February 14, 2023

The Honorable Chair Nancy Nathanson
House Committee on Revenue
900 Court St. NE H-279
Salem, Oregon 97301

Subject: GBA Supports HB 2549 to Allow for Increased Deductibility of Business Interest Expense

Dear Chair Nathanson, Vice Chair Reschke, and Members of the Committee on Revenue:

On behalf of the Global Business Alliance (GBA), I want to express support for HB 2549 to decouple from interest expense deduction limitations and allow for bonus depreciation. By passing this bill, Oregon can help keep the cost of capital down for companies already investing in the state and remain competitive for future growth.

As the premier voice of international companies in the United States, GBA actively promotes and defends an open economy that welcomes international companies to invest in America. Our members are American companies with a global heritage and an indispensable part of our nation's economic success. With over 720 international companies operating in Oregon, foreign direct investment (FDI) supports 70,900 high-quality jobs in the state. Over the past five years, employment from international companies has grown by 17 percent, far out-pacing the state's overall private-sector growth of three percent.[1]

The ability to deduct interest as an ordinary and necessary business expense is a longstanding principle of Oregon tax policy. Interest expense typically results from a company's investment in its operations. While interest expense has always been permitted as a subtraction from income for companies, it has been severely limited since 2018.

[1] All statistics in this testimony are the latest available data from the U.S. Department of Commerce, Bureau of Economic Analysis (BEA) data released August 2022.

In 2018, Oregon, like many states, unintentionally imposed a tax increase on companies because the state conformed to IRC Section 163(j), which limits interest expense deductions. With increasing interest rates, this limitation on interest expense deductibility has an even more pronounced impact by making it much more costly and prohibitive to invest.

Tennessee, South Carolina, Connecticut, Georgia, Mississippi and Arkansas have already fully decoupled from these federal interest deduction limitations. Additionally, North Carolina has enacted legislation to phase out the corporate income tax completely.

Full interest deductibility - or decoupling from IRC Sec. 163(j) - as proposed under HB 2549 would encourage businesses to devote more capital towards workforce training initiatives, research and development, and expansion of operations. HB 2549 would not only help companies that took out loans to continue operations during the pandemic but help alleviate the growing inflationary pressures.

For these reasons, I urge the committee to pass HB 2549 and ensure Oregon remains a competitive destination for international companies to create jobs. Please let me know if you have any questions at mbeeson@globalbusiness.org or 202-770-5141. Thank you for the time and consideration.

Sincerely,

M. Beeson

Meredith Beeson
Director, State Affairs
Global Business Alliance

Cc Representative Reschke, Representative Walters, Representative Levy, Representative Marsh, Representative Nguyen, and Representative Greg Smith.

GLOBAL BUSINESS ALLIANCE

Investing in America

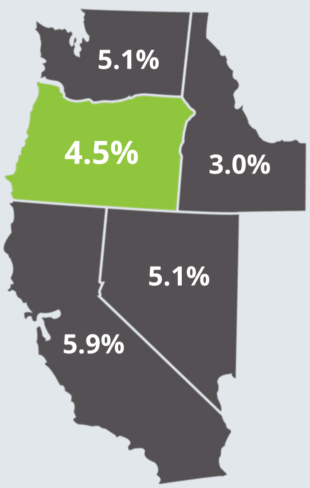
Foreign Direct Investment Strengthens OREGON'S ECONOMY

HIGH QUALITY JOBS	**70,900** workers in Oregon are employed as a result of international investment.
MANUFACTURING	**18,700** workers in Oregon - **26 percent** of all FDI jobs in the state - are in the **manufacturing sector**.
GLOBALLY CONNECTED	Among all international employers, those from the **United Kingdom, Germany** and **Japan** support the largest number of jobs in Oregon.
MANY EMPLOYERS	More than **720 international employers** have operations in Oregon.

INTERNATIONAL INVESTMENT CONTRIBUTES TO OREGON'S ECONOMY

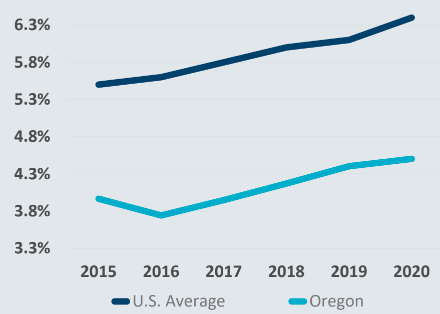
Oregon vs. Its Neighbors

FDI Jobs as a % of Total Employment



Oregon vs. USA

FDI Jobs as a % of Total Employment



Oregon trails the national average in its portion of jobs supported by international investment.

From 2015 to 2020, Oregon's FDI employment...

17%

while the state's overall private-sector employment

3%

DISCOVER THE FULL LIST OF GBA MEMBERS

Nearly 200 international companies comprise GBA's membership, representing a slice of the U.S. economy that provides eight million high-quality jobs that pay an average of 10 percent higher compensation than the economy-wide average. Our members are some of the largest international employers in the country. Browse through our membership list using the QR code.

Figures based on the Bureau of Economic Analysis (BEA), Survey of Current Business, *Activities of U.S. Affiliates of Foreign Multinational Enterprises in 2020*, released August 2022, and the Global Business Alliance's *Economic Bedrock Report*, released Fall 2018.

GLOBAL BUSINESS **ALLIANCE**

Investing in America

Foreign Direct Investment Strengthens AMERICA'S ECONOMY

MANUFACTURING

In the last five years, international companies created **nearly 400,000** new manufacturing jobs while the U.S. overall sadly **lost 223,000**.

INNOVATION

International companies spend more than **$71 billion** on U.S. R&D activities, or **13%** of all R&D performed by U.S. companies.

EXPORTS

U.S. workers of international companies produce **24%** of U.S. exports, shipping **$347 billion** in goods to customers around the world.

SUPPLY CHAINS

For every U.S. job at an international company, **three more** are supported in the U.S. economy.

TAX

International companies pay **18%** of all federal corporate income taxes.

Record Number of FDI Jobs

7.9 MILLION

Nationally, 7.9 million U.S. workers are employed by international companies.

Good Paying Jobs

$84,836

Across the nation, U.S. workers at international companies earn 10 percent higher compensation than the economy-wide average - making $84,836 annually.

Current Employers Drive Growth

50%

Last year, FDI in the U.S. was driven largely - 50 percent - by reinvesting earnings from current employers, above the historic trend.

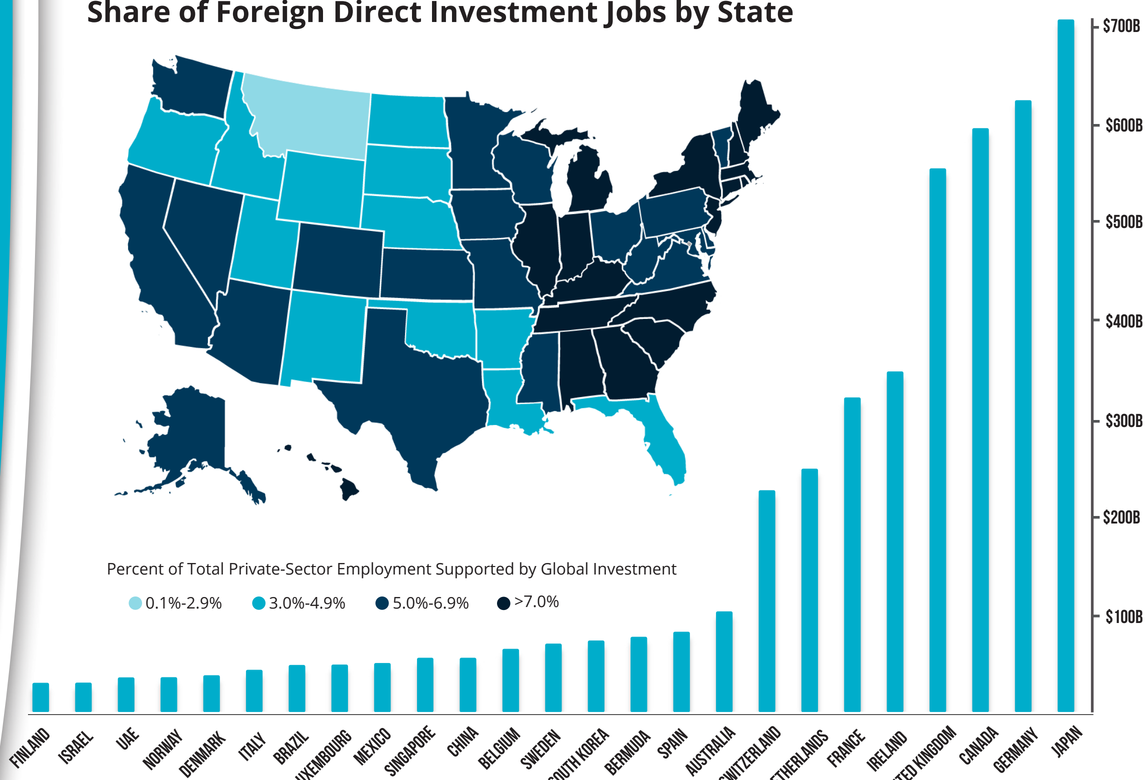
From 2015 to 2020, America's FDI employment...

15%

while the country's overall private-sector employment remained

FLAT

Share of Foreign Direct Investment Jobs by State



Foreign Direct Investment in America by Country

Figures based on the Bureau of Economic Analysis (BEA), Survey of Current Business, *U.S. International Transactions*, released September 2022; *Activities of U.S. Affiliates of Foreign Multinational Enterprises in 2020*, released August 2022.

Business Interest Expense Deductibility

States that look to decouple from federal IRC Section 163(j) and allow full deductibility of interest expense will remain competitive for investment. Interest expense for companies typically results from debt incurred to grow and maintain investments as well as support employment and operations.

Taxable Income for Corporations and Deductions

- For federal and state income tax purposes, corporations determine their taxable income by calculating gross income minus any allowable deductions.
- Corporations can subtract certain expenses like interest related to debt or loans to calculate their taxable income.
- Interest expense has always been permitted as a subtraction from the gross income for companies, however, deductibility has been severely limited since 2018.
- The amount of taxes owed is then determined by multiplying taxable income by the relevant tax rate.

Common Interest Expense Deductions and Federal Tax Changes Under Tax Cut Jobs Act ("TCJA")

- For individuals, interest is generally not deductible but there are some exceptions. For example, subject to some limitations, individuals can deduct the interest on their home mortgages and interest on their student loans.
- Although interest expense is generally treated as a business expense deductible by corporations, there are multiple limitations on the amount of the deduction in the tax code, including Section 163(j).
- Section 163(j), however, was transformed by TCJA effective in 2018 to significantly limit a corporation's interest expense deduction. Additionally, one of the changes made by TCJA to Section 163(j) did not take effect until 2022, even further limiting the amount of interest deductions for corporations.
- Under TCJA, the federal corporate income tax rate also decreased from 35% to 21%. There were also changes in the bill to allow for an immediate tax deduction for the purchase of business assets like machinery and equipment (often called "bonus depreciation").

Most States Automatically Increased Taxes on Companies Without Legislative Action

- The 2018 and 2022 changes to Section 163(j) automatically applied to reduce the amount of interest expense corporations could deduct on their state income tax returns because most states follow the federal tax deduction rules.
- However, states typically do not follow the bonus depreciation rules and did not enact tax rate decreases like TCJA did.
- Because states typically follow the Section 163(j) changes but not the bonus depreciation rules, the modifications resulted in a state income tax increase on companies.

Deductibility of Interest Expense Helps Drive Economic Growth and Investment

- Interest expense typically results from debt incurred by companies to grow and maintain investments and supports employment and operations.
- Full interest deductibility without the limitations imposed by Section 163(j) would reverse the tax increase imposed on companies.
- "Decoupling" from federal Section 163(j) would keep a state competitive for business investment and help ensure it remains a competitive destination for international companies to create jobs and employ Americans.