

From the desk of
Senator Herman Baertschiger Jr.

RE: Business Opposition To HB 3427 | The \$2.8 Billion Hidden Sales Tax

As representatives of businesses large and small and many of Oregon's most vital industries, we wanted to register our strong opposition to HB 3427. While we support the Legislature's efforts to make game-changing investments in our schools, we have serious concerns with the structure of the revenue portions of this legislation and how it will impact our state's economy.

First, HB 3427 is a tax on Oregon sales, not profits. That means even businesses that lose money would be forced to pay the tax. Gross receipts taxes are often referred to as a "tax on a tax" because goods and services are hit at each step in the supply chain, leaving Oregon businesses paying an effective tax rate far higher than what is proposed in HB 3427. This phenomenon, often referred to as "pyramiding," is particularly harmful to Oregon industries like manufacturing, which rely on a long supply chain of Oregon-based goods to produce their products. A former state economist previously characterized a gross receipts tax as functioning "like a sales tax on steroids."

Additionally, the \$1 million exemption threshold in HB 3427 is far too low and translates into tens of thousands of small, family-owned businesses being included in the tax. This tax also punishes high-investment, high-growth startup businesses and creates significant barriers to new competitors. For the startup businesses that are investing in production and spending high amounts of overhead to grow the business, they will be paying taxes under a gross receipts tax while most likely incurring what would otherwise be non-taxable losses under a corporate income tax. This hurts the startup culture and upsets competitive balance between new and established businesses.

Similarly, many Oregon industries rely on a high-volume, low-margin business model to earn a profit. Those margins would be destroyed by the compounding impacts of pyramiding under a gross receipts tax. Businesses that compete in regional and global markets would be placed at a significant competitive disadvantage with their competitors in jurisdictions without this harmful tax structure.

While we appreciate that lawmakers have made some attempts to lessen the negative impact on businesses by included a 35% deduction for labor or inputs, we have concerns about this portion of the bill as well. Legislative lawyers have previously concluded the tax deductions, like those included in HB 3427, can be eliminated on a simple majority vote. While this position is heavily disputed by third-party attorneys, the Legislature has previously revoked these deductions on simple majorities. As lawmakers inevitably look for additional revenue in future sessions, the deduction included in HB 3427 will undoubtedly be a target, meaning Oregon businesses could be stuck paying an even higher tax bill and consumers facing additional price increases.

Finally, it was just over two years ago that Oregonians overwhelmingly said no to a tax on Oregon sales that bears a strong resemblance to the one included in HB 3427. 34 of Oregon's 36 counties opposed Measure 97, with nearly 60% of the total votes cast statewide voting no on the proposal. Please honor the will of Oregon voters and protect Oregon employers by opposing this harmful tax increase.

PLEASE VOTE NO ON THE \$2.8 BILLION HIDDEN SALES TAX

