OSPIRG
Standing Up To Powerful Interests

February 22, 2018

TO: House Committee on Revenue
FR: Charlie Fisher, State Director, Oregon State Public Interest Research Group (OSPIRG)
RE: Oppose Section 35 of SB 1529A

SB 1529A includes a provision that repeals Oregon's landmark tax havens law from 2013. **OSPIRG strongly opposes this provision and urges you to do everything in your power to see it removed from the final legislation.**

You'll recall that the Legislature unanimously adopted the 2013 law, which identified an extensive list of tax haven countries and required Oregon corporate tax filers to add income from any subsidiaries in those countries to their Oregon taxable income. The measure was based on a successful 2003 Montana law, and a May 2017 report from the Legislative Revenue Office estimated that it kept more than $20M in Oregon during the 2014 tax year, rather than being parked in offshore tax havens such as the Cayman Islands.[i]

Presumably, the reasoning behind this repeal is that federal tax reform will prevent further tax havens abuse. We think is analysis is premature and likely incorrect.

1. Repealing Oregon's tax havens law assumes outcomes that are not clearly understood.

The Tax Cuts & Jobs Act of 2017 (TCJA), signed into law just two months ago, is an incredibly complex piece of legislation. There are significant questions among tax and policy experts as to the real world implications of TCJA on a multitude of issues, including tax haven abuse. Repealing Oregon's tax haven law, which has a proven track record of success, is premature. We recommend the legislature leave Oregon's tax havens law in place and direct the Department of Revenue to take the time necessary to study the interaction between federal tax reform and Oregon's tax havens law.

2. There's good reason to believe that federal tax reform will either have no impact on tax haven abuse or make it worse.

While the uncertainty around federal tax reform's impact on tax haven abuse should be reason enough to leave Oregon's tax havens law in place, analysis in recent months suggests that some of the provisions in the TCJA could actually create even more incentive for multinational companies to use complex schemes to move profits offshore. The Institute on Taxation and Economic Policy says that switching to a territorial tax system (which TCJA does) could "increase the already substantial benefits American corporations obtain when they use accounting gimmicks to make their profits appear to be earned in a foreign country that has no corporate income tax or has one that is extremely low or easy to avoid."[ii]

Further, Kimberly Clausing, an economics professor from Reed College who specializes in taxation on multinational firms, says, "the new system provides an explicit, permanent preference for earning income in low-tax countries rather than the United States."[iii]

We urge you to maintain Oregon's successful tax havens law and remove Section 35 from SB 1529A.

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[i] Legislative Revenue Office, May 2017, An Assessment of Oregon's Listed Jurisdiction Policy and its Cost Effectiveness.

[ii] Institute on Taxation and Economic Policy, September 2017, Turning Loopholes into Black Holes: Trump's Territorial Tax Proposal Would Increase Corporate Tax Avoidance.

[iii] Kimberley Clausing, December 2017, The GOP's final tax bill has four fatal flaws.