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February 15, 2023

To: The Senate Committee on Finance and Revenue  
From: Anthony K. Smith, National Federation of Independent Business  
Re: NFIB Written Testimony in Support of SB 127

**Chair Meek, Vice-Chair Boquist, and Members of the Committee:**

On behalf of the thousands of Oregon small business members of the National Federation of Independent Business, many being the smallest of small businesses, I would like to express our support for SB 127, which would increase the amount of commercial activity exempt from the Corporate Activity Tax (CAT), and the threshold for filing a tax return, from \$1 million to \$5 million.

When the Legislature passed the CAT in 2019, an overwhelming 91% of NFIB members in Oregon opposed it. It's no secret that small business owners have consistently and overwhelmingly expressed their frustration with the concept of a gross receipts tax, mostly 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.

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 CAT marked a significant shift in the way businesses are taxed in Oregon. I spoke with a small business owner in the Portland area just last week who lost money in the previous tax year and still has a sizable CAT liability – and she doesn't know how they are going to pay it.

The \$1 million threshold was originally sold as a small business exemption, but due to the pyramiding effects of a gross receipts tax, even the smallest of small businesses have seen substantial increases in costs. This has only been made worse by labor shortages, supply chain issues, inflation, and an increase in the overall tax burden on Oregon businesses in recent years.

I'd like to draw your attention to a chart presented by LRO to this committee on January 24, 2023. What's interesting about this data is the number of taxpayers paying the CAT compared with how much revenue the state brings in from businesses of differing levels of Oregon Commercial Activity.


SB 127 would set the new filing and exemption threshold to \$5 million. Looking at that chart, this would exempt 72% of current CAT filers but accounts for only 6.5% of total CAT revenue. I should note that due to a higher exemption threshold for all taxpayers, the revenue impact would be more than 6.5% of the nearly \$1 billion collected by the state each year, but when the CAT was enacted, we didn't have this data. Now we do – and we can make reasonable adjustments without undermining the ability of the tax to still raise considerable revenue.

NFIB respectfully asks you to vote YES on SB 127.

Thank you for your time and consideration,



Anthony K. Smith  
NFIB Oregon State Director

 <b>CAT Tax Liability by Oregon Commercial Activity, TY 2020</b>				
Oregon Commercial Activity	# of Returns	% of Total Returns	Net Tax (\$ millions)	% of Total Net Tax
Less than \$1 million	1,339	6.5%	\$0.0	0.0%
\$1 million to \$1.5 million	4,658	22.4%	\$2.6	0.3%
\$1.5 million to \$2 million	2,883	13.9%	\$7.5	0.8%
\$2 million to \$3 million	3,203	15.4%	\$18.5	1.9%
\$3 million to \$5 million	2,871	13.8%	\$34.8	3.5%
\$5 million to \$7 million	1,341	6.5%	\$28.9	2.9%
\$7 million to \$10 million	1,149	5.5%	\$37.0	3.8%
\$10 million to \$15 million	958	4.6%	\$47.5	4.8%
\$15 million to \$25 million	847	4.1%	\$68.4	7.0%
\$25 million to \$50 million	771	3.7%	\$115.0	11.7%
\$50 million to \$100 million	379	1.8%	\$116.3	11.9%
Over \$100 million	355	1.7%	\$504.1	51.4%
<b>Total</b>	<b>20,754</b>	<b>100%</b>	<b>\$980.5</b>	<b>100%</b>

Concentration in Tax Liability

3/24/2023

Legislative Revenue Office

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<https://olis.oregonlegislature.gov/liz/2023R1/Downloads/CommitteeMeetingDocument/258961>