



Q&A: Let's Raise Oregon's Corporate Income and Minimum Taxes

What do we do now?

We tax corporations at 6.6%, with a top rate of 7.6% on income over \$1 million and individuals at 5, 7, 9% with a top rate of 9.9% on income over \$125,000. What if we had c-corporations pay exactly what other taxpayers pay in income tax? And since c-corporations figure their taxes two ways – corporate income tax or the business minimum tax – and pay the higher of the two, we should also increase our minimum tax from 0.1% capped to 0.3% uncapped.

Consideration should also be given to expecting all businesses to pay either the income tax or the business minimum tax, whichever is higher.

Where do our corporate taxes rate for competitiveness?

The business competitiveness analysis by the Council on State Taxation finds that Oregon is next to the bottom of the states in terms of the business share of state tax revenue and the third lowest for both state and local share of business tax revenue.¹ Our corporate income tax revenue is so low that it is below our lottery revenue.

Our low taxation of business matches our low graduation rates. The rankings call us tax friendly. That also makes us kid unfriendly.

Why continue to have two kinds of businesses taxes?

Corporations doing business in Oregon currently figure their taxes two ways and pay the highest of the two. We propose increasing rates on both types. Some will pay taxes based on their sales in Oregon, some on their profits.

Since some businesses have low profitability while others have high profits, this assures that all businesses participate in funding the services all businesses use. Just as we expect citizens with high incomes to pay more than those with low incomes, we should continue to expect high profit businesses to pay a robust income tax. At the same time the minimum tax is important since many firms use accounting strategies to avoid

¹ Council on State Taxation report on FY17 State and Local Business Tax Burden Study, places Oregon as 50th of 51 states (includes DC) <https://cost.org/state-tax-resources/cost-studies-articles-and-reports/>

paying taxes even when they are profitable.²

How much will this increase Corporate tax rates?

Top Income Tax rates for high profit businesses will increase from 7.6% to 9.9%.
The Minimum Tax will increase from a capped 0.1% to an uncapped 0.3%.

How much increased state revenue can Oregon expect with these changes?

LRO estimates the changes will produce around \$1.1 billion in increased revenue, roughly doubling average receipts from corporations.³

² For example, the New York Times reported on October 13th, “Confidential documents reviewed by The Times indicate that Jared Kushner, President Trump’s son-in-law and adviser, probably paid little or no income tax from 2009 to 016” even though his net worth quintupled.

³ The most recent revenue forecast estimates corporate tax receipts at \$1.4 billion this biennium, <https://olis.leg.state.or.us/liz/201711/Downloads/CommitteeMeetingDocument/152713 slide 16>, while their estimate for the tax changes: rates to = to individual rates and brackets, minimum to .3% uncapped, and elimination of the pass-through tax break is \$1.1 billion/biennium for a full biennium.

Tax Comparisons

States with highest Corporate Income tax rates

*States with sales tax

| | | | |
|--------------|--------|-------------|-------|
| Iowa | 12.00* | Maine | 8.93* |
| Pennsylvania | 9.99* | California | 8.84* |
| Minnesota | 9.80* | Delaware | 8.70 |
| Illinois | 9.50* | Vermont | 8.50* |
| Alaska | 9.40* | Connecticut | 8.25* |
| New Jersey | 9.00* | D.C. | 8.25* |
| | | Maryland | 8.25* |
| | | MA & LA | 8.00* |

Corporate Minimum Taxes – Base rates

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|--------------|-----|
| California | 800 |
| Rhode Island | 500 |

And where will we rank in state competitiveness?

An additional billion in business taxes will move us from 2nd lowest to 11th lowest, so still well below average and below both Washington State and California.

What are the minimum tax rates in other states?

The names of taxes based on receipts vary from state to state, have varying thresholds for requiring their taxes or allow some deductions, but the rates with taxes similar to our Minimum Tax are:

- Texas Franchise: 0.75% for most businesses, 0.375 for retail & wholesale with deductions
- Washington B&O: 1.5% for service and most other businesses, 0.484 to 0.471 for wholesale, manufacturing and retailing.
- Nevada Commerce Tax: 0.331 to 0.051% for most, 3.5 to 6.75% for gaming + MBT of 1.475% of payroll
- Ohio Commercial Activity Tax: 0.26%
- Oregon Proposal: 0.3%

| | |
|---------------|-----|
| New Jersey | 500 |
| Massachusetts | 456 |
| Connecticut | 250 |
| Vermont | 250 |

Corporate Franchise, B&O, Commerce, and Commercial Activity Tax Rates

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Washington 1.5% for most businesses, .484 to .471 for wholesale, retail & manufacturing
Nevada .331 to .051% for most, 3.5 to 6.75% for gaming + MBT of 1.475 of payroll
Ohio base of \$150 to \$2600 + 0.26 over \$4 m

Corporations and people also pay sales tax in most states

With *average* state and local tax rates ranging from 1.75% (Alaska) to 10.02% (Louisiana)
Alaska has no state sales tax but allows cities to tax up to 7%
Businesses pay 42% of sales taxes according to COST studies.
States with no sales tax: Delaware, New Hampshire, Montana and Oregon.

Highest Personal Income Tax Rates 2017

*States with Sales Tax

| | |
|------------|--------|
| California | 13.30* |
| Iowa | 9.98* |
| Oregon | 9.90 |
| MN | 9.85* |
| NY | 8.82* |

How do corporate and individual income tax rates compare in other states? Oregon is one of only 13 states that taxes corporate income at a lower rate than personal income. Seven states have the same top income tax rates for all taxpayers: Colorado, Idaho, Kentucky, Mississippi, Utah, West Virginia and Georgia. Most states have higher tax rates for corporations, in some cases, significantly higher. For example, the rates are 9.9% vs 3.07% in Pennsylvania, 6.5% vs 3% in Tennessee, 8% vs 5.1% in Massachusetts, and 9.5% vs 4.95% in Illinois.

If corporations pay the same rates and brackets as individual Oregon taxpayers, where will that put us in comparison to other states?

Our increased corporate income tax rates will move Oregon into the top echelons for rates, joining Iowa, Pennsylvania, Minnesota, Illinois, Alaska, and New Jersey which all have tax rates of 9.0 or higher. Our minimum tax rate will still be below most states.

And the fact that Oregon has no sales tax will still benefit corporations significantly since businesses pay 42% of sales taxes on business to business sales according to the Council on State Taxation study.⁴ In fact, businesses nationally actually pay 2 ½ times as much in sales tax as in state income tax.

Why 5,7,9 & 9.9% rather than just 9.9%

The difference means a tax savings of \$1361 to a c-corp, but it creates a persuasive argument for the whole tax change. Since corporations want to be treated like people, they should be treated just the same as any 24-year old paying income taxes. Further, all business types will pay the same income tax rates, whether sole proprietor, partnership, s-corp or c-corp. Since it doesn't matter to the customer or the state how the business is organized, this makes sense. More importantly, it is emotionally persuasive, and will help carry the day if the changes are referred to voters.

Oregon has high personal income taxes, certainly we should expect business taxes to also be high, given the absence of a sales tax.

⁴ States collect on average 42% of their sales tax from business inputs
<https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/the-best-and-worst-of-state-sales-tax-systems-august-17-2018-final.pdf>

