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Date: March 11, 2015
To: House Revenue Committee, Chair Barnhart and Members
From: Laurie Wimmer, OEA Government Relations Consultant
RE: *HB 2077 [Corporate Tax Transparency]*

On behalf of OEA's 42,000 members, it is my honor to support HB 2077, which offers a common-sense solution to a decades-old, intractable problem. Our thanks to its sponsor and this committee for contemplating corporate tax transparency legislation. We support all ideas to help Oregonians understand who pays their fair share of taxes to underwrite vital services such as education, health care, and public safety.

HB 2077 would provide information that could be key in the search for politically viable tax system reform in the future. And, given that most taxpayers – individuals and small businesses – subsidize the corporate tax breaks of profitable enterprises, they deserve to know fundamental information about how this subsidy benefits all of Oregon. Secrecy blocks our understanding of the benefits of corporate tax loopholes. Accountability is good corporate citizenship and will lead to a more economically vibrant Oregon.

Company-specific disclosure could promote more democratic and accountable tax policymaking and broader public confidence in the tax system. If policymakers and corporations alike know that a specific corporation's bottom line tax liability is going to be subject to public disclosure, narrow exemptions and other types of "sweetheart" deals are less likely to be sought and enacted. As Professor Richard Pomp observed in his definitive 1993 report on state corporate tax disclosure: "*Openness and accountability make it less likely that tax laws will be made behind closed doors, where special interests are more likely to prevail over the public's interest*." Pomp cites a number of federal laws that mandate company-specific public disclosure of corporate activities, such as their use of toxic substances, the amount of pollution they release, and their records in hiring women and minorities. Tax liability should be no different.

Some may ask why this interest in corporate transparency is re-emerging now. In these post-recessionary times, when Oregon's economy has bounced back strongly but its revenue streams continue to lag, it is fair to want answers to the "why" behind the "what". The "what", of course, is that Oregon's corporate filers provided 17 percent of the General Fund in 1973 and now contribute less than 6 percent. Meanwhile, Oregon's classrooms are the second-most crowded in the nation and our funding for K-12 vies with just a handful of other states for last place. Corporate taxes, too, are at the bottom, which has led to Oregon's well-deserved reputation as a business-friendly state. It is often the same low-tax corporate voices clamoring for even more in terms of "certainty" and local tax abatements who also demand higher level of "outcomes" and "performance" from our underfunded schools. That is why our members are keenly interested in the public's right to know about corporate tax liability in Oregon.

This is by no means an Oregon-only issue. According to the Center on Budget and Policy Priorities, "*Data from numerous sources suggest that something is seriously wrong with the state corporate income tax. The share of tax revenue supplied by this tax in the 45 states that levy it fell from more than 10 percent in the late 1970s, to less than 9 percent in the late 1980s, to less than 7 percent today. The effective rate at which states tax corporate profits fell from 6.9 percent in the 1981-85 period, to 5.4 percent in 1991-95, to 4.8 percent in 2001-05. Also, many state-specific studies have found that most corporations filing income tax returns paid the minimum corporate tax — often $0 — even in years in which the economy was growing strongly."*

You will surely hear loud objections to the proposition that corporations become more transparent to the public that, in effect, subsidizes their preferential tax treatment. After all, some have testified in past years, firms are simply taking advantage of provisions of income tax laws that policymakers deliberately established, in order to encourage in-state investment and economic stimulus. Others will argue that disclosure will impair competitiveness, as though somewhere in their tax filings is the Secret Sauce recipe. Again, quoting from the Center on Budget and Policy Priorities:

"Some have argued that it would force companies to release proprietary information that would provide an advantage to competitors that do not do business in the state. However, a 1993 corporate tax disclosure study commission in Massachusetts rejected this claim; a large majority of the corporate financial experts it interviewed concluded that the information disclosed would be of little benefit to competitors. One reason is that by the time such information would be released, it would often be too old to be of much use to competitors.

Previous legislatures have been generous in granting tax expenditures that benefit corporations doing business in Oregon. It is important to note, however, that this call for transparency isn't synonymous with a *call for repealing those special tax breaks. In fact, more information should only substantiate the claims made* by the corporate sector that there is a meaningful connection between their tax liability and their economic activity here. If it's true, show us. After all, better data will better respond to charges of "aggressive tax sheltering" and the economic inefficiency of some incentives in meeting their stated economic development goals.

As Oregonians may contemplate tax reform proposals in the future, they will certainly want to know the facts about the system's current status. SEC filings and court cases provide the only glimpse most of us have of corporate revenue participation. As experts on this topic have noted, corporate tax disclosure would help illuminate the real-world outcomes of Oregon's corporate tax laws and policies, which could facilitate reforms if needed. It would also encourage accuracy in corporate filings. A recent head of the Internal Revenue Service observed that "making corporate tax returns or a portion thereof public would likely improve corporations' tax compliance" [Center for Budget and Policy Priorities citation].

Disclosure is also pro-business in the sense that it levels the playing field by ensuring that some corporations don't receive special advantages from which other corporations are shut out and which those non-benefiting corporations subsidize just as personal income tax payers do. Equity in corporate tax policy would improve Oregon's overall business climate, not worsen it. Shedding light on corporate taxes could facilitate such improvements.

For democracy to work, the public must be able to hold policymakers accountable for their decisions, and this cannot happen without the free flow of information. We believe that you could craft a means to do so in this regard in a way that successfully balances the public's need for information related to critical tax policy issues against the need to minimize the burden of complying with the disclosure requirement. HB 2077 leads the way in this effort.

Thank you for considering our input.