OCPP OREGON CENTER for PUBLIC POLICY
Because facts matter.

Corporate Accountability Reporting - Frequently Asked Questions (FAQ)

Revised April 25, 2006

Oregon's corporate income tax system is broken. It has become so riddled with loopholes that big corporations today are paying a fraction of the income taxes, as a share of their profits, that they paid in Oregon a generation ago. Today, two of every three corporations doing business in Oregon pay only $10 annually in corporate income taxes.

As a result, Oregon individuals and families must pay a larger portion of the costs of public investments and services. In the mid-1970s, corporations in Oregon paid about 18 percent of the state income tax bill. In this budget cycle, corporations are paying six percent of Oregon's income taxes, leaving households to pay 94 percent. At the same time, Oregon homeowners are paying a larger share of local property taxes than a generation ago, while businesses are paying less. Oregon families have to pick up the tab when corporations escape paying taxes on their profits and property.

Some corporations pay their fair share in taxes, but they get no credit for being responsible public citizens because so many other big corporations are getting away with paying too little. The time has come for Oregon to shine the light of public scrutiny on the irresponsible corporations and hold them accountable, as well as honor good corporations that pay their fair share in taxes on their profits. This is exactly what Corporate Accountability Reporting will do.

Initiative petition #102 would establish Corporate Accountability Reporting in Oregon.

Here is the text of the measure (PDF) and the Oregon Supreme Court-approved ballot title (PDF).

What does the corporate accountability reporting measure do?

The measure requires certain large corporations to file a report with the Oregon Secretary of State specifying some tax-related information that will be available for public review.

Which corporations must file the report?

Large corporations, not small businesses:

- All publicly traded corporations;
- All financial corporations (such as banks, trust companies, building and loans, savings and loans associations) and "any other corporation whose principal business is in direct competition with national or state banks," such as payday loan corporations;
- Corporations having more than 250 employees; or,
- Corporations with sales in excess of $10 million per year.

Which businesses are exempt from reporting?

- Small businesses - corporations with fewer than 250 employees and less than $10 million in sales in a year (or less than $833,333 a month)
- Personal service corporations, which are corporations where employee-owners are performing services in fields such as health, law, engineering, architecture, accounting, and consulting.

What will large corporations report?

Corporations will report information that helps Oregonians hold corporations accountable and helps us determine whether our tax system is fair. On an annual basis, the reports will show:

- The amount of profits taxable by the State of Oregon.
- Total US taxable profits as reported to the IRS.
- The extent of the corporations' sales, property, and payroll that can be tied to Oregon.
- Final total Oregon tax liability for the year.
- The most recent assessed value of real and personal property in Oregon and the gross assessed tax on that property.

How will the measure increase corporate accountability?

- It will show Oregonians whether the corporations who are demanding more from public services, such as investments in K-12 and higher education, are paying their fair share.
- It will improve decision-making about tax loopholes and tax incentives, helping Oregonians understand which tax breaks work, and which do not.
- It will help restore public confidence in Oregon's corporate tax system.

Isn't this information already disclosed?

Yes and no:

- Property taxes are public records, but are not compiled statewide.
- While the measure does not require the disclosure of tax credits received by the large corporations who will report, some tax credits are already public information. The pollution control tax credit and the business energy tax credit are two examples.
- Publicly traded corporations already have to disclose far more detailed financial information to the federal government than they will have to report to Oregon under this measure. But the information corporations disclose to the Securities and Exchange Commission does not give state-specific tax data. The Corporate Accountability Reporting measure fills that hole with information relevant to Oregon.

Isn't all tax information secret?

No. First, this measure does not make tax returns public. The Oregon Department of Revenue would still be required to keep corporate tax returns confidential under this measure.

Instead, the measure requires corporations to report to the Oregon Secretary of State only carefully selected tax-related information. The public does not get access to corporate tax returns and detailed tax return information.

The public already has access to which corporations get certain tax credits and their costs. Tax credit information is not secret when an agency other than the Oregon Department of Revenue has to certify conditions to get the tax credit. Examples include the pollution control tax credit, business energy tax credits, and the child and dependent care credit.

Large, publicly traded companies disclose their federal tax liability in their mandatory filings with the U.S. Securities and Exchange Commission. Sometimes they disclose to the SEC their aggregate tax liability to state governments. They do not already disclose state-specific tax information.

As early as 1911, the U.S. Supreme Court upheld a federal law that provided for the public inspection of corporate tax returns against claims that it was unconstitutional.

Would Corporate Accountability Reporting change Oregon's corporate tax laws?

No. Corporations must file Oregon corporate taxes if they are located here or sell their products or services here and have a presence here. Oregon bases it taxes on profits, not revenues. If companies are located in Oregon but do not sell their goods or services to Oregonians, they would still pay only Oregon's $10 minimum tax. This measure would not directly change this or any other feature of corporate tax law.

The information provided, however, may ultimately lead to changes in Oregon's corporate tax laws to make them more equitable. It will help Oregonians learn whether Oregon's tax system is treating all corporations fairly.

Won't it hurt Oregon's business climate?

No. This argument is a jaded, knee-jerk response that some big corporations use whenever someone proposes a policy that they do not like. Though some corporations may portray this measure in a negative light, Corporate Accountability Reporting is unlikely to harm Oregon's business climate for the following reasons.

When publicly traded companies were first required to disclose detailed information to the Securities and Exchange Commission (SEC), the requirement did not hurt America's business climate. Disclosure helped restore confidence in publicly traded companies. Today, after Enron and other scandals, there is even more disclosure to the SEC and the disclosure is helping to restore confidence in corporate America. Corporate Accountability Reporting similarly helps Oregon's business climate by requiring big corporations operating in Oregon to disclose some information to the public.

This measure has nothing to do with business climate and corporate location decisions. Corporations must file Oregon corporate taxes if they are located here or sell their products or services here. Corporations like selling their products to Oregonians and they will continue to sell their products even if they have to report whether they are paying their fair share of taxes on their Oregon profits. Any corporation that is more interested in avoiding public scrutiny than in selling to Oregonians is a company

Oregonians do not need to support. If companies are located in Oregon but do not sell their goods or services to Oregonians, they will continue to pay only Oregon's $10 minimum tax.

State taxes are only a minor factor shaping business investment decisions. Labor costs and skills, the availability of clean water, the cost of utilities, access to markets, and other factors are more important to the business climate than state taxes. Nationally, state and local taxes equal just eight-tenths of one percent of the cost of doing business.

Corporations who are truly concerned about Oregon's business climate should first stop spreading the lie that Oregon's business taxes are too high. From the Council on State Taxation to the Utah State Tax Commission, study after study shows that Oregon's business taxes are low compared to the rest of the nation. When some business interests in Oregon wrongly allege that Oregon's taxes are too high, it is those complainers who are hurting Oregon's business climate and the ability of state leaders to attract new investments.

How is Corporate Accountability Reporting good for Oregon's business climate?

Public acknowledgement of Oregon's responsible corporations that pay their fair share in taxes is good for Oregon's business climate. It shows that corporations selling to Oregonians and operating in Oregon can make a profit, since they pay taxes only on their profits, not their revenues.

The information will help Oregonians construct a corporate tax system that treats similar corporations equitably. Reporting will allow Oregon to create an evenhanded corporate tax system, which is good for our business climate. Corporations want to locate and sell their products and services where taxes are equitable and where laws do not give preference to a few.

How is Corporate Accountability Reporting good for Oregon's economic development efforts?

It will help Oregonians evaluate the State's economic development strategy, showing Oregonians whether companies we lured to Oregon with tax breaks and other financial incentives are paying their fair share in taxes.

It will allow economic development officials to give more information to prospective businesses.

State economic development officials will be better equipped to demonstrate to corporations considering investments in Oregon that Oregon's business taxes are low. State taxes are a small share of the cost of doing business.

If companies have to report their tax liability, will this measure set a precedent that would result in making personal income tax information public?

No. Unlike individuals, corporations are creatures of the Legislature, with no natural rights other than those granted by the Legislature.

No Oregon legislator would vote to make public individual income tax returns, because they know they would be recalled or voted out of office at the next election. Even if a corporate-sponsored initiative requiring disclosure of personal income tax information were to ever reach the ballot, as a retaliatory measure in response to the limited disclosures required by Corporate Accountability Reporting, the voters of Oregon would reject it.

Do other states make this information public?

Wisconsin law allows any Wisconsin resident to obtain the net tax liability of any business filing returns in Wisconsin, not just large corporations.

Does this measure relate to corporate tax abuses we read about in the news?

Yes. Because the sunshine of disclosure helps to disinfect, Congress and the SEC have required more disclosure to prevent abuses. Recently, the Commissioner of the Internal Revenue Service suggested that Congress consider making federal tax returns public information to help curb abuses.

Remember, unlike the IRS Commissioner's suggestion, this initiative does not make a tax return public - it merely requires reporting of some information that happens to be on tax returns, and other information.

Will these reports reveal trade secrets or proprietary information, putting Oregon businesses at a disadvantage compared to other states?

No. That is a valid question, but no one has yet come up with an example of potentially damaging information or trade secrets that would be disclosed by this measure.

If a corporation had to report tomorrow's financial news today, they would have a valid concern. The Corporate Accountability Reporting measure, on the other hand, merely requires reporting of yesterday's information tomorrow. That is neither a trade secret nor proprietary information that would aid a competitor.

Corporations do not hold a proprietary interest in the fact that Oregon is a good place to earn profits - and thus pay taxes - in certain industries. That is why Intel, a business in a highly competitive industry, has disclosed its corporate income tax payments. Intel did not reveal proprietary or trade secret information when they disclosed their corporate income tax payments, and they certainly did not give their competitors an advantage.

Other sources of information, already available to competitors, contain proprietary information. For example, filings with the U.S. Securities and Exchange Commission and information at the Audit Bureau of Circulations that discloses newspaper sales data actually do contain some information that could be useful to competitors. Last year's state tax-related information, by contrast, is not useful to a competitor.

Won't Oregonians be confused by or misuse this information?

No. An informed public is basic to a healthy democracy, competition in an open market, and effective public policy decision-making.

The tax rate a company pays on its profits is the most basic yardstick of tax fairness. Oregon's tax system can only benefit from making such important information available to lawmakers, the media, and the public at large. The public will be able to compare their own tax liability to the liability of profitable large corporations and make informed decisions about tax fairness.

Is this going to hurt small businesses?

No. Small businesses aren't included in the measure. A corporation must have over 250 employees or more than $10 million in sales. That means it must sell more than $833,333 each month, or more than $192,308 each week. Only big corporations are required to report.

Oregon Center for Public Policy 204 N. First St. Suite C, P.O. Box 7, Silverton, OR 97381-0007 | 503-873-1201 | info (at) ocpp.org.