

Oregon Tax Reform and The Commercial Activities Tax

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FTA Revenue Estimating Conference

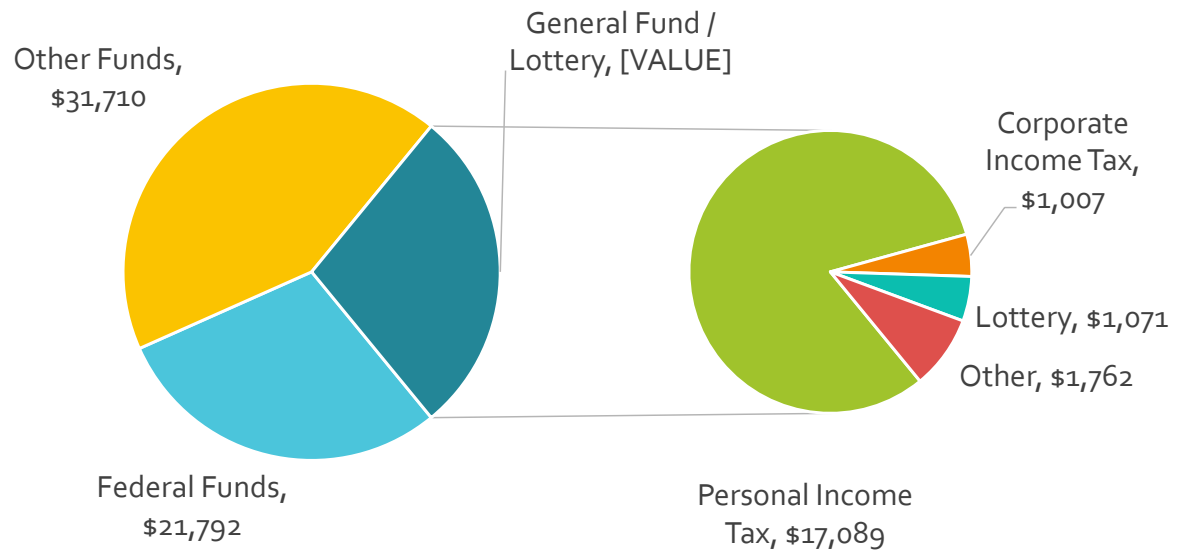
September 2017

Outline

- Oregon's revenue system
- Our history of tax reform work
- 2017 Efforts and the CAT
- Next Steps

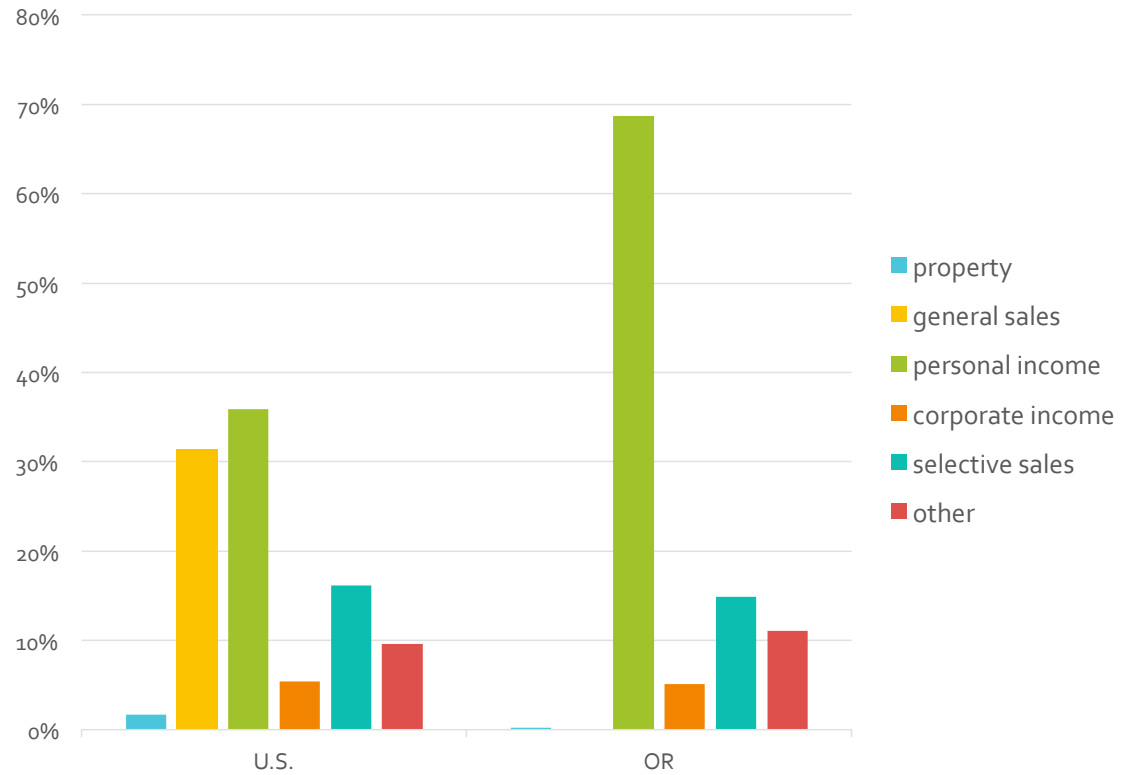
The Oregon Revenue System

All Funds:
\$74,432 Million



State Taxes By Source

(Fiscal Year 2013-14)



Biennial Revenue Change



Revenue Reform History

- 1990s
 - Reduction and limitation of property taxes
 - 9th rejection of a sales tax
 - **Governor's review of tax system**
- 2003-4: Rejection of temporary tax increases
- 2008: **Legislative Committee of Revenue Restructuring**
- 2009-10: Increase Personal & Corporate Income Taxes
- 2013: Reduce income tax rates for certain pass-thru entities
- 2015: LRO Report **Restructuring Oregon's S&L Revenue System**
- 2016: Ballot Measure 97

The Search for Adequacy, Equity, & Stability

- Property Tax
 - Reductions in 1990s
- Sales Tax
 - Defeated 9 times
 - Declining tax base
- Income Taxes
 - Personal and Corporate (volatility)
 - 2% Surplus Refund (Kicker)
- Business vs Household burdens
 - Perspectives on fair share (2016 Ballot Measure 97)
 - Corporation vs business
 - Role of sales tax

Legislative work in 2017

- Session Work
 - House Revenue
 - Bicameral workgroup
 - Joint Committee on Tax Reform
- Examples of Information Sources
 - Council on State Taxation
 - National Tax Journal
 - Tax Foundation
 - Ohio Tax Reform Task Force
- State Comparisons & Examples
- Simulations & Modelling

COST Study on Business Taxes

FY 2015

Business Taxes	U.S.	Oregon
Property	36.5%	35.9%
Sales	21.3%	----
Corp Income (Includes GRT/VAT)	9.5%	10.3%
Unemployment	6.5%	15.5%
Excise Taxes	5.7%	13.9%
Pass Through Income	5.5%	10.1%
All Other	15.1%	14.3%
Total	100.0%	100.0%
Business Taxes as Share of State & Local Taxes	44.1%	37.2%
Business Taxes as a Share of Private Sector GSP	4.6%	3.6%

Business Tax Reform Framework

- Broad base and low rate (minimize economic distortions)
- Destination based (competitive position for exporters)
- Simplification (eliminate the C-corporation income tax)
- Balance treatment across different business entity types
- Increased stability for the General Fund

Business Tax Base Options

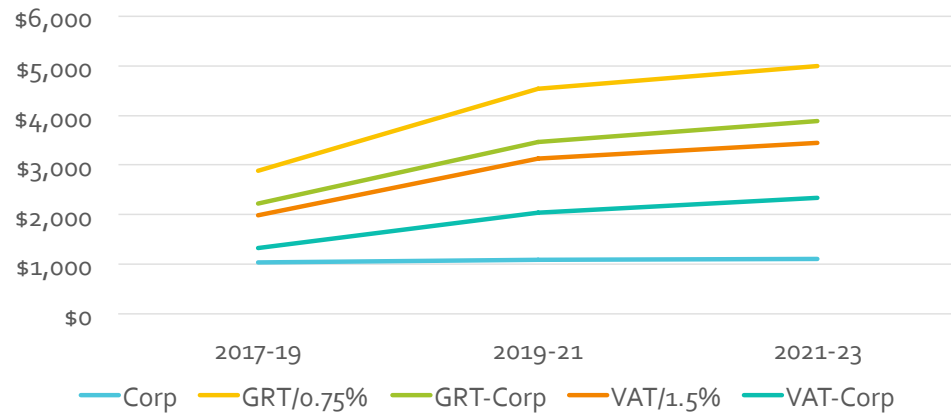
Tax Base	Strengths	Weaknesses
Corporate Income Tax	<ul style="list-style-type: none">• Companion to Personal Income Tax• Potential to export the tax• Destination based apportionment	<ul style="list-style-type: none">• Complexity• Narrow base / volatility• Slow growth• Nexus standards• Tied to federal policy, tax base
Value Added Tax	<ul style="list-style-type: none">• Tie to benefit equity standards• Broader base• Avoid pyramiding• Avoid Corporate nexus standards	<ul style="list-style-type: none">• Origin base creates competitive risk for exporters• Few operational examples• Partial shift to consumer
Gross Receipts Tax	<ul style="list-style-type: none">• Broadest base• Destination based• Avoid nexus issues• Ability to draw experience from other states	<ul style="list-style-type: none">• Potential for pyramiding• Partial shift to consumer

Types of Analysis

Source Data

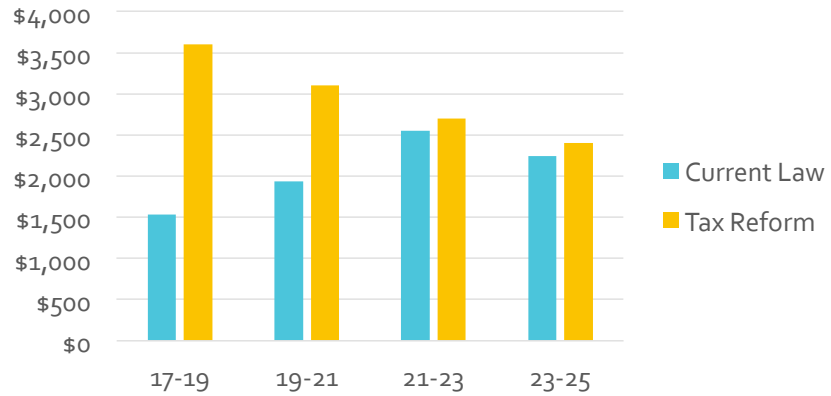
- Oregon Data
 - C- & S- corporation sales
 - Sole proprietor gross receipts
 - Partnerships, LLCs
- Ohio CAT
 - 2009-2016
 - By size, gross receipts
 - By sector
- Washington B&O
 - By size & sector
- Adjusted to Oregon
 - Gross State Product

Revenue Estimate \$M

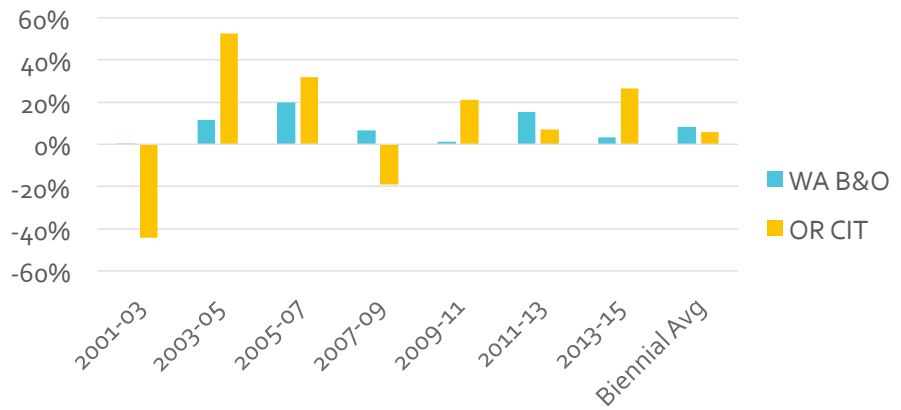


Types of Analysis

Growth \$M



Stability % Change



Types of Analysis

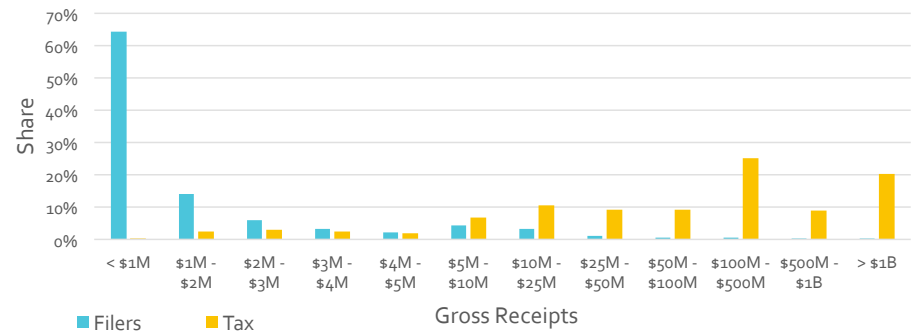
Examples

Simplified Examples of Trading CIT for CAT, \$M

		Cost of Goods Sold	Sales	Margin	Taxable Income	Income Tax	0.75% CAT	Difference
C-corporation	Retailer	\$315.1	\$500.0	2%	\$10.0	\$0.749	\$3.743	\$3.0
C-corporation	Manufacturer	\$392.8	\$750.0	3%	\$19.9	\$1.500	\$5.618	\$4.1
Sole Proprietor	Retailer	\$0.5	\$0.8	9%	\$0.1	\$0.006	min tax	
Sole Proprietor	Construction	\$2.2	\$5.0	18%	\$0.8	\$0.076	\$0.030	
Partnership	Law firm 10 partners	\$4.1	\$50.0	27%	\$13.6	\$1.019	\$0.368	
S-corporation	Consulting firm 10 shareholders	\$30.0	\$75.0	13%	\$9.8	\$0.718	\$0.555	
C-corporation	Software Designer <i>(All costs in OR; Sales are \$100M in OR, \$145M in ID)</i>	\$33.6	\$245.0	5%	\$12.1	\$0.908	\$0.743	-\$0.2
	Software Designer <i>(All costs in ID; Sales are \$100M in OR, \$145M in ID)</i>	\$33.6	\$245.0	5%	\$0.0	\$0.000	\$0.743	\$0.7

Distribution

OH CAT Filers and Tax



Dynamic Analysis - OTIM

HB 2830 -3 Simulation

(effective 1-1-2018):

6/14/2017

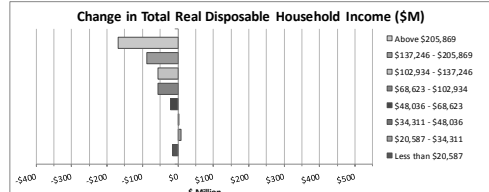
1. Eliminate Corporation Income Tax
2. Create a Commercial Activities Tax (\$250 + 0.48%/ .75%/ .25%/ .35%/ .15% of sales > \$3 million)
3. Include 25% CAT credit for PTEs
4. Change PIT rates from 5/7/9/9.9 to 4/6.75/8.8/9.9.9
5. Repeat preferential tax rates for PTEs
6. Increase EIC to 10%

2018 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
Private Sector				
Nominal Personal Income (\$M)	\$197,714	\$197,736	+\$22	+0.01%
Nominal per capita Personal Income (\$M)	\$47,075	\$47,062	-\$13	-0.03%
Employment (Thousand)	2,590.7	2,593.7	+3.0	+0.12%
Population (M)	4,200	4,202	+0.002	+0.04%
Investment (\$M)	\$16,477.31	\$16,515.91	+\$39	+0.23%
Wage Index	100.0	99.80	-0.20	-0.20%
Return to Capital	100.0	100.06	+0.06	+0.06%
Price Levels	100.0	100.15	+0.15	+0.15%
Public Sector				
State Spending (\$M)	\$27,966	\$28,347	+\$381	+1.36%
GF Revenue (\$M)	\$8,759.52	\$9,141.57	+\$382	+4.36%
OF Revenue (\$M)	\$19,206.36	\$19,204.97	-\$1	-0.01%
Local Gov Revenue (\$M)	\$17,002.88	\$17,017.63	+\$15	+0.09%
Federal Tax Paid by Oregonians (\$M)	\$35,913.27	\$35,932.42	+\$19	+0.05%

Static Revenue Impact (\$ Millions)	+383
Dynamic Revenue Impact (\$ Millions)	+512
Net Revenue Impact (\$ Millions)	+\$895
General Fund Change (\$ Millions)	+332
Other Funds Change (\$ Millions)	-\$1
Local Revenue Change (\$ Millions)	+\$15

Total Real Disposable Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Hholds	Mean Income Change per HH (\$)
Above \$205,869	\$35,666	\$35,497	-\$168.3	-0.5%	-180	-\$1,105
\$137,246 - \$205,869	\$31,411	\$31,322	-\$88.4	-0.3%	-166	-\$346
\$102,934 - \$137,246	\$24,463	\$24,407	-\$56.7	-0.2%	-90	-\$237
\$68,623 - \$102,934	\$29,974	\$29,917	-\$56.7	-0.2%	6	-\$183
\$48,036 - \$68,623	\$19,776	\$19,755	-\$20.9	-0.1%	222	-\$143
\$34,311 - \$48,036	\$13,363	\$13,364	+\$1.1	0.0%	401	+\$125
\$20,587 - \$34,311	\$11,714	\$11,723	+\$8.3	0.1%	476	-\$89
Less than \$20,587	\$9,867	\$9,853	-\$14.0	-0.1%	24	-\$65
TOTAL	\$176,253	\$175,858	-\$394.7	-0.2%	693	



- Metrics of Interest
 - Personal Income
 - Employment
 - Investment
 - Wage Index
 - Price Levels
 - Household Incidence

What's Next?

Open Questions

- Insurance Companies
- Financial Institutions
- Pass-Thru Entities

Into 2018 and 2019

- 2018 Ballot Measure
 - Initiative 27
 - Other?
- Interim legislative work
 - Volatility and reserve fund management
 - C-corporation changes
 - Pass-thru entities

For More Information

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