

SMART GROWTH COALITION

May 1, 2025

Chair Nancy Nathanson
Vice-Chair E. Werner Reschke
Vice-Chair Jules Walters
House Committee on Revenue
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Sent electronically

RE: Opposition to HB 3940-A9 (Imposition of a New Statewide Payroll Tax)

Dear Chair Nathanson, Vice-Chairs Reschke and Walters, and Members of the Committee:

Thank you for the opportunity to submit these comments on behalf of the Smart Growth Coalition in opposition to the -A9 amendment to HB 3940, which seeks to impose a new statewide payroll tax to provide funding support for wildfire response. Although we understand the seriousness of finding an ongoing funding mechanism for fighting wildfires, a payroll tax is a blunt instrument that burdens employers and their employees at a time of mounting local, national, and global economic uncertainty.

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.

Payroll Taxes: A Blunt Tax on Jobs in an Unstable Economy

Since payroll taxes are assessed on gross wages, every payroll tax cumulatively increases the effective tax burden on those paying it, regardless of income level or ability to pay. While these taxes may appear modest in isolation due to their seemingly low rates, their combined effect can be substantial. Unlike income taxes, which can be calibrated to reflect economic reality or policy priorities, payroll taxes are imposed uniformly and without regard to profitability,

household needs, or regional disparities. In effect, they function as a direct tax on employment—raising the cost of hiring, retaining, and compensating workers at exactly the moment when economic stability and job growth are most needed.

Payroll taxes also create substantial administrative burdens for employers. At first glance, withholding a small percentage from employee wages might appear straightforward, but, in practice, the implementation is far more complex. Employers must modify existing systems or build entirely new processes to track wages, calculate withholding, and remit payments accurately and on time. Each new payroll tax requires additional compliance procedures, ongoing reporting obligations, and potential exposure to penalties for inadvertent errors. In effect, payroll taxes divert businesses from their operational focus and repurpose them as tax administrators on behalf of the state.

These challenges are particularly acute now as employers across Oregon contend with heightened economic and operational uncertainty. The escalation of tariffs and trade tensions has disrupted supply chains, increased input costs, and introduced volatility into markets that many employers depend on. Businesses are being forced to make difficult decisions just to stay afloat, such as adjusting pricing strategies, delaying investment, or scaling back hiring plans. Imposing a new payroll tax under these conditions not only adds financial strain but also undermines the ability of Oregon’s employers to navigate a period of genuine economic instability.

Finally, payroll taxes can place an unintended strain on the employer-employee relationship. Since these taxes are withheld directly from workers’ paychecks, employees may perceive them as a reduction in take-home pay, regardless of the policy’s intent or the employer’s role in implementing it. This dynamic can create frustration, miscommunication, and a sense of diminished compensation, particularly when workers are already facing high costs of living. For employers striving to attract and retain talent in a competitive labor market, this erosion of goodwill can be counterproductive.

For all these reasons, we urge the committee to reject the proposed payroll tax amendment to HB 3940. We encourage the Legislature to work with employers to identify solutions that fund wildfire response without undermining job creation, economic stability, or the trust between Oregon businesses and their workforce.

Sincerely,

Jeff Newgard
Smart Growth Coalition