

# Oregon Government Employee Unions Proposing New \$5 Billion Tax Hike – Largest in State History

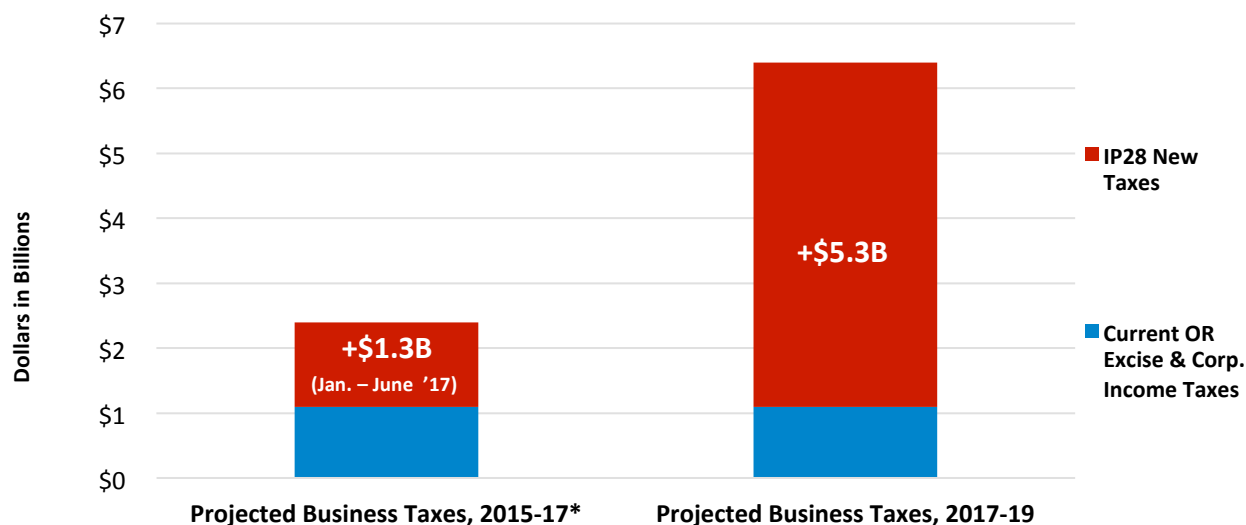
Oregon's government employee unions are gathering signatures to place Initiative Petition 28 (IP28) on the November 2016 statewide ballot. This measure would impose a huge new gross receipts tax on hundreds of companies doing business in Oregon. Representing the largest tax increase in state history, IP28 would make Oregon one of the worst states in the nation for doing business. This deeply flawed measure would damage our economy, threaten jobs, and increase prices for almost everything Oregon businesses and consumers buy.

## New Tax on Gross Sales, Not Profits

Under IP28, all C-corporations with Oregon sales in excess of \$25 million would be subject to a new minimum tax rate of \$30,001, *plus* 2.5% of gross Oregon sales over \$25 million annually. Because it's a tax on *gross sales* – not on profits – businesses would be forced to pay the tax regardless of whether they make a large profit, small profit, or no profit at all. That would unfairly punish hundreds of businesses with high sales and low profit margins, such as grocery stores, construction businesses, automobile dealers, restaurants, pharmacies, hardware and other retail stores, and many others.<sup>1</sup>

## Largest Tax Increase in State History

The nonpartisan Legislative Revenue Office has estimated that IP28 would increase taxes on companies doing business in Oregon by an additional \$5.3 billion per two-year budget cycle. That's nearly *five times* what they currently pay in excise and income taxes.<sup>2</sup> And when compared to the state's current General Fund budget of \$18 billion, IP28 represents an almost 30% increase – the largest tax increase in state history.



Source: Estimate by Legislative Revenue Office, July 2015  
\*Tax becomes effective Jan, 1, 2017.

<sup>1</sup> Mikesell, John L. "Gross Receipts Taxes in State Government Finance: A Review of Their History and Performance." *Tax Foundation Background Paper, No. 53* (January 31, 2007).

<sup>2</sup> "Oregon Economic and Revenue Forecast." *Dept. of Administrative Services' Office of Economic Analysis* (Sept. 2015).

## **Damages Our Economy, Threatens Jobs**

IP28 would make Oregon one of the most difficult states in the country to do business – and could drive companies with narrow profit margins into the red, out of the state, or out of business. It would particularly hurt startup companies – such as those in the software sector – that typically don't see profits for their first several years. These companies are among the fastest-growing sectors of the economy, and provide thousands of high-paying jobs. IP28 threatens to derail Oregon's ongoing economic recovery and would make local Oregon businesses less competitive.

## **Higher Prices for Oregon Businesses and Consumers**

This \$5.3 billion tax hike would become a new cost of doing business in Oregon – not just for our state's largest employers and their customers, but also for Oregon small businesses and consumers. Because it is a tax on gross sales, this new tax scheme works like a hidden sales tax – only worse, because it is a “tax on a tax” that is compounded in each step in the supply chain. By the time a product reaches a consumer, it may have been taxed four or more times, yielding a de-facto sales tax rate that's far higher than it appears on the surface.



IP28 would force local businesses to pass on the costs of the tax in the form of higher prices for everyday consumer items – even those that would be exempted from a traditional sales tax. That means Oregon consumers, small businesses and families would pay more for electricity, phone, gas and cable TV bills – as well as for clothing, food, medicines and many services. This would especially impact low-income Oregonians. Research has shown that taxes like IP28 unfairly hurt those who can least afford to pay.<sup>3</sup>

## **Join Our Coalition to Oppose IP28's Damaging Tax Scheme**

A broad-based coalition of both large and small Oregon businesses, taxpayers, consumers, organizations and community leaders from across the state is organizing to oppose IP28. Your support is vital to help ensure we can defeat this extreme proposal. To join our coalition, or for more information, please contact us at (877) 575-9950. Thank you!

### **Wild Card: Personal Income Tax Measures**

IP28 proponents have also filed two measures for the Nov. 2016 ballot that would increase personal income tax rates in Oregon. Either measure would increase tax rates for S-Corps, LLCs, partnerships and individuals at various income levels.

- New Rates under IP24: 10.8% for \$125k+ and 11% for \$250k+
- New Rates under IP26: 11.5% for \$125k+, 13.5% for \$250k+ and 15.5% for \$500k+

Under either measure, Oregon's highest income tax bracket would rank among the highest in the nation – a stark contrast to Washington and Nevada, neighboring states with no state income taxes.

<sup>3</sup> Chamberlain, Andrew and Fleenor, Patrick. "Tax Pyramiding: The Economic Consequences of Gross Receipts Taxes." *Tax Foundation Special Report, No. 147* (Dec. 2006).