Taxpayers Association of Oregon
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Seven Fatal Flaws of "Son of 97" Tax — HB 2830

The Taxpayer Association of Oregon has identified 7 "fatal flaws" of HB 2830. This bill would significantly increase taxes on business in Oregon, and particularly harm small business, the primary job creator in the State.*

1. Taxes go up for everyone except big business which are rewarded with a tax cut
2. Creates double taxation
3. Discriminates against family-owned businesses with higher taxes (for no other reason other than they are family owned)
4. Small businesses lose their 2015 tax relief
5. Taxes companies that are losing money
6. 66 percent tax increase jus for doing businesses in Oregon
7. Gives special tax treatment to businesses like Wal-Mart while others like day-care centers and family doctors pay more.

(* Note: This analysis based on available information at the time which changes rapidly)

The HB 2830 proposal would impose a new $1.2 billion Business Sales Tax, also known as the CAT (Corporate Activity Tax). The CAT is much like Measure 97, except it's worse. Where Measure 97 hit only the largest of the large corporations, this new proposal would affect every single business in Oregon and hit small and medium sized businesses hardest.

After paying the $250 minimum, any sales over $3 million are taxed based on the amount of sales. That's sales, not income. Businesses will be taxed on sales even if they are losing money. Most businesses would pay a rate of 0.48 percent on these sales. Closely held businesses would get a "credit" equal to 43 percent. For a closely held business (partnership, LLC, S-corporations) with $4 million in sales, Oregon taxes would go from $150 a year to $2,986 a year. That's a 12-fold increase in state taxes.

Small business tax increase

Under the proposal, small businesses (LLCs, S-Corp., Partnerships) under $3 million will be getting a massive tax increase. As it removes the 2015 small business tax rate otherwise known as the pass through rate reduction. Many of these small businesses will see their taxes go up by $4,000 and will see their rate go up by as much as 30+%. Small pass-through companies currently pay a tax rate of 7.0%-9.9%, while large C-Corporations currently pay rates from 6.6%-7.6%.

Double taxation on Oregon Small and Family Businesses

Owners of S-corps, LLCs, partnerships, and sole proprietorships currently don't pay business income taxes. Instead, they pay personal income taxes on the business income that "passes through" to them as owners. Under the HB 2830, these business owners over $3 million will be taxed twice: First on their business's sales under the CAT, then again on their personal income taxes. This will cost any businesses owner thousands of dollars in new taxes.

Big business exempt from double taxation.

This double taxation unfairly exempts C-corporations. Two otherwise identical restaurants will see the locally owned family restaurant being double taxed while the corporate chain restaurant pay less taxes even though they make the exact same sales and profits.

As a sweetener to get buy in from big business, HB 2830 proposes to get rid of Oregon's current corporate income tax and replace it with the CAT which is a tax on sales. The taxes for Oregon's larger businesses would go from currently taxing 6.6 to 7.6 of profits to taxing .48 on sales for most larger businesses. Some big C-corps may not see much of a change in their net tax bills. Yet many of Oregon's largest and most profitable corporations could see their tax bill cut in half. This further cements the Oregon-penalty for selling goods to Oregonians rather than out-of-state or foreign sales.

This tax will mostly hurt Oregon businesses (over $3 million in sales) because it will shift taxes from profits to sales. This means many C-corp businesses that are not making a profit will see their taxes go up. This tax is designed to protect government revenue in a recession by soaking businesses that are not making a profit during the recession but now have to pay more anyway.

Rewarding and punishing companies based on categories

This tax segregates Oregon companies and gives preferences to some and penalties to others.

.75% for services
.48% for all other
.35% retail trade
.25% for wholesale
.15% for agriculture

Family doctors and day care centers would pay a higher tax than pawn shops, liquor stores and tobacco shops. The mom and pop grocer would pay more in taxes than Costco for selling the same products. At the same time, low margin businesses or businesses facing a temporary downturn will get hit with a massive increase in their tax bills.

Today, many closely held Oregon businesses—partnerships, LLCs, and S-corporations—pay an excise tax of $150. Any profits from these businesses are passed through to the owners and the owners are taxed at Oregon's personal income tax rates. HB 2830 raises the minimum tax to $250, even for small, closely held businesses. That's a 66 percent increase over the current excise tax of $150.

When asked if the CAT would lead to big businesses avoiding Oregon, Senator Mark Hass responded, "I'm finding just the opposite to be true from some of the largest businesses, such as Nike which is supportive and helping." Thus, it is clear that HB 2830 is designed to balance the state's budget on the backs of small and medium sized businesses and on the backs of low margin businesses.

The Bureau of Economic Analysis reports that per capita personal income in Oregon is 9.1 percent lower than the national average. HB 2830 would make it even worse. Analysis by the Legislative Revenue Office finds that HB 2830 would reduce wages earned by the average Oregon household while increasing their tax burden. LRO calculates the wage and tax impacts would reduce the disposable income of the median Oregon household by $144 a year.

The Taxpayer Association of Oregon urges a "No" vote on HB 2830.