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76th Legislative Assembly
SENATE FINANCE & REVENUE COMMITTEE

900 Court Street NE Room 143
Salem, Oregon 97301
Phone (503) 986-1266 — Fax (503) 986-1770

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BUSINESS TAX BASE OPTIONS

1. **GROSS RECEIPTS**

   DEFINITION: Total business receipts equal to the number of units sold times the price they are sold for.

   KEY ELEMENTS:
   - **Broad base means low rate yields substantial revenue.**
   - **Taxes can be added on at each stage of production causing cascading effect.**
   - **Low profit-margin businesses pay higher effective tax rate.**
   - **Gross receipts will not reflect benefits from public services for those businesses such as wholesalers or distributers that purchase products from primary producers.**

2. **VALUE ADDED**

   DEFINITION: Can be calculated as sum of input costs such as labor, capital and natural resources or by subtracting purchases from other businesses from gross receipts. At the state level, the additive approach is most practical.

   Key Elements:
   - **Base reflects business activity/benefits received**
   - **Base less broad than gross receipts meaning higher rates needed to generate same amount of revenue.**
   - **Tax not subject to cascading because purchases from other businesses are not part of base.**
   - **Businesses such as wholesalers/distributers are not adversely affected because value added is low relative to gross receipts.**

3. **NET INCOME**

   DEFINITION: Gross receipts minus all costs of doing business equals net income.

   Key Elements:
   - **Based on ability to pay not benefits received.**
   - **Narrow base means high rates needed to generate substantial revenue.**
   - **Firms with large presence may have no tax liability.**
   - **Revenue stream highly uncertain and volatile.**

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