April 18, 2019

To: Joint Committee on Student Success
From: Anthony K. Smith, State Director, NFIB Oregon
Re: Opposition to new taxes in HB 3427

Co-Chairs Roblan and Smith Warner, Vice-Chairs, and Members of the Committee,

On behalf of the thousands of small-business members of NFIB in Oregon, I would like to share with you our concerns regarding HB 3427 – and ask you to join Oregon's small businesses in opposing the new taxes proposed in this legislation.

Please keep in mind that NFIB represents small businesses in every industry of Oregon's private sector, and although 90 percent of our members have fewer than 25 employees – and 70 percent have fewer than 10 employees, the small businesses we represent account for over 60,000 Oregon jobs.

In a recent survey of NFIB members in Oregon, an overwhelming 91 percent of respondents opposed the creation of a new consumption-based business tax designed reduce the state's reliance on personal income taxes. In follow-up conversations I've had with our members, they've reported to me that in no way do they oppose the idea of targeted investments in public education to improve outcomes for Oregon's students, however, the "Corporate Activities Tax" proposed in HB 3427 is a monumental shift in the way businesses are taxed in Oregon.

NFIB members have consistently and overwhelmingly voted to oppose the concept of a gross receipts tax – not necessarily because all of them are worried about paying the tax directly, but because of the negative effects it would have on them as customers of larger businesses and as consumers of the same products and services used by nearly every Oregonian – but they also oppose the concept because the very idea of taxing a business on its gross sales, whether it makes a profit or not, is objectionable to entrepreneurs who already bear the financial and legal risks of owning, operating, and trying to grow a small business.

I've heard statements recently from those asserting that the proposed Corporate Activities Tax proposal's gross revenue threshold of $1 million effectively exempts small businesses from being taxed under the plan, but due to the pyramiding effects of a gross receipts tax, even the smallest of small businesses will see increases in cost inputs paid to other businesses. The proposed 25 percent subtraction for these inputs (or labor costs) will not adequately protect small businesses from the negative impacts of pyramiding, nor will the exclusions for motor vehicle fuels, groceries, and gross receipts from other exempt sales due to the fact that these products will have been taxed at numerous stages in the supply chain.

The increased cost to Oregon consumers, including small businesses, is evident in the Legislature's own modeling. In several runs of the Oregon Tax Incidence Model (OTIM) the Legislative Revenue Office (LRO) has shown that price levels will increase, regardless of the tax base or the rate of the new tax. The short-term model of LRO's "MCAT Option 2A" (4/6/2019) also shows that Oregon will lose jobs, see a decrease in the number of Oregon households, and real disposable household income will decline for the rich and poor alike.

LRO's "MCAT Option 2AL" (4/6/2019) shows a longer term economic outlook, however this model makes a big assumption – that 100 percent of the new revenue generated by the Corporate Activities Tax will be spent on education – and that 100 percent of that spending will result in increased productivity that will positively impact Oregon's economy. While this model shows job gains, increases in total households, and increases in real disposable household income for most groups, the lowest income Oregonians will still see a decrease in disposable income due to the regressive nature of a gross receipts tax that results in increased price levels.

The "MCAT Option 2AL" model shows us a picture of what the Oregon economy might look like in 10 years if over $1 billion in new spending actually increases productivity, but we have not seen a model that shows us what the economy would look like if the new spending does not increase productivity. If the long-term models are showing us the potential rewards, they should also show us the potential risks. Taking an additional $1 billion per year out of the private-sector economy without fully understanding the potential economic perils would be ill-advised. As the committee considers amendments, LRO should run "L" models with the productivity switch both on and off – and make that information available to legislators and the public before voting on the measure.

Finally, Oregonians, and especially small businesses that would not be directly subject to the tax in its current proposed form, should be wary of the Legislature enacting a new tax that could be easily raised by future Legislatures. As we have seen in recent years on multiple occasions, the Legislature has raised revenue by broadening the base of taxpayers and eliminating exemptions and/or deductions without a three-fifths supermajority vote of each chamber of the Oregon Legislative Assembly.

If the Corporate Activities Tax is passed in 2019, there are no safeguards in place to ensure that the $1 million Oregon sales threshold won't be lowered or eliminated in future years – or that groceries and other exempt products will be added back into taxable sales – all on a simple majority vote of the Legislature.

As a state, we've been asking more and more of our small businesses in recent years. According to the United States Small Business Administration's 2018 Small Business Profile report, the median income for individuals self-employed at their own incorporated businesses is $50,347 – that's the national average. The median for Oregon is just $45,522, nearly $5,000 per year less than the national average. As a comparison, the State of Washington's median is on par with the national average at $50,668 and California is nearly $12,000 a year higher than Oregon at $57,420.

Every new cost we impose on small business adds up and affects the owner's ability to earn a living. They aren't guaranteed a minimum wage, they don't earn overtime pay, and they carry all the financial and legal liabilities associated with running the business. Still, they manage to make it work, and as a result, NFIB member-businesses employ over 60,000 Oregonians.

Taking into account all of these factors, and the prospect that the Oregon Legislature is also considering an expensive new Paid Family & Medical Leave payroll tax, a Cap & Trade program that will generate new revenue to the tune of hundreds of millions of dollars per year, and several other revenue-raising measures totaling as much as $5.67 billion in new tax revenue for the 2019-21 biennium, we ask you to vote NO on HB 3427.

Thank you for your consideration and the opportunity to submit this written testimony.

Regards,

Anthony K. Smith
NFIB Oregon State Director