

On taxes, corporations win, Oregonians lose – again

BY ROBIN HAHNEL
CONTRIBUTING COLUMNIST

In the aftermath of the defeat of Measure 97, I wrote “Oregon has to face facts and overhaul our tax system” in the March 24-30 edition of Street Roots, where I explained how corporations are smart as whips when it comes to understanding their self-interest regarding taxes, while the rest of us are invariably bamboozled.

Guess what! Business not only won Round 1 when they defeated Measure 97 by spending a record \$28 million in deceptive advertising; they now appear to have won Round 2, as well. The proposal just released by the Oregon Legislature’s Joint Committee on Tax Reform could not be more corporate friendly. Here is the bottom line:

Measure 97 would have raised an additional \$3 billion annually from large corporations in a way that would have prevented them from being able to pass this expense on to consumers by raising prices.

The joint committee proposal would raise an additional \$1.5 billion annually from a gross receipts tax, or GRT, which corporations can easily pass on to consumers, and would gift corporations \$600 million annually by eliminating all corporate income taxes in the state.

Notice the difference: Measure 97 would have forced only the largest corporations operating in the state to *increase* their contribution to state revenues by \$3 billion a year. The current joint committee proposal would *reduce* corporate contributions to state revenues by \$600 million a year.

Corporations in Oregon already contribute less to state revenues than in any other state. The joint committee proposal would reduce that contribution nearly to zero.

Broad vs. narrow tax

Of course, this is not what the business associations, the mainstream media and many of your elected representatives will tell you. They are portraying the joint committee proposal as a bipartisan, balanced improvement in how we collect revenue from corporations. To understand the deception, you need to understand some nuances about how a gross receipts tax works. I can promise



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street smart economics

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you that the business community figured this out, which is why they fought against the kind of GRT that was in Measure 97 tooth and nail, and why they are secretly pleased as punch with the kind of GRT in the Joint Committee proposal even as they continue to whine and complain about paying any taxes at all.

For other kinds of taxes, such as income taxes or property taxes, it is better if they are applied *broadly*, that is, if everyone pays and few are exempted, because that is more fair, and because then the rate can be kept lower for everyone. But the exact opposite is the case for a gross receipts tax – a tax equal to a percentage of the price something sells for. The reason is competition. If a GRT is applied broadly to all sellers in an industry, no seller need fear it would lose customers to competitors if it raises its price to cover the extra cost of the tax because all of its competitors will also be raising prices to cover their extra cost.

Result: A *broad* GRT will be passed on to consumers. In that respect, a broad GRT is like a sales tax and equally as regressive since lower-income people spend a higher percentage of their income than higher-income people, who save more. However, unlike a sales tax, where consumers can see that they are paying the tax because it is printed on their receipt at checkout, consumers are unaware that they are actually paying a broad-based GRT – making a broad GRT a regressive “stealth” tax.

The only kind of gross receipts tax that *will not* be passed on to consumers behind their backs is one that is *narrow*, that is, one that applies only to a small percentage of sellers in an industry. And that is what made Measure 97 unique, and so different from the kind of broad GRTs in Ohio, Texas and Washington state.

Only 1,000 corporations have more than \$25 million in annual sales in Oregon, and Measure 97 would only have increased the tax on sales in excess of \$25 million. In every market category, the sales of firms affected by Measure 97 were less than 50 percent of all sales, and in most markets, far below 50 percent. And that is why it would have been difficult for the affected firms to increase their prices and pass on the extra cost of the tax. If they did, they would have lost customers to all the firms whose taxes did not rise.

Moreover, since the 1,000 firms affected by Measure 97 were the biggest tax freeloaders in the state, setting the tax high on them was fully warranted and sufficient to cover a \$1.6 billion budget shortfall and pay for an additional \$3 billion annually to save public education, health care and elder care from further deterioration. In other words, Measure 97 was carefully designed to raise revenues significantly and by unleashing the forces of competition to avoid the negative outcomes from broad GRTs in Ohio, Texas and Washington.

Ruthless and deceptive

Not only will the Joint Committee on Tax Reform’s proposal – 0.95 percent GRT on a business’ annual in-state sales in excess of \$5 million – be paid for almost entirely by consumers, as a “new tax on business”; it is also being cited as an excuse to eliminate the corporate income tax.

Because corporations have become so adept at hiding profits to avoid taxation, corporate income taxes have become a less effective way to raise revenues – which is why Measure 97 proposed a new, innovative strategy to make it much harder for large businesses to avoid paying their fair share of taxes. Nonetheless, Oregon does collect \$600 million annually in corporate income taxes

from businesses. Rather than gifting the business community \$600 million annually when we are desperately short of revenue, we should be plugging some of the most grievous loopholes in Oregon’s corporate income tax system that corporations take advantage of.


The major loophole is a gift to some of our largest corporations. Most states decide how much of a company’s income to tax by taking three factors into account: How much of its payroll, how much of its property holdings and what share of its sales were in that state? But Oregon switched to basing the decision on just one factor: the proportion of a company’s U.S. sales that take place in Oregon. This means huge employers with a big footprint in Oregon who sell most of their products out of state – companies like Intel, Nike, Greenbrier and Columbia Sportswear – now pay very little corporate income tax in Oregon, which is the main reason Oregon collects less of its tax revenues from corporations than any other state.

The truth is that we, and our elected legislators, find ourselves in a very bad situation. We desperately need to raise significant new revenue. The joint committee’s proposal is correct when it says that another Band-Aid that fails to increase revenues substantially would be a tragic mistake because public education in Oregon needs a big spending increase before it is too late. But we need to recognize that we are in this situation because the business community in Oregon simply refuses to pay its fair share of taxes. In effect, it is holding education in the state hostage: Revenue cannot be increased in any way that requires these businesses to pay more.


Adding a regressive stealth tax on consumers, which is what the deceptively labeled “corporate activity tax” proposed by the Joint Committee on Tax Reform actually is, while eliminating corporate income taxes is not the kind of tax “reform” Oregonians want or need. Instead, it is the kind of tax “reform” corporations dream about.

I guess they are just smarter than the rest of us because it looks like they know how to make their dreams come true, and are ruthless enough to engage in blackmail to get what they want.


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