

OREGON
BUSINESS
& INDUSTRY



TESTIMONY

Joint Committee on Student Success
Subcommittee on Revenue

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Presentation Overview

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

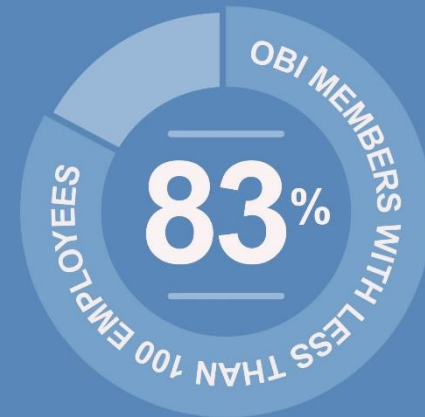


1,600 BUSINESSES

THAT EMPLOY
300,000
OREGONIANS



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



Context and History

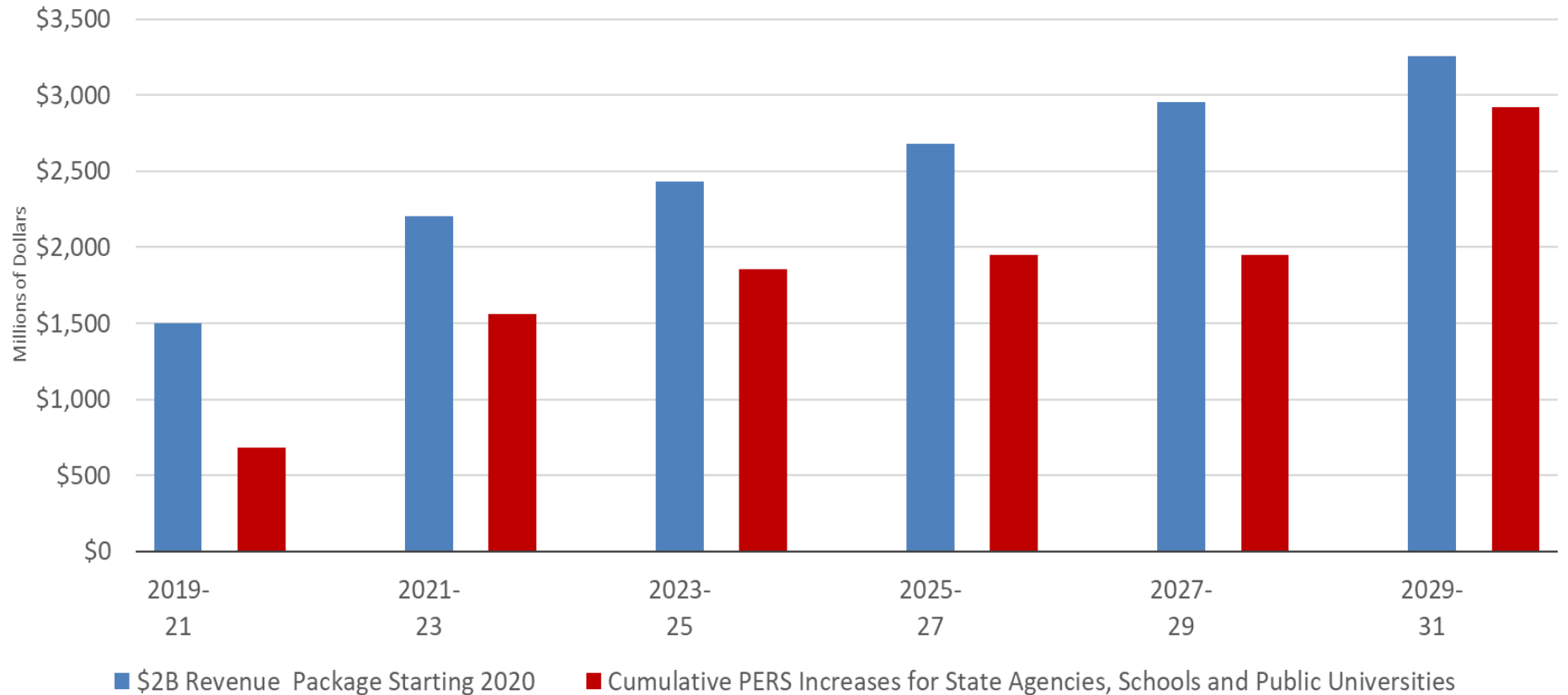
Business Activity Tax Work

- 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)

- 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 (50th percentile) and Payroll Growth Assumptions (December, 2018 Board Presentation)

OBI Tax Policy Principles

- 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

- 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)

- Small Business Exemption - \$500,000
- Other Exemptions
 - Government Services
 - Charities
 - Public/nonprofit universities
 - Financial Services and Insurance
- Companies with a Negative Business Activity Tax

Business Activity Tax – Gross Receipts Tax Comparison

GRT



Differing effective tax rates based on production process.

BAT



Same tax rate for every product.

Business Activity Tax – Gross Receipts Tax Comparison (continued)

- 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)

- Oregon Transportation Equipment Manufacturer
- Pyramiding ratio = 3.85
- 3.2 Times More Taxes under a Gross Receipts Tax

Business Activity Tax – Gross Receipts Tax Comparison (Continued)

- Competitiveness of Oregon Businesses
- Consumer Purchases of Goods and Services
- Firm Production Decisions

Potential Questions

- 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?

Other Questions?