May 17, 2021

Chair Ginny Burdick
Vice-Chair Brian Boquist
Senate Committee on Finance & Revenue
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Sent electronically

RE: Fixing the CAT's Mismatched Tax Years (-10 and -11 Amendments to S.B. 164)

Dear Chair Burdick, Vice-Chair Boquist, and Members of the Committee,

Thank you for the opportunity to submit these comments on behalf of the Smart Growth Coalition regarding the urgent need to allow taxpayers with non-calendar fiscal years to use their regular accounting information to compute the corporate activity tax (CAT).

About the Smart Growth Coalition

The Smart Growth Coalition is a consortium of traded sector businesses with significant operations in Oregon. Our coalition was formed in 1999 to add technical expertise to state legislative proceedings regarding proposed reforms to state tax law affecting businesses who have made investments in jobs and capital projects in the state. Our members are unified in their commitment to sound tax policies that encourage investment in Oregon and provide technical simplicity and clarity to the state tax code.

Fixing the CAT's Mismatched Tax Years

Many businesses struggle to comply with the current requirement to calculate the CAT on a calendar year basis. For tax and accounting purposes, businesses track sales, expenses, and other financial transactions according to their annual accounting periods ("fiscal years"). Some firms track these figures according to the calendar year (i.e., January 1 through December 31); however, many use non-calendar fiscal years that coincide with their business cycle. State and federal tax law recognizes these different accounting periods and adjusts the filing and reporting requirements according to the taxpayer's fiscal year. Unfortunately, the CAT does not provide a similar accommodation for taxpayers.

Current law requires taxpayers to pay tax according to their sales and expenses occurring within the calendar year. For businesses that use non-calendar fiscal years for financial reporting and income tax accounting, the requirement means the tax year for the CAT straddles two different accounting periods. According to a rough estimate produced by the Oregon Department of Revenue ("Department"), roughly 4,000 Oregon taxpayers are affected by this requirement. These taxpayers must reconfigure or maintain separate financial books and records across all related entities in all jurisdictions solely for the Oregon tax. Gathering this information requires a needlessly cumbersome accounting process that is time-consuming and may result in some taxpayers needing to file amended returns or request refunds if their CAT accounting does not match their regular accounting. Needless to say, these requirements for non-calendar fiscal year taxpayers are unnecessarily complex and difficult to audit.

We worked alongside the Legislative Revenue Office, the Department, and other stakeholders in crafting a legislative solution allowing taxpayers to use their regular accounting information to compute the CAT. The change requires these non-calendar fiscal year taxpayers to file a short tax year return coinciding with their fiscal year ending in 2021 and start the next tax year (and every future year) aligned with their income tax accounting. **Most importantly, a change along these lines should not result in any changes in the amount of tax collected by the state because it is only a matter of timing.**

We strongly support and encourage the committee to adopt the provisions in the -10 and -11 amendments simplifying the administrative and accounting burdens for non-calendar year fiscal year taxpayers. Adopting these changes would save countless hours of staff time for companies small and large and ease the administrative burden for the state.

Sincerely,

Jeff Newgard

Jeff Newgard
Smart Growth Coalition