



Tax burden analysis of state and local tax changes on businesses in Oregon

November 2020

Analysis performed by EY's Quantitative Economics and Statistics Team (EY QUEST)

Summary and overview

4 state tax changes

3 enacted local tax changes

5 local ballot initiatives

Findings

1

Large increase in state business taxes

\$1.8 billion for a 41% increase in business taxes once all taxes fully phased in (by 2022)

2

Increase in state TEBTR (Business Taxes/ GSP)

Tax changes result in an increase in total effective business tax rate from 2.0% to 2.8%

3

Oregon goes from 40th highest in state taxes to 19th highest

Based on FY19 COST 50-state tax burden analysis

4

COVID-19 is disrupting revenue for state governments, but results completed at FY19 levels still hold

Expected revenue from businesses in FY22 is similar to modeled FY19

5

Local tax changes (recently and November ballot) would increase Portland business taxes by 23%

Portland businesses affected by city, county, and Metro tax changes

6

Statewide the local TEBTR increases from 1.8% to 2.0%

Local statewide TEBTR post-tax changes is still below the US local average

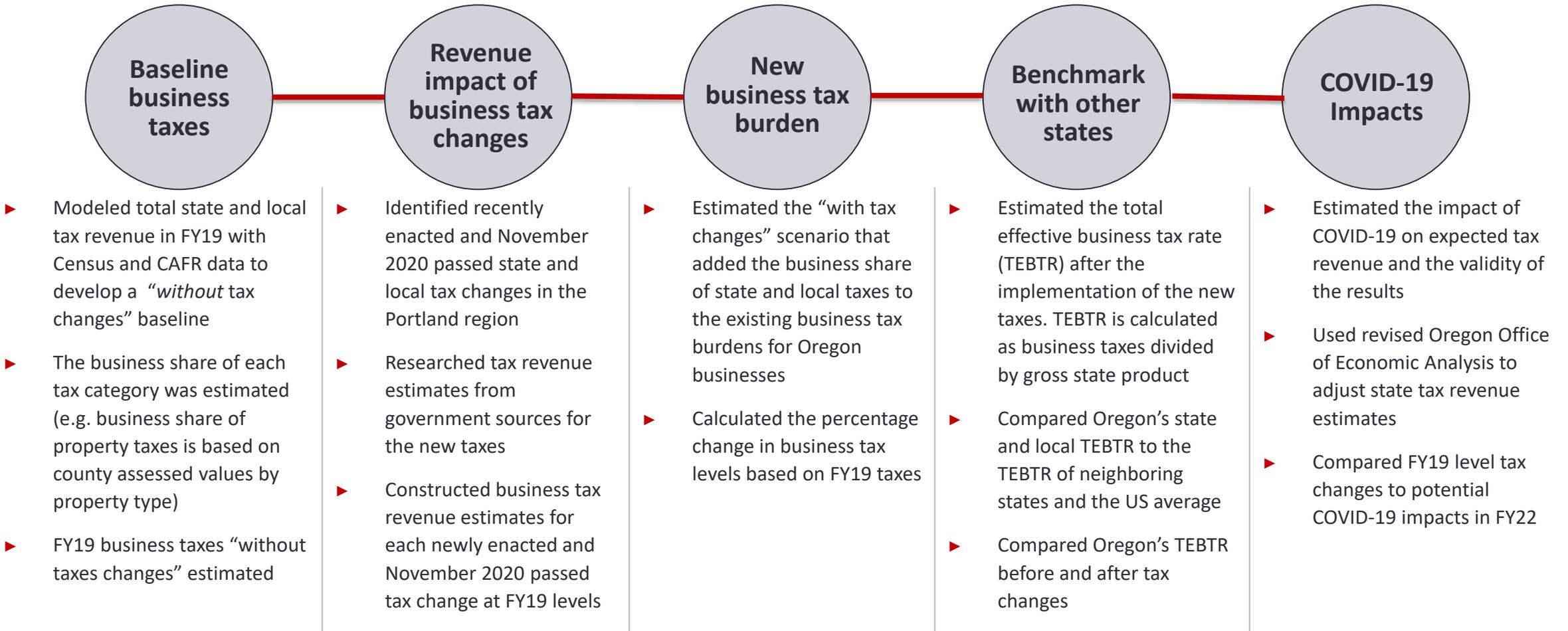
7

Oregon total TEBTR increases from 3.8% to 4.8%

The statewide total TEBTR increases above the national average as a result of statewide and local business taxes

Overview of approach

- ▶ **Objective:** Estimate change in business tax levels due to recently enacted and passed state (Oregon) and local (Portland-area) tax changes and compare how this effects Oregon’s tax competitiveness



State tax changes in analysis mean \$1.8 billion in new business taxes (once fully phased in by 2022)

Summary of recently enacted Oregon tax changes:

Tax change	Short Description	Effective Date	Annual total revenue estimate (FY19 levels)	Business Share	Business taxes FY19 levels
Corporate Activity Tax	\$250 + 0.57% of taxable gross receipts	1/1/2020	+\$1.1 billion	100%	+\$1.1 billion
Individual Income Tax	Reduction in rates for three lower brackets to 4.75%, 6.75%, and 8.75%	1/1/2020	(\$253 million)	10%	(\$25 million)
Healthcare Provider Tax	Extension of tax and rate increase from 1.5% to 2.0%	1/1/2020	+\$267 million	100%	+\$267 million
Paid Family Medical Leave	1% payroll tax	1/1/2022	+\$1.12 billion	40%	+\$448 million
Total					+\$1.8 billion

Source: EY summary based on public documents of enacted and proposed tax changes
 Figures may not sum due to rounding

Portland region enacted local tax changes mean \$177M in new business taxes (once fully phased in 2021)

Summary of recently enacted Portland regional tax changes:

Tax change	Short Description	Effective Date	Annual total revenue estimate (FY19 levels)	Business Share	New Business Tax Burden*
Portland gross receipts tax	1% gross receipts tax on large businesses (New tax)	1/1/2019	\$50 million	100%	\$44 million
Multnomah County business income tax	Increase in business income tax rate from 1.45% to 2.0% (Rate increase of existing tax)	1/1/2020	\$137 million	100%	\$38 million
Metro income tax (housing support)	1.0% tax on income above \$125K for single filers and \$200K for joint filers Large businesses pay 1% tax on business profit (New tax)	1/1/2021	\$169 million – personal income tax \$79 million – business income tax	10% of individual income taxes; 100% business income taxes	\$17 million (personal income) \$79 million (business income)
Total					+\$177 million**

*Since the Portland gross receipts tax and the Multnomah County business income tax were factored into the baseline scenario for FY 2019 , EY modeled only the revenue due to rate increases for these particular taxes

**Figure may not sum due to rounding

Source: EY summary based on public documents of enacted and proposed tax changes

Portland region tax changes passed on the November ballot added another \$52M in new business taxes (once fully phased in 2022)

Summary of Portland regional tax changes passed and rejected for the November, 2020 ballot:

Tax change	Short Description	Effective Date	Annual total revenue estimate (FY19 levels)	Business Share	New Business Tax Burden
Portland parks property tax	\$0.80 per \$1,000 of assessed property value (New tax)	1/1/2021	\$48 million	39%	\$20 million
Portland public school debt property tax	\$2.50 per \$1,000 of assessed property value (Continuation of existing tax)	1/1/2021	\$125 million	39%	\$0*
Multnomah County individual income tax	1.5% tax on income above \$125K for single filers and \$200K for joint filers; 3.0% tax on income over \$250K for single filers and \$400K for joint filers (New tax)	1/1/2021	\$133 million	10%	\$13 million
Multnomah County library property tax	\$0.61 per \$1,000 of assessed property value (New tax)	1/1/2021	\$47 million	39%	\$19 million
Metro payroll tax	Up to 0.75% payroll tax** (New tax)	Voters rejected	\$300 million	100%	\$300 million
Total					+\$52 million

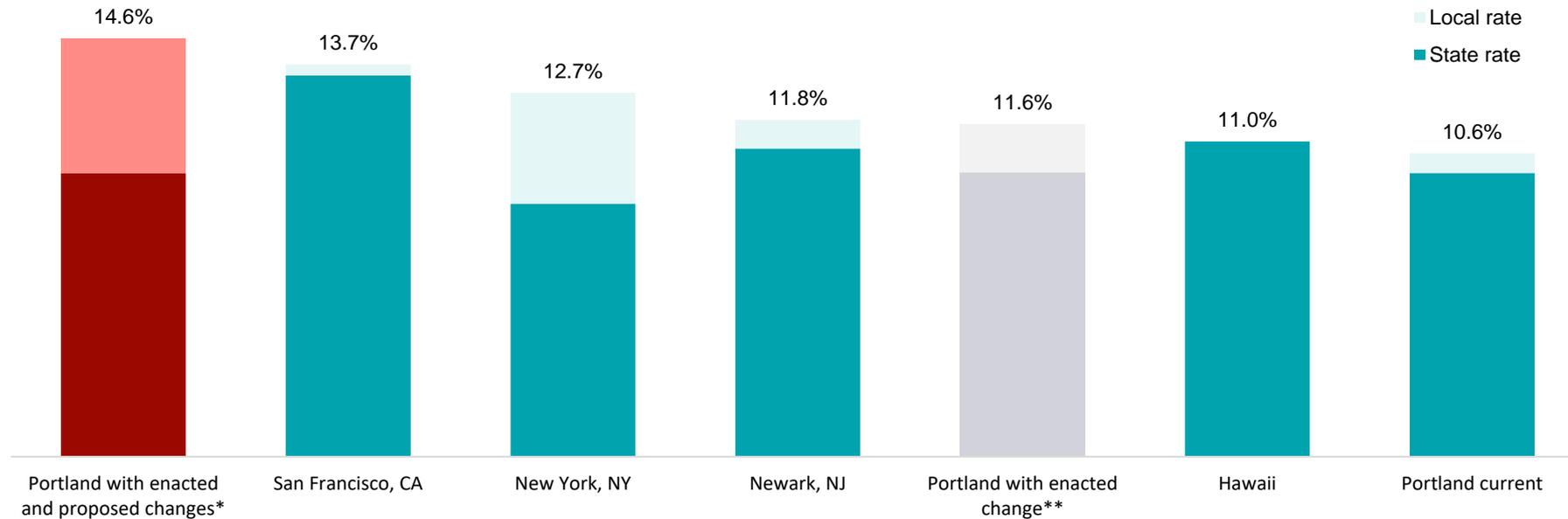
*Since the Portland public school property tax is the continuation of an existing levy, it does not increase the business tax burden relative to the 2019 baseline scenario

**\$300 million revenue estimate assumes payroll tax at the maximum of 0.75%

Source: EY summary based on public documents of enacted and proposed tax changes

Portland combined top local and state income tax rate would become the highest in the United States

Highest state and local individual income tax jurisdictions in the United States with Portland proposed and enacted tax changes



*Includes the recently approved Metro income tax for supportive housing and the proposed Multnomah County high earner income tax to fund preschool programs that is on the November 2020 ballot. This rate would increase further in 2026 by 0.8% (not shown here).

**Includes only the approved supportive housing Metro income tax and not taxes on the November 2020 ballot

Note: Only one jurisdiction per state is shown

- ▶ Portland's combined top local and state income tax rate would become the highest in the United States with the proposed and enacted income tax changes affecting Portland residents at a combined rate of 14.6%
- ▶ With just the enacted changes, the combined rate increases to 11.6%, the fourth highest jurisdiction in the United States

State tax changes increase business taxes 41% (\$1.8 billion)

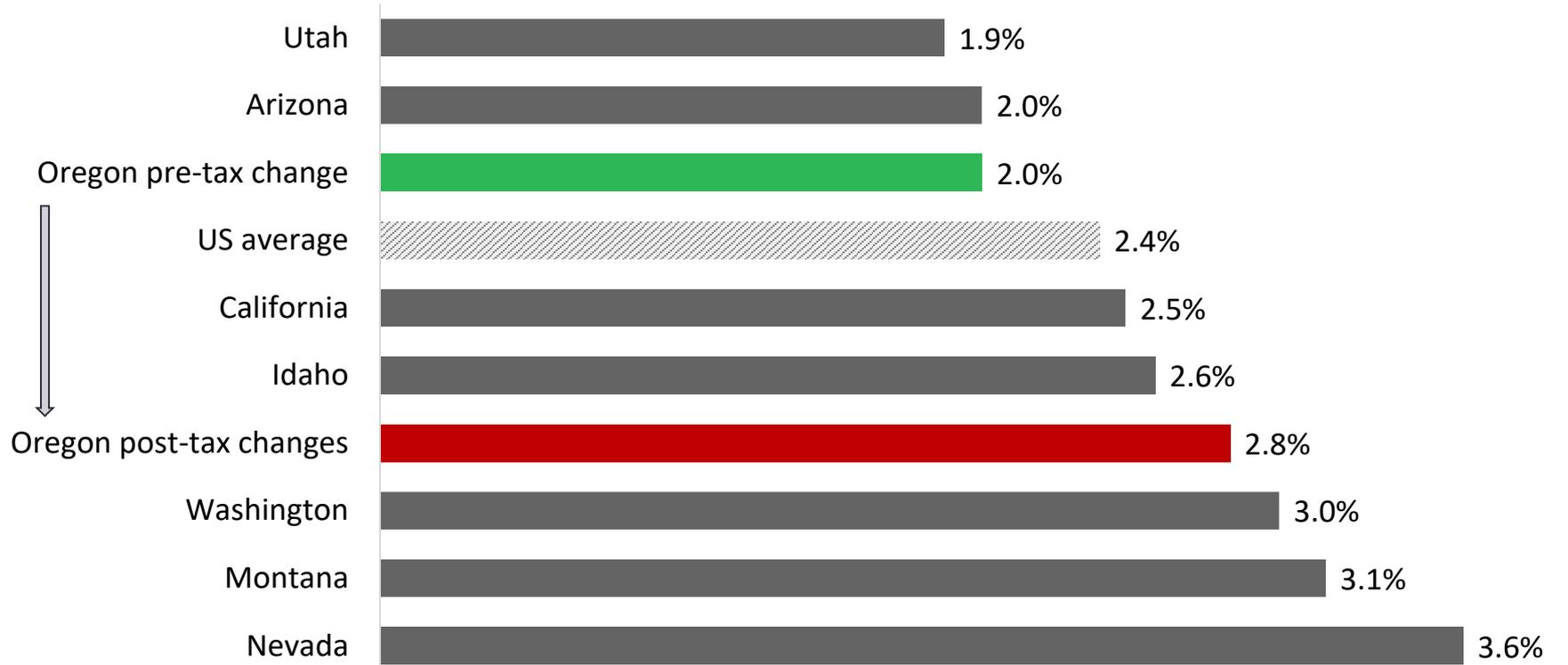
Category	Actual business taxes FY19	Estimated business taxes with tax changes (at FY19 levels)	Tax change amount (dollars)	Percentage Change
Property taxes on business property	\$9.8	\$9.8	\$0.0	0%
Corporate income tax	\$910.9	\$910.9	\$0.0	0%
Corporate Activity Tax (CAT)	\$0.0	\$1,066.7	\$1,066.7	New tax
Individual income tax on business income	\$989.7	\$964.3	-\$25.4	-3%
Excise taxes (includes healthcare provider tax)	\$664.2	\$930.8	\$266.6	40%
Business and corporate license	\$637.1	\$637.1	\$0.0	0%
Unemployment insurance	\$924.0	\$924.0	\$0.0	0%
Paid Family Medical Leave Program	\$0.0	\$448.0	\$448.0	New tax
Public utility taxes	\$8.5	\$8.5	\$0.0	0%
Insurance premium taxes	\$80.6	\$80.6	\$0.0	0%
Other business taxes	\$16.3	\$16.3	\$0.0	0%
Total business collections	\$4,241.3	\$5,997.1	\$1,755.8	41%
State Gross State Product	\$214,815.8	\$214,815.8		
Business taxes as % of Gross State Product	2.0%	2.8%		

Note: Dollars in millions

Oregon's state ranking falls from 10th lowest to 19th highest nationwide

State total effective business tax rate (TEBTR) comparison for Oregon and neighboring states, FY19

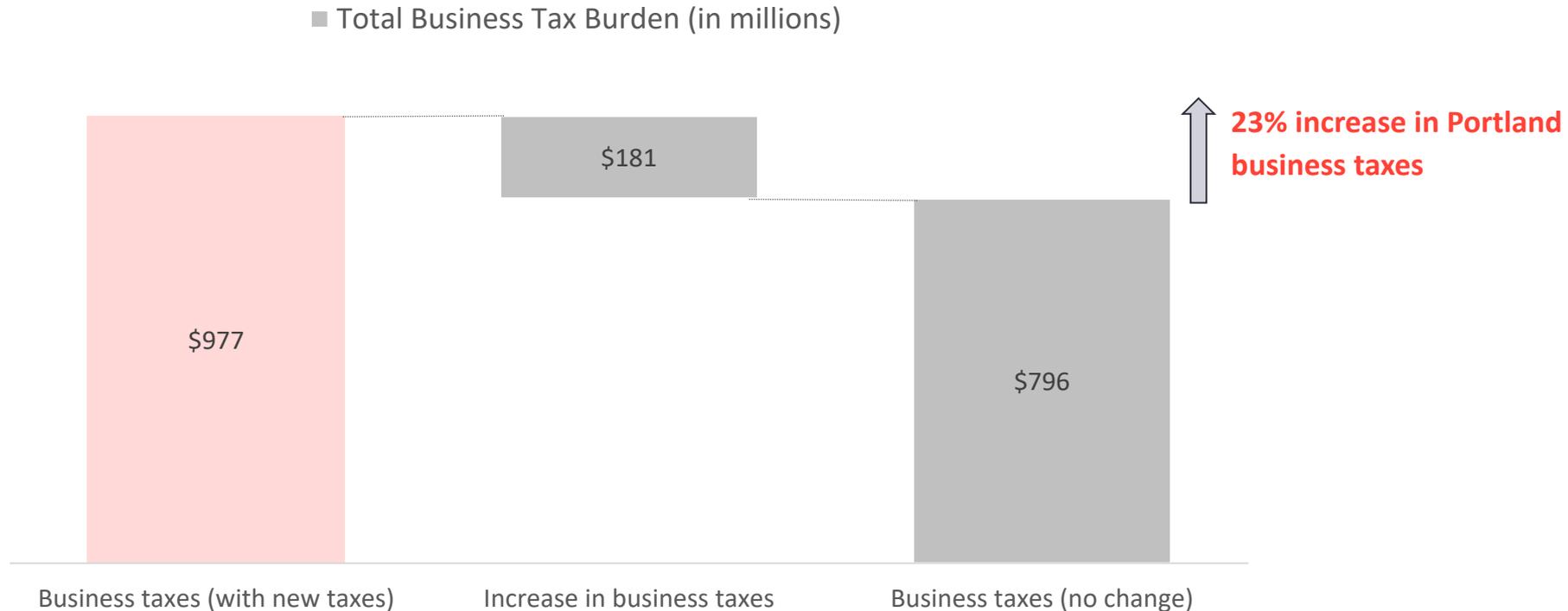
- ▶ Prior to the state tax changes, Oregon's TEBTR of 2.0% is lower than the US average and is the 40th highest in the US
- ▶ Following these tax changes, Oregon's TEBTR is estimated to increase to 2.8% and become the 19th highest in the US



Source: EY Analysis

Portland local city/county/metro business taxes would increase 23%, including November 2020 passed ballot measures

Impact of business tax changes in City of Portland, Multnomah County, and Multnomah County's share of Metro taxes (once fully phased in)

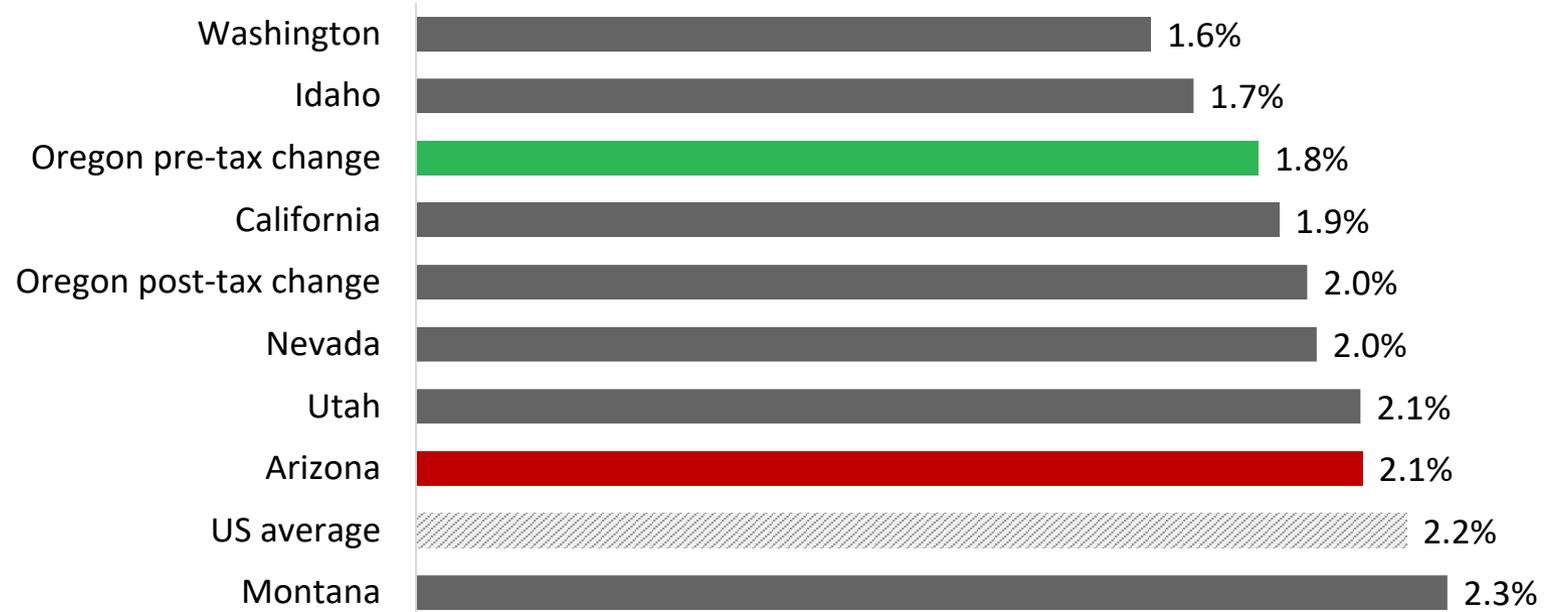
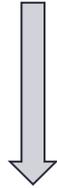


- ▶ A business in Portland is subject to the property, corporate net income, personal income and payroll taxes applicable to multiple taxing jurisdictions and is impacted by City of Portland, Multnomah County and Metro area tax changes
- ▶ Taxes shown in figure include City of Portland, Multnomah County, and Multnomah County's share of Metro taxes. Both recently enacted and November 2020 passed ballot measures are shown

Oregon's statewide local tax competitiveness declines

Local total effective business tax rate (TEBTR) comparison for Oregon and neighboring states, FY19

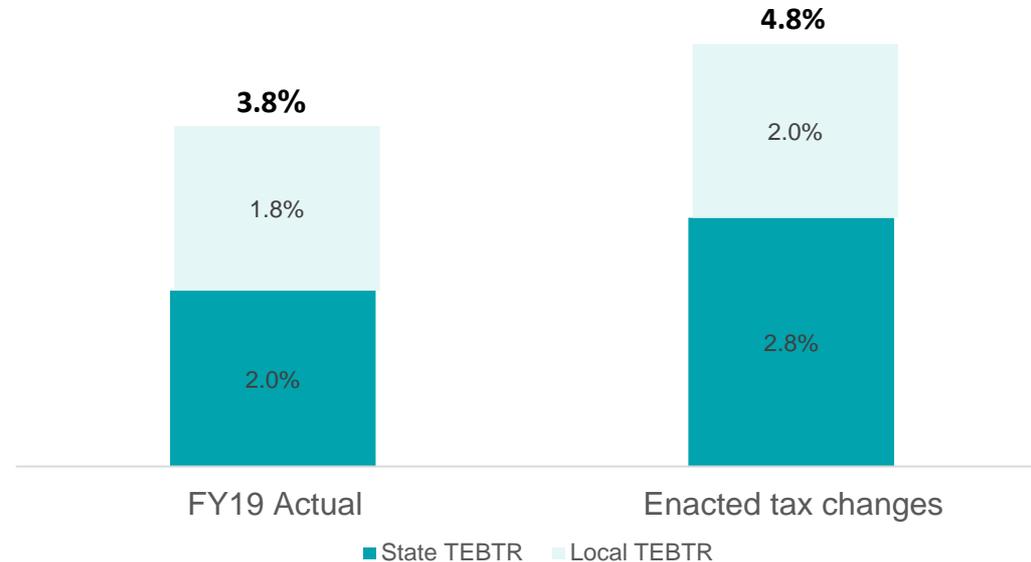
6% increase in
business tax as a
percentage of GSP



- ▶ As a percentage of Gross State Product (GSP), local business taxes would likely increase from 1.8% to 2.0%, which represents a 6% increase
- ▶ The local TEBTR in Oregon is lower than the US average, but higher than a number of Western states shown in the figure above

State and local TEBTR increases from 3.8% to 4.8% with enacted tax changes (once fully implemented)

Combined state and local TEBTR for Oregon businesses
(TEBTR = Business taxes / Gross State Product)

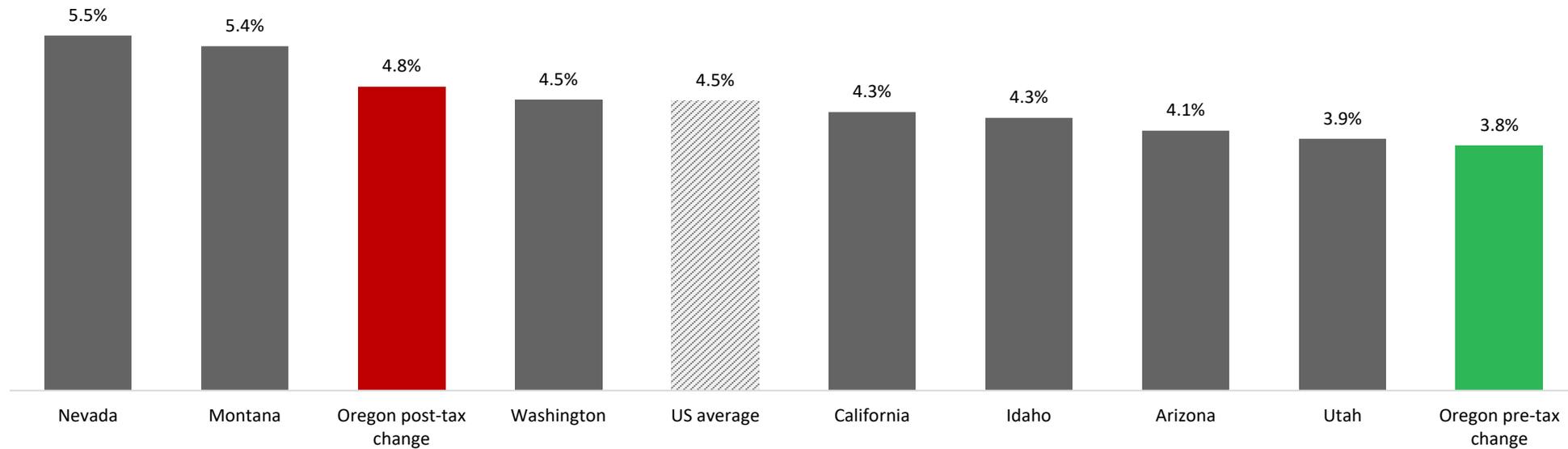


- ▶ The statewide total effective business tax rate (TEBTR) for businesses will increase to 4.8% based on the enacted and 2020 passed ballot tax changes, which is a 26% increase from FY19 actuals
- ▶ This tax change is a result of a 41% increase in statewide business taxes and 6% increase in local business taxes statewide in Oregon due to the Portland region enacted tax changes

Oregon's overall state and local tax competitiveness will decline

- ▶ As a result of the combined tax changes, Oregon's combined state and local TEBTR increases to 4.8%. The Oregon TEBTR increases from 16% below the US average to 6% greater than the US average
- ▶ Oregon's TEBTR post implementation of tax changes would also be higher than those of neighboring states Washington, California and Idaho

State and local TEBTR for Oregon, FY19 levels



Results still hold with COVID-19 economic impacts

- ▶ COVID-19 is creating serious disruptions to revenue for state and local governments. Using forecasts from Oregon's Office of Economic analysis, we evaluated the impact of COVID-19 on expected revenue in FY22 from the new business taxes
- ▶ Overall business taxes are projected to be 10% lower in FY22 than FY19
 - ▶ Corporate Activity Tax revenue is forecasted to be 21% lower in FY21-23 than original forecasts
 - ▶ Individual Income Tax revenue losses from rate reductions will be less
 - ▶ Insurance tax revenue is forecasted 11% lower in FY21-23
 - ▶ No impact on Paid Family Medical Leave (program starts in 2022)
- ▶ Businesses will pay less in certain tax categories (like corporate income) but likely no real changes in property taxes, which make up a significant share of local business taxes, in the next 2 years
- ▶ Modeling all potential tax changes on businesses due to COVID-19, the results for FY22 are similar to the analysis completed at FY19 levels

Conclusion

Analysis of statewide tax changes and Portland area tax changes would mean the following once fully implemented:

1

Large increase in state business taxes

\$1.8 billion for a 41% increase in business taxes once all taxes fully phased in (by 2022)

2

Increase in state TEBTR (Business Taxes/ GSP)

Tax changes result in an increase in total effective business tax rate from 2.0% to 2.8%

3

Oregon goes from 40th highest in state taxes to 19th highest

Based on FY19 COST 50-state tax burden analysis

4

COVID-19 is disrupting revenue for state governments, but results completed at FY19 levels still hold

Expected revenue from businesses in FY22 is similar to modeled FY19

5

Local tax changes (recently and November ballot passed) would increase Portland business taxes by 23%

Portland businesses affected by city, county, and Metro tax changes

6

Statewide the local TEBTR increases from 1.8% to 2.0%

Local statewide TEBTR post-tax changes is still below the US local average

7

Oregon total TEBTR increases from 3.8% to 4.8%

The statewide total TEBTR increases above the national average as a result of statewide and local business taxes