

OREGON  
BUSINESS  
& INDUSTRY



TESTIMONY

Joint Committee on Student Success  
Subcommittee on Revenue

Mike Stober  
February 7, 2019

# Presentation Overview

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1. OBI Introduction and Overview
2. Context and History of OBI's Work on the Business Activity Tax
3. OBI Tax Policy Principles
4. Business Activity Tax Basics and Comparison to a Gross Receipts Tax
5. Questions

# OBI Introduction and Overview

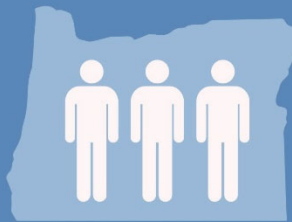
## Who Are Members?

OBI is Oregon's largest and leading business association representing more than

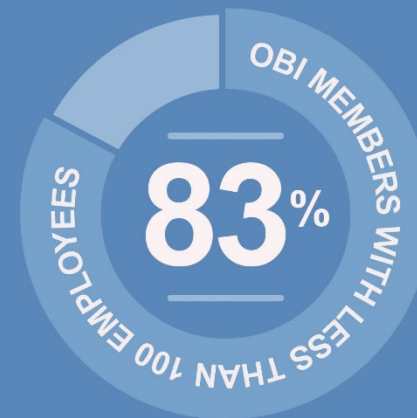


**1,600 BUSINESSES**

THAT EMPLOY  
**300,000**  
OREGONIANS



Eighty-three percent of OBI members have fewer than 100 employees.



# Context and History

## Business Activity Tax Work

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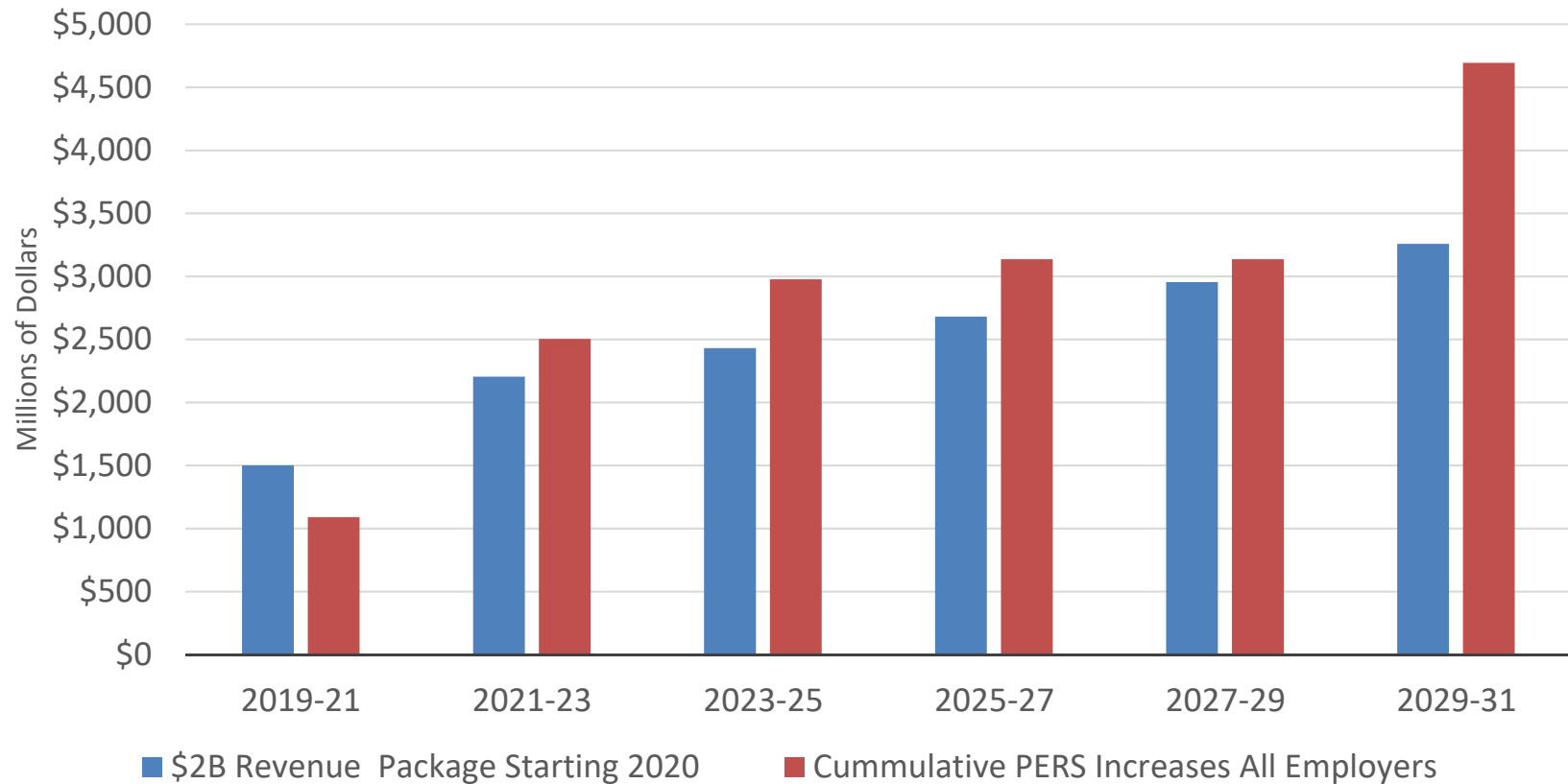
- Oregon Business Plan Partners – OBI, OBC, PBA
- State Tax Research Institute Consultants
  - Bob Cline
    - Tax Research Director for Michigan and Minnesota
    - National Director of State and Local Tax Policy for EY
    - Worked on tax policy or reform in 45 U.S. states.
  - Tom Neubig
    - EY's Director of Quantitative Economics and Statistics
    - Director and Chief Economist of the U.S. Treasury Department's Office of Tax Analysis
    - Deputy Head of Tax Policy and Statistics at the OECD

# Context and History (Continued)

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- We been vetting tax and spending policy options widely
  - OBI Tax Policy Steering Committee
  - OBI, OBC, and PBA Boards of Directors
  - Dozens of business and industry associations
  - Chambers of commerce across the state

# \$2B Revenue Package and PERS



- \$2bn Business Entity Tax (BAT OR GRT) Grows at 5% per year per LRO Public Finance Basic Facts 2019
- PERS Costs Calculated Using Milliman PERS Rate Increase Projection (50<sup>th</sup> percentile) and Payroll Growth Assumptions (December, 2018 Board Presentation)

# OBI Tax Policy Principles

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- Broad base (no favorites among industries)
- Level playing field (similar impacts among competitors)
- Recognize needs of low-margin businesses
- Support economic, employment, and wage growth
- Reduce volatility of state revenues and promote stability through reserves and fiscal discipline

# Business Activity Tax Basics

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- Value-added (consumption) base equals total sales minus business input purchases, including all capital purchases.
- Applies to all business structures.
- Excludes value added on exports; includes value added on imports (100% destination sales apportionment – market-based sourcing concept).



# Business Activity Tax Basics (continued)

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- Small Business Exemption - \$500,000
- Other Exemptions
  - Government Services
  - Charities
  - Public/nonprofit universities
  - Financial Services and Insurance
- Companies in a Loss Position

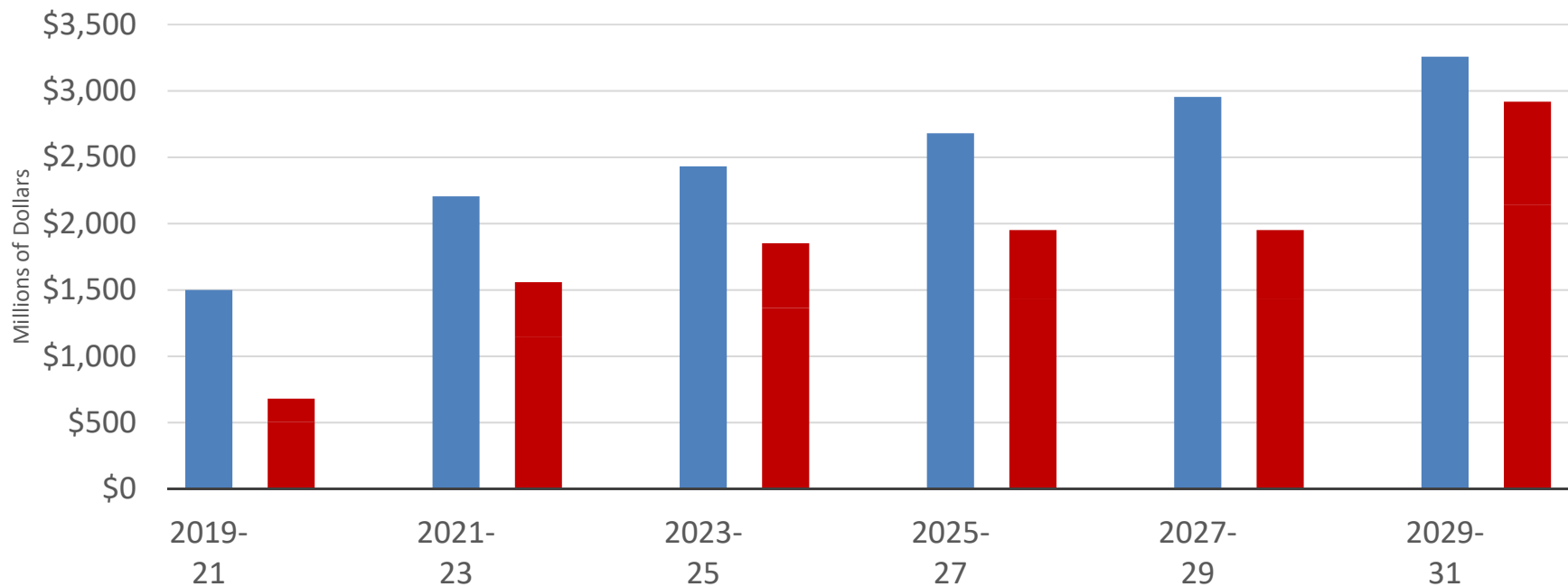
# Business Activity Tax – Gross Receipts Tax Comparison

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- Insert OH CAT Manufacturing Example

# Business Activity Tax – Gross Receipts Tax Comparison



- Cumulative non-G/LF Covered PERS Increases for State Agency + Schools
- Cumulative PERS Increases for State Agencies, Schools and Public Universities

# Business Activity Tax – Gross Receipts Tax Comparison (Continued)

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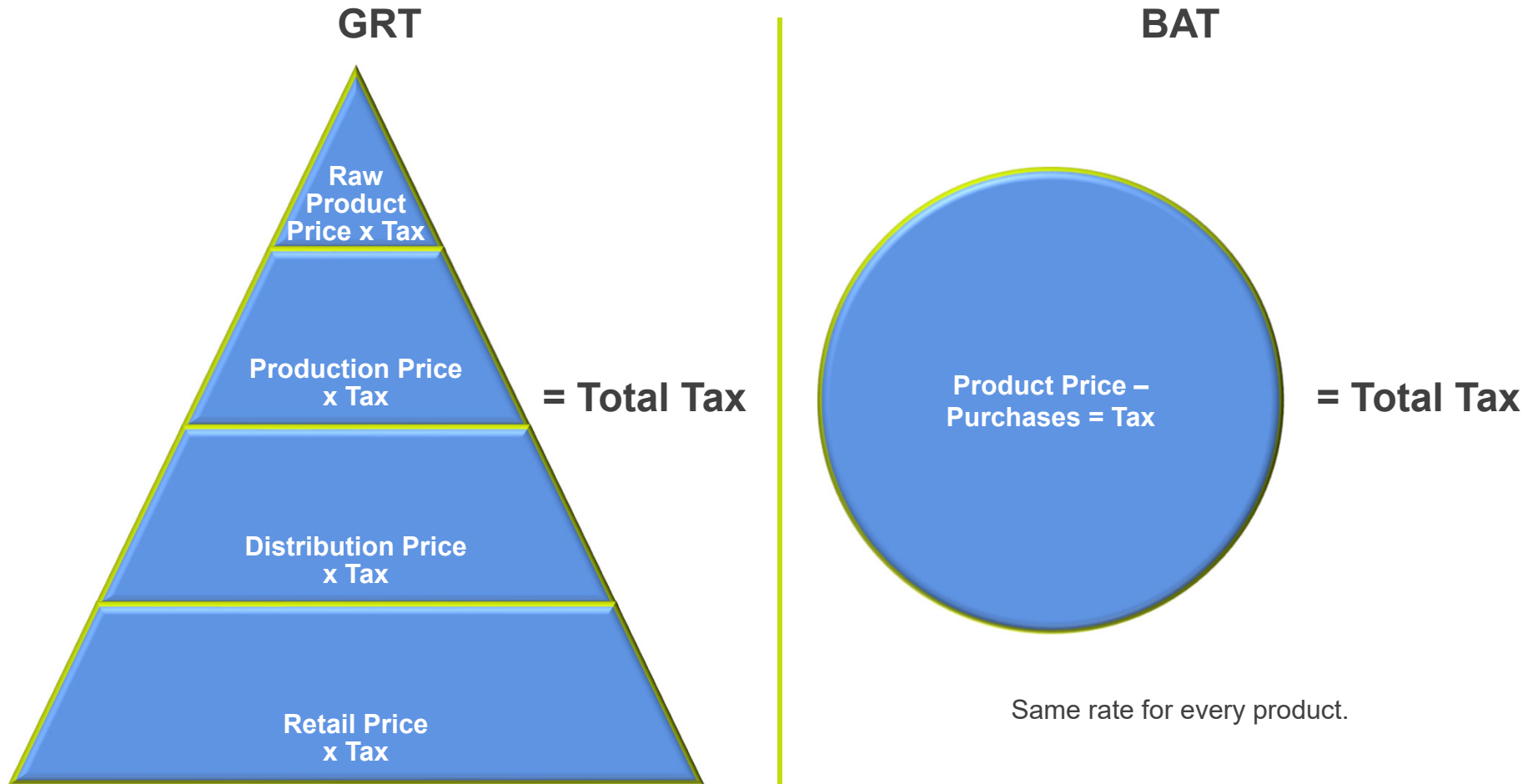
- Washington State Pyramiding Study
- On average, the effective gross receipts tax rate = 2.5 times the statutory rate.
- Industries:
  - 6.7 times for food manufacturing
  - 4.1 times for apparel/textile manufacturing
  - 3.3 times for construction
  - 1.8 times for professional services
  - 1.5 times for utilities

# Business Activity Tax – Gross Receipts Tax Comparison (Continued)

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- Reducing the competitiveness of Oregon businesses
- Distorting consumer purchases of goods/services
- Distorting firm production decisions

# Business Activity Tax – Gross Receipts Tax Comparison



Differing effective tax rates based on production process.

Same rate for every product.

# FAQs

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- Does this tax penalize hiring by taxing labor?
- Is the Business Activity Tax subject to avoidance?
- Will it be hard to implement a Business Activity Tax?

Questions?