a significant deterrent to growing the economy by expanding and succeeding in increasing revenue and tax base.

Proponents of this new tax emphasize that it "only" applies to businesses with gross revenues over $1 million annually. Because the new measure looks at gross revenue, it casts a net that captures a significant portion of the local businesses you and I frequent on a daily basis in Union County. Moreover, if a small business owner is working hard, doing well and growing to add jobs for a small community, this bill would kill any motivation to continue to grow and add benefit to the community, knowing that this leviathan of a tax lurks just around the corner once he or she hits the smaller-than-it-sounds $1 million gross revenue mark. What's more, a medium-sized business that is newly past that threshold would likely be gutted by this burden.

If you burden or extinguish local businesses, you also kill local jobs and the tax base for our communities. This law will have a direct impact on our local businesses; thinking that this is a nebulous revenue source far removed from home is perilous. "Businesses" are your neighbors, your family members, your employers or even you. This law has the potential to cripple employers, manufacturers, suppliers and service providers in our community in myriad ways.

I think we can all agree that funding education is vitally important. However, the issue here is not whether education is a deserving recipient of state funds; the issue is the cost and casualty of jobs and revenues in attempting to chase a solution that cannot be sustained. Experience tells us that eviscerating the economic building blocks of a community can be hard, if not impossible, to come back from. Eliminating even more jobs by burdening small- and medium-sized businesses is very likely to actually harm the schoolchildren we are trying to help, who may find there are no jobs for them available here when they are ready to fill them. Let's not make our qualified students and children our greatest export. May we learn this lesson before it is too late.

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