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Testimony Of
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Before the
Oregon Senate Committee on Finance and Revenue
Hearing on S.B. 312, Corporate Tax Transparency

Chair Burdick, Vice-Chair Boquist, and members of the committee, I appreciate the opportunity to testify in support of S.B. 312 this afternoon. I am Michael Mazerov, Senior Fellow with the state fiscal policy division of the Center on Budget and Policy Priorities in Washington, D.C. The Center is a non-partisan research and policy institute that pursues federal and state policies designed to reduce poverty and inequality and to restore fiscal responsibility in equitable and effective ways. We apply our expertise in budget and tax issues and in programs and policies that help low-income people to help inform debates and achieve better policy outcomes.

Thirteen years ago this month, I wrote a report titled *State Corporate Tax Disclosure: The Next Step in Corporate Tax Reform* (https://www.cbpp.org/sites/default/files/atoms/files/2-13-07sfp.pdf) Although by that time many states had mandated disclosure of the specific companies receiving various economic development incentives, only Wisconsin permitted – under significant constraints – company-specific disclosure of a corporation's bottom-line state corporate income tax liability. Since that time, the corporate income tax has seriously eroded as a source of revenue in most states. Although there has been progress in several states in reforming the corporate tax structure – much of it driven, as I'll discuss shortly, by a limited form of company-specific disclosure of the use of aggressive tax shelters – corporations have become increasingly sophisticated in exploiting corporate tax loopholes, and state policymakers have enacted a steady stream of corporate tax incentives in search of an economic development magic bullet. I continue to believe that detailed, company-specific, public disclosure of both the bottom-line state corporate tax liability and sufficient information from the tax return to illuminate how that payment was arrived at is a precondition of restoring the tax to the robust and fair source of revenue it deserves to be and can be again. Here are my three main arguments for the type of corporate tax transparency reflected in S.B. 312.

First, even if policymakers support specific corporate income tax exemptions, deductions, and credits on their individual merits, that does not necessarily mean that they support a corporation's ability to claim so many of these incentives that a substantial share of its liability – perhaps even 100 percent – would be eliminated. Without knowing the bottom-line tax liability of the corporation, there is no way to know whether the cumulative effect of the tax breaks for which a particular company is eligible is excessive or reasonable.

Second, whenever lawmakers consider changing the corporate income tax to eliminate a tax expenditure, decouple from a federal tax provision, or close a loophole, specific corporations inevitably will make claims that the changes will harm them unduly. For instance, corporations may assert that the changes will increase their tax bills to an unreasonable extent, create incentives for them to expand operations outside of Oregon rather than within it, or have a large negative effect on whatever activity the tax provision at issue was intended to encourage. Without specific information about those corporations' tax situations, you cannot assess the validity of such claims. If the companies making them are major Oregon employers, they will likely be viewed as credible whether or not they deserve to be. Policymakers, outside analysts, and members of the news media cannot properly evaluate the pros and cons of a proposed change in tax policy if the affected companies have a monopoly on the information needed to assess the true impact.

Third, being able to assess the concrete impact of current tax laws or proposed tax law changes on the tax liability of specific, identifiable corporations enhances public and policymaker understanding of the effects of tax policy choices in a way that no amount of hypothetical examples or aggregated, anonymous data possibly can. We see that today, when federal corporate tax liability estimates for companies like Amazon and Netflix that the Institute on Taxation and Economic Policy derives from annual corporate financial reports to the Securities and Exchange Commission receive substantial coverage in the media and are cited by elected officials making their case for specific corporate tax reforms. We have also seen the value of company-specific disclosure at the state level in recent years. For example, since 2008, 12 states and the District of Columbia have adopted combined reporting for the corporate income tax. They were able to achieve this crucial reform in the face of intense corporate opposition in no small part because companies like Toys R Us and Walmart that were exploiting the absence of combined reporting to reduce their state taxes using tax shelters like Delaware passive investment holding companies and captive real estate investment trusts were publicly identified through litigation. When companies where millions of people shop weekly were identified as engaging in aggressive tax avoidance, this generated press attention and created momentum for reform that policymakers simply could not ignore.

However, we simply cannot afford any longer to rely on the occasional court case to bring evidence of aggressive tax avoidance to light. State revenue departments are under-resourced compared to profitable multinational corporations, and corporations are much more aware of risk to their reputations should their tax avoidance efforts come to light and are more likely to settle the cases to avoid this in the rare instances in which states seem prepared to litigate. We need mandatory, company-specific disclosure of how much corporate income tax companies are actually paying, how much they are saving from each of the specific tax incentives they are claiming, the degree of correspondence between the profits they are reporting to tax authorities and the profits they're reporting to their shareholders, the share of their nationwide activity that's attributable to Oregon, and a few other key determinants of their Oregon tax liability.

S.B. 312 as introduced takes important steps toward the kind of corporate tax transparency that is needed, and it will be significantly improved by some refinements that I understand are under development (or may already have been introduced as an amendment by the time of this hearing). For example, disaggregation of tax incentives claimed rather than just reporting of the total, combined with information on companies' Oregon employment levels, is needed to evaluate the cost-effectiveness of the incentives and their job-creation outcomes over time. Information on transactions with non-U.S. parents and subsidiaries will provide evidence as to whether corporations are engaged in international income shifting. Requiring disclosure based on the actual tax calculation entity in Oregon – the unitary combined group – rather than by individual members of the group, is essential to prevent disputes about the accuracy of the information. (Disclosure on an entity-by-entity basis could paint a misleading picture when multiple members of a group are taxable in Oregon because they could be engaged in transactions with each other that cancel out under combined reporting.)

Increasing discussion in several states of the need for corporate tax transparency and the introduction of transparency legislation results from growing public awareness that even as corporate profits are booming, state corporate tax payments are not keeping pace because states are layering on incentive after incentive and corporations are exploiting loopholes in state tax structures. Oregon should take a leading role in laying the groundwork for business tax reform by requiring broad corporate tax transparency as embodied in S.B. 312. Thank you.