Corporate Tax Reform Could Boost Education Funding in **Oregon**

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Oregon could again explore corporate tax reform, including the possibility of a gross receipts tax or some form of a value added tax, to boost funding for schools.

Gov. Kate Brown (D) proposed roughly $2 billion in new education spending in her 2019–2021 biennial budget and to secure that funding, lawmakers "will more than likely [consider] a combination of revenue changes centered around the business tax," according to Senate Finance and Revenue Committee Chair Mark Hass (D). He said the Joint Committee on Student Success, of which Hass is a member, developed detailed recommendations for investments the state should make to improve its schools in anticipation of seeking additional funding.

Hass told *Tax Notes* January 2 that there are several possible tax reform ideas that could be considered to boost revenue for schools. For example, the gross receipts tax he backed in 2017 to replace the state's corporate income tax, is "turnkey" and ready for further discussion, according to Hass. The proposal stalled after months of debate, but Hass said the tiers for the tax, as well as some exemptions — for example, for agriculture — had been worked out. "We still could do that," he added.

Hass said that while he would prefer to have a new business tax, such as a gross receipts tax, replace the state's corporate income tax, other stakeholders may prefer keeping a version of the corporate income tax along with a new business tax. He also noted that he supports a reduction in the personal income tax as part of any major plan to reform and increase state business taxes.

Another business tax reform proposal that could be considered is one that has been raised by state business interests and is somewhat analogous to a value added tax, Hass said. Specifically, **Oregon** business leaders have suggested taxing businesses' revenues minus the cost of their purchases from other companies. A version of the proposal was included in the December **Oregon** Business Plan, a set of policy recommendations developed by business leaders in the state. "The tax only applies to the value being added by the company paying the tax," according to the proposal.

Hass said the proposal could be part of the discussion to generate additional revenue for education. The business plan urges that such a tax be levied at a low rate, apply to all business types, and be accompanied by "significant" reductions to other business and personal income taxes. According to the plan, "On a revenue-neutral basis, such a tax could reduce **Oregon**'s reliance on income taxes, improve revenue stability, and make **Oregon**'s tax code more like other states." Hass said in an email that a presentation of the proposal he'd gotten from business leaders would increase total revenue as a means to help fund additional education spending.

Business stakeholders appear less interested in a gross receipts tax, arguing in the **Oregon** Business Plan that such levies create a risk of tax pyramiding.

Hass said another option would be to simply increase the existing corporate income tax and minimum tax.

Tax Fairness **Oregon** founder Jody Wiser told *Tax Notes* January 3 that she supports that idea. “We should improve the two taxes we currently have,” she said, arguing that the state should increase the corporate income tax rates to match the personal income tax, remove the $100,000 ceiling on the state’s corporate minimum tax, and replace the current minimum tax schedule with a 0.3 percent tax on minimum taxpayers’ revenue over $500,000.

Wiser said increasing existing business taxes would be simpler and more likely to succeed, and said she’s skeptical that either the gross receipts tax or the VAT-style tax proposal will be approved in the legislature. Notably, conservative **Oregon** tax watchdogs previously attacked Hass’s gross receipts tax proposal as a "sales tax," a levy the state does not currently impose.

Hass said he believes the business community's interest in tax reform is a positive sign for the upcoming session, and that the work done by the Joint Committee on Student Success to identify how to invest new education funding could provide needed momentum to discussions about tax reform. He also acknowledged that any major tax reform could prove difficult, even with increased Democratic legislative majorities.

“There’s this perception that Democrats love taxes,” he said. “These are hard votes. . . . But I think if we don’t overreach, we can be successful.”

Hass said he thinks it’s important for lawmakers to approve a reduction in the state’s personal income tax as part of any major business tax reform and increase. “I have seen tax modelling,” he said. “When you cut the income tax even modestly, it’s like rocket fuel for the economy. . . . If you do that coupled with a gross receipts tax, you actually have a positive effect on the economy; you’re growing jobs; good things are happening.”

According to Hass, the “sweet spot” for increased business tax revenue — that is, the level of taxation that would generate the most money without significantly hurting the state’s economy — likely wouldn’t generate the full $2 billion Brown wants for new education spending, suggesting that a significant amount of money may need to come from savings elsewhere in the budget.

Another element Hass said he'd like to see included in any final state tax reform package is restricting the use of a special low tax rate for passthrough income from some S corporations, partnerships, and sole proprietorships. Hass — who has previously backed restrictions on the tax break — argued that rate has disproportionately benefited high earners, such as attorneys and doctors, and that tightening the rules to exclude such taxpayers would be fairer and would generate additional revenue for the state.

A bill (S.B. 211) approved for introduction in the 2019 session, which is scheduled to begin January 22, would seek to limit the amount of passthrough income eligible for the reduced state tax rate. Such income would also have to be eligible for the new federal deduction for passthrough income created by the Tax Cuts and Jobs Act to claim the lower rate, according to the bill's description.

“I think what makes the most sense on that one is [to] just conform it to the federal” deduction rules, Hass said. “Once we do that, I think we’ll take out the professionals that this particular [state] tax cut wasn’t intended to help.”

DOCUMENT ATTRIBUTES

JURISDICTIONS	OREGON
SUBJECT AREAS / TAX TOPICS	GROSS RECEIPTS TAX VALUE ADDED TAX TAX POLICY TAX REFORM LEGISLATION AND LAWMAKING
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