OCPP OREGON CENTER for PUBLIC POLICY
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MEMORANDUM

TO: Joint Committee on Tax Reform

FROM: Chuck Sheketoff, Executive Director

DATE: June 15, 2017

RE: Comments on -2 Amendments to HB 2830

This memo is to clarify points I made in my testimony Tuesday evening.

1. Replacing the income tax rate reductions with a CAT Fairness Credit would strengthen the bill

The CAT Fairness Credit we proposed will cost less than reducing the bottom three rates of personal income tax, will target the relief on the 60 percent of taxpayer in the bottom three income quintiles (low- to middle-income taxpayers), and will give seniors twice the benefit of others. The credit was developed using a sales tax credit schedule in use in Maine that is designed to do the same thing: offset the regressivity of the costs of the tax passed on to those least able to pay them. This sort of schedule was in the bill that Senators Hass and Burdick and then-Representative Tobias Reed introduced in 2013.

Because all taxpayers get the benefit of lower tax bracket rates, lowering the rates as proposed in the -2 amendment would direct significant funds to those at the top of the income ladder. As noted in our paper included in the record, upper income households would get a bigger tax cut as a share of income than lower income households under the tax rate reduction approach. They are also getting a bigger share of the benefit of the elimination of the corporate income tax.

2. There is not enough clarity as to who wins and who loses under a CAT

Legislators and the public need to better understand “who are the winners?” and “who are the losers?” under the CAT. I respectfully recommend that you instruct LRO to prepare a table showing for c-corporations by industry group, how many will see their taxes go up, down, or see no change, and the extent of the revenue change for each.

3. Too little is known about the cost of tax expenditures built into the proposal, some of which are poorly worded

The bill contains a number of tax expenditures. For each of those you need to spell out the purpose against which the tax expenditure can be evaluated in the biennial tax expenditure report. You also need to know the cost of each tax expenditure before you approve them as part of the package.

You also need to make sure the tax expenditure provisions are properly drafted so that the revenue impacts are not understated. The wholesaler exemption (-2 Amendment, Sec.4(7)(b)AA), at page 10 lines 10 and 11) is a perfect example. There is no clearly stated purpose against which it can be evaluated. There has been no estimate of the revenue loss associated with sales being made exempt by the provision.

And, perhaps more importantly, it is poorly worded, making it prone to abuse and difficult, if not impossible, to enforce. As drafted, the bill allows the purchasing wholesaler to certify to the seller that it “intends” to sell the product out of state and that mere statement of intention would suffice to exempt the seller’s sale. There is no guarantee that the product purchased by the wholesaler is ultimately sold out of state. The Department of Revenue will have an impossible task trying to enforce the provision. There is no provision for what would happen if the intention didn’t prove true. The bill doesn’t address a wholesaler telling a seller that but ultimately not selling some of the product out of state. Any sort of exemption for items sold to a wholesaler must be based not on intent but actual sales out of state by the wholesaler, and involve approval and be enforceable by the Department of Revenue just at the analogous Ohio credit.

The credit for pass-through entities is another example. Governor Brown urged that it be repealed because, like many other tax expenditures, the state lacks data to evaluate whether it works and the statute does not include a stated purpose. Reformatting the tax break as a credit does not solve that fundamental problem. When it was debated in the 2013 session, the Center showed that the tax break primarily benefitted those in the top income quintile. There is no reason to believe the credit wouldn’t as well. Moreover, you do not know how much the credit will cost at the initial and final phase rates.

It would be fiscally irresponsible to approve tax expenditures in this measure without knowing their costs and their purposes.

Thank you for considering my comments and all the hard work that you are putting into this revenue measure.