

To: House Committee on Revenue

From: Main Street Alliance of Oregon Small Businesses

Date: February 10, 2016

Re: Letter in Support of HB 4026-1

Chair Barnhart, Vice-Chairs Bentz and Smith Warner, and Members of the Committee,

**The Main Street Alliance of Oregon, a coalition of over 3000 small businesses across Oregon, supports the -1 Amendments to HB 4026.** Amending the Oregon corporate tax code to adopt market-based sourcing for sales of services and intangibles, would result in a more equitable tax structure for Oregon businesses.

In 2014, the Multistate Tax Commission, an intergovernmental state tax agency that works to promote uniformity in state tax laws, voted to recommend states adopt market based sourcing for sales of services and intangibles. If Oregon adopted this policy it would reduce taxes on Oregon-based companies and raise them for firms located in other states.

Currently, Oregon uses market-based sourcing for most industries in the state. A single sales factor (SSF) apportionment of corporate taxes, which only taxes the share of a company's sales that take place in Oregon. This system benefits companies that make goods in Oregon, but sell their good primarily in another state or country.

While the SSF applies to the sale of tangible goods, it does not apply to services or intangible products, like computer software. Service and IP companies are currently taxed based on "cost-of-performance," resulting in Oregon businesses paying taxes in Oregon on all of their sales, regardless of where the actual sale of the product takes place.

This inconsistency puts Oregon service and businesses at a competitive disadvantage to non-Oregon based companies; it means competitors based elsewhere pay no Oregon taxes if their development happens in another state. Market-based sourcing would provide tax relief to Oregon businesses while making out-of-state companies pay their fair share for the business they do in the state.

It is critical that any change in Oregon's tax code be thoroughly studied by experts, like those at Legislative Revenue Office or Oregon Department of Revenue, to ensure that the law be easy to implement and enforce, and would best serve our state's economy. Additionally, since there are 19 states (Alabama, Arizona, California, Georgia, Illinois, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New York, Ohio, Oklahoma, Pennsylvania, Utah, Washington and

Wisconsin) who currently use market-based sourcing for service industries, there are model policies and best practices which Oregon can use to inform this process.

Switching to market based sourcing would make Oregon's tax system more fair for Oregon-based businesses, cutting taxes on Oregon companies and raising them on out-of-state firms.

Yours respectfully,

A handwritten signature in black ink that reads "Jim Houser". The signature is fluid and cursive, with a large loop at the end of the last name.

Jim Houser, co-chair  
Hawthorne Auto Clinic, Portland

A handwritten signature in blue ink that reads "Mark S. Kellenbeck". The signature is cursive and clearly legible.

Mark Kellenbeck, co-chair  
BrainJoy LLC, Medford