ANALYSIS OF THE
REVENUE REFORM AND EDUCATION STABILITY ACT

June 13, 2017

ERIC FRUITS, PH.D.
Economics International Corp.

	2017-19	2019-21	2021-23	2023-25
Commercial Activity Tax				
C-Corporations	$405	$2,062	$2,071	$2,267
Pass-Through Entities	134	453	692	756
50%/25% CAT Credit for Pass-Throughs	-67	-198	-173	-189
Repeal Pass-Through Special Rate	282	277	332	398
Repeal Existing Corporate Income Tax		-1,076	-1,122	-1,171
Temporary Corporate Tax Increase	204			
Net Business Tax Increase	**$958**	**$1,518**	**$1,800**	**$2,061**

Source: Revenue Reform and Education Stability Act of 2017 (RRESA), Draft proposal (SIM 13), June 7, 2017

1 Executive Summary

Last November, Oregon voters rejected Measure 97 by a wide margin. That overwhelming defeat is not stopping the legislature from bringing a version of it back. The Revenue Reform and Education Stability Act of 2017 —the "Son of 97"—is a massive and complex change to Oregon's tax system, affecting business and personal income taxes (Exhibit 1). It is more than just a rejiggering of the tax system, it is a $2 billion tax increase, borne largely by those businesses with the

■ **Eric Fruits, Ph.D.** is president and chief economist at Economics International Corp., an Oregon based consulting firm specializing in economics, finance, and statistics. He is also an adjunct professor at Portland State University. His economic analysis has been widely cited and has been published in *The Economist* and the *Wall Street Journal*. Dr. Fruits has been invited to provide analysis to the Oregon legislature regarding the state's tax and spending policies. His testimony regarding the economics of Oregon public employee pension reforms was heard by a special session of the Oregon Supreme Court.

least ability to pay. The bulk of the tax increase is a tax on sales that the Legislative Revenue Office concludes will be passed on to Oregon households.

The RRESA would impose a new "Commercial Activity Tax," also known as the CAT. The CAT is much like Measure 97, except it is worse. Where Measure 97 hit only the largest of the large corporations, this new proposal would affect every single business in Oregon and hit small and medium sized businesses—and their owners—hardest.

- The RRESA would implement a new tax of more than $2 billion on companies selling goods and services to Oregonians. Most of the tax is a tax on sales that will be passed on to consumers in the form of higher prices.
- The biggest businesses with the biggest profits can see tax cuts in the millions of dollars a year, while many small and mid-size Oregon businesses would experience steep tax increases. The RRESA establishes punitive taxes on companies that are already struggling, while giving tax breaks to profitable companies with a greater ability to pay.
- Many owners of partnerships, LLCs, and S-corporations will be hit with a triple whammy of the new Commercial Activity Tax, a higher rate on their personal income taxes, and the loss of the special rate on pass-through income on their personal income taxes.
- While partnerships, LLCs, and S-corporations will face a steep new tax on their businesses and an increase in their personal tax rates, C-corporations will see one of their taxes go away.
- Even with a partial "credit" against the Commercial Activity Tax for pass-through entities, Oregon small businesses—as defined by the Small Business Administration—face thousands of dollars in new taxes under the RRESA.
- The average business owner who currently qualifies for the pass-through rate under current law would face about $10,500 a year in higher personal income taxes under the RRESA.

2 A more than $2 billion tax increase on sales in Oregon

The latest version of the RRESA would raise business taxes by more than $2 billion. Much of the tax increase is a new tax on Oregon sales. A little more than half the tax increase ($1.1 billion or 53 percent) would be borne by C-corporations and a little less than half ($965 million or 47 percent) would be borne by pass-through entities and their owners.

Table 1: RRESA business tax increases

	2017-19	2019-21	2021-23	2023-25
Commercial Activity Tax				
C-Corporations	$405	$2,062	$2,071	$2,267
Pass-Through Entities	134	453	692	756
50%/25% CAT Credit for Pass-Throughs	-67	-198	-173	-189
Repeal Pass-Through Special Rate	282	277	332	398
Repeal Existing Corporate Income Tax		-1,076	-1,122	-1,171
Temporary Corporate Tax Increase	204			
Net Business Tax Increase	**$958**	**$1,518**	**$1,800**	**$2,061**

Source: Revenue Reform and Education Stability Act of 2017 (RRESA), Draft proposal (SIM 13), June 7, 2017

3 Double and sometimes triple taxation and tax increases on pass-through entities

Under current law, many pass-through entities—partnerships, LLCs, and S-corporations—pay an excise tax of $150. Any profits from these businesses are passed through to the owners. The profits passed through to owners are taxed at Oregon's personal income tax rates.

The RRESA levies an additional Commercial Activities Tax on pass-through entities and increases the minimum tax to $250 a year. Thus, rather than being taxed once, owners of partnerships, LLCs, and S-corporations would be taxed twice: First on their businesses' sales, then a second time on their companies' profits.

In contrast, the RRESA eliminates the currently existing corporate income tax on C-corporations. **While partnerships, LLCs, and S-corporations will face a steep new tax on their businesses, C-corporations will see one of their taxes go away.**

For all levels of sales and income, the RRESA increases taxes on partnerships, LLCs, and S-corporations. The table below shows the increase taxes for pass-through entities with different levels of sales and income. **Even small businesses—as defined by the Small Business Administration—face thousands of dollars in new taxes under the RRESA.**

Table 2: RRESA tax increases for hypothetical pass-through entities

		Profit Rate			
		Zero	2.5%	10.0%	25.0%
Sales	$2,000,000	$100	$100	$100	$100
Sales	$5,000,000	$7,300	$7,300	$7,300	$7,300
Sales	$50,000,000	$169,300	$169,300	$169,300	$169,300
Sales	$250,000,000	$889,300	$889,300	$889,300	$889,300

Source: Author's calculations. Assumes 25% CAT tax credit.

Stayce Blume, president-elect of the Gresham Area Chamber of Commerce and owner of the Skyland Pub in Troutdale explains how her restaurant's taxes would increase under the proposal:[1]

> We are facing a potential tax of at least an additional $7,000. While that might seem pretty straightforward, it isn't. In order for us to cover this additional tax liability, we would have to generate more than $28,000 in sales to cover it. This tax would eat the equivalent of 8 days of our small restaurant's revenue.

In addition to the double taxation of partnerships, LLCs, and S-corporations, the RRESA eliminates the special tax rate on pass-through income for owners who actively manage their business. Eliminating the special rate increases the personal income taxes paid by owners of partnerships, LLCs, and S-corporations. Legislative Revenue Office has analyzed the impacts of repealing the pass-through

[1] Blume, Stayce. A gross receipts tax would hurt Oregon's small businesses. *Oregonian*. April 23, 2017.

rate (Exhibit 2).[2] **Under the RRESA, the average business owner who currently qualifies for the pass-through rate would face approximately $10,500 a year in higher personal income taxes.**[3]

Table 3: RRESA tax increases on pass-through entities

	2017-19	2019-21	2021-23	2023-25
Commercial Activity Tax	$134	$453	$692	$756
50%/25% CAT Credit for Pass-Throughs	-67	-198	-173	-189
Repeal Pass-Through Special Rate	282	277	332	398
Net Business Tax Increase	**$349**	**$532**	**$851**	**$965**
Memo: Effective CAT Credit	16%	27%	17%	16%

Source: Revenue Reform and Education Stability Act of 2017 (RRESA), Draft proposal (SIM 13), June 7, 2017

Under an earlier concept of the proposal, modeled by the Legislative Revenue Office as Sim 12, pass-through entities would receive a “credit” against the Commercial Activity Tax of 43 percent. The intention of the “credit” was to offset the repeal of the pass-through rate. With the June 7 concept (Exhibit 1), the pass-through rate is retroactively eliminated in 2017 and the “credit” begins at 50 percent in 2019 and is reduced to 25 percent in 2021. In this way, the RRESA effectively divorces the “credit” from the elimination of the pass-through rate. In fact, the “credit” is not truly a tax credit at all—it is merely a separate tax rate applied to pass-through entities.

Under the RRESA, many owners of partnerships, LLCs, and S-corporations will be hit with a triple whammy of the new Commercial Activity Tax, a higher rate on their personal income taxes, and the loss of the rate on pass-through income.

[2] Oregon Legislative Revenue Office. Pass-through tax rate reduction policy. December 12, 2016. https://olis.leg.state.or.us/liz/2015I1/Downloads/CommitteeMeetingDocument/94562.

[3] LRO reports 13,364 filers claimed the pass-through rate on their 2015 personal income tax returns. Table 3 indicates that eliminating the pass-through rate would raise taxes for these filers by $277 million in the 2019-21 biennium. The annual tax increase per filer would be approximately $10,500 ($277 million per biennium ÷ 13,364 filers ÷ 2 years per biennium = $10,367 per filer per year).

4 Inequities in the taxation of C-corporations

The RRESA shifts the tax burden from large, profitable C-corporations to smaller and less profitable corporations. Oregon's current corporate income tax systems is largely based on ability to pay: Businesses with higher profits have a higher tax burden. The RRESA turns this concept upside down.

1. The RRESA adds a Commercial Activity Tax in which the tax is assessed on sales, rather than profit. **Low margin businesses and money-losing businesses pay the same taxes as highly profitable businesses with the same amount of sales.**

2. The RRESA eliminates the existing corporate income tax. Big businesses with big profits will pay lower taxes under the RRESA than they are currently paying. **The biggest businesses with the biggest profits can see tax cuts in the millions of dollars a year, while many small and mid-size Oregon businesses may have steep tax increases.**

Consider two C-corporations with $5 million in sales, one business has zero or negative profits and the other has $1.25 million in profits (a 25 percent profit rate). Table 4 shows the unprofitable business will pay $5,850 *more* in taxes under the RRESA, while the profitable company will pay $75,150 *less*. **The RRESA establishes punitive taxes on companies that are already struggling, while giving tax breaks to profitable companies with a greater ability to pay.**

Table 4: RRESA tax changes for hypothetical C-corporations

		Profit Rate			
		Zero	2.5%	10.0%	25.0%
Sales	$5,000,000	$5,850	$1,600	($23,150)	($75,150)
Sales	$50,000,000	$175,850	$140,850	($144,150)	($714,150)
Sales	$250,000,000	$1,085,850	$720,850	($704,150)	($3,554,150)

While big, profitable companies will see big tax cuts under the proposed tax changes, the RRESA is designed to raise taxes overall. **For every $1 of tax cuts from eliminating the existing corporate tax system, the RRESA's Commercial Activity Tax raises taxes by $2.** Most of the increases will be paid by companies with low profits or no profits.

Table 5: RRESA tax increases on C-corporations

	2017-19	2019-21	2021-23	2023-25
Commercial Activity Tax	$405	$2,062	$2,071	$2,267
Repeal Existing Corporate Income Tax		-1,076	-1,122	-1,171
Temporary Corporate Tax Increase	204			
Net Business Tax Increase	**$609**	**$986**	**$949**	**$1,096**

Source: Revenue Reform and Education Stability Act of 2017 (RRESA), Draft proposal (SIM 13), June 7, 2017

5 A "bad" tax: Complex structure and high rates

At the May 18, 2017 meeting of the Joint Committee on Tax Reform, the committee reviewed a document titled "The GOOD and BAD of Commercial Taxes" (Exhibit 3). "Bad" taxes had two things in common: (1) a complex structure, and (2) high rates. The various revisions that have produced the current version of the RRESA, have moved the proposal to the "bad tax" category.

1. The Commercial Activity Tax grown from a single rate to five different rates, with the newest addition a rate for agriculture, forestry, and fishing. Businesses must now be careful in defining in which industry they operate.

    - Is Amazon considered "services" or "retail trade?" The difference can more than double Amazon's tax bill.

    - The Tillamook co-op has a dairy, a restaurant, and has retail sales: Is Tillamook "agriculture," "retail trade," or "all other?"

    - Costco sells to restaurants and stores as a wholesaler and also sells goods (e.g., groceries, clothing) and services (e.g., optometry) directly to retail customers. Is Costco "retail trade," "wholesale," or "services?"

    These complexities inject massive uncertainty on companies considering doing business in Oregon under the RRESA.

2. The focus on Oregon sales raises complex questions regarding the definition of an Oregon sale. Discussion at the June 8, 2017 meeting of the Joint Committee on Tax Reform regarding the sale of Oregon-grown potatoes processed into French fries at a facility in Boardman, then sold as French fries in Oregon and around the world highlight the complexities and inequities of the RRESA. The Legislative Revenue Office's Paul Warner indi-

cated French fries sold to China would not be subject to the Commercial Activities Tax, but French fries sold in Oregon would be taxed. The exchange made clear that the Commercial Activity Tax is an overly complex name for what is fundamentally a tax on Oregon sales.

3. A large number of businesses—and a large share of partnerships, LLCs, and S-corporations—would be paying the top rate of 0.75 percent of sales. This rate is approximately 50 percent higher than the top rate associated with "good" commercial taxes and only slightly lower than the rate associated with "bad" commercial taxes.

6 Incomplete information for decision makers and the public

Much of the information presented to the Joint Committee on Tax Reform and to the public is incomplete. The information provided lack sufficient detail to adequately or accurately assess the impacts of the RRESA on business, individuals, and the Oregon economy. The committee must obtain the necessary information to answer the following questions for decision makers and the Oregon public.

1. **Who are the winners and the losers?** None of the information presented in the months the Joint Committee on Tax Reform has been meeting has clearly laid out the characteristics of winners and losers and how much the winners win and the losers lose.

   - Firms with high profits who pay a large portion under the current corporate tax system would reap a windfall of millions of dollars per year in tax savings under the RRESA.
   - Firms with low profits, no profits, or losses would face a steep increase in taxes that could endanger their existence in Oregon.
   - Partnerships, LLCs, and S-corporations would unambiguously be worse off. Some of these Oregon pass-through entities would see huge hikes in their taxes. Because most start-ups and emerging firms are pass-through entities, RRESA would stifle entrepreneurship and discourage small firms seeking to grow and expand.

2. **What is linkage between the RRESA and the economic growth?** The first goal of the Joint Committee On Tax Reform (Exhibit 1) is to "Support eco-

nomic growth, especially small businesses." The Legislative Revenue Office's Sim 12 indicates that the RRESA would reduce wages earned by the average Oregon household while increasing their tax burden. LRO calculates the wage and tax impacts would reduce the disposable income of the median Oregon household by $144 a year. Paul Warner's June 8, 2017 presentation to the Joint Committee on Tax Reform suggested that any potential job gains came from *reducing* personal income taxes rather than *raising* business taxes. A breakdown of job impacts by the components of RRESA would help the committee and the public determine what parts of the proposal harm economic growth and what parts foster economic growth.

3. **What is the linkage between the RRESA and small business?** The first goal of the Joint Committee on Tax Reform (Exhibit 1) is to "Support economic growth, *especially small businesses*" [emphasis added]. With partnerships, LLCs, and S-corporations clearly worse off under the RRESA, there has been no effort to connect the dots between the higher taxes and the growth of small business.

The committee must seek detailed answers to these questions for decision makers and the Oregon public considering this $2 billion tax increase on Oregon sales. ■

Exhibit 1

Revenue Reform and Education Stability Act of 2017 (RRESA)

DRAFT PROPOSAL (SIM 13) 6/7/17

GOALS:

- Support economic growth, especially small businesses
- Reform the state's revenue structure for budget stability
- Dedicate 75% of new revenue to education

STRATEGY:

- Next biennium, stabilize budgets and strategically increase education investments through temporarily increasing the corporate income tax and eliminating the pass-through tax break.
- Eliminate the current corporate income tax and establish a tiered commercial activity tax (CAT) for all business entities effective January 1, 2019, helping small businesses who have less than $3 million in Oregon sales (approximately 92% of businesses would pay a $250 minimum or less). Delaying the start of the new CAT allows for further review in 2018 Session and time for implementation.
- Create the Education Strategic Investment Fund to ensure new revenue goes to increasing investments in education, from early childhood through college. New revenue in 2017-19 would fund the State School Fund at $8.5 billion, fully fund Measure 98 (CTE/graduation) and Measure 99 (outdoor school), and maintain/improve investments in early childhood and higher education ($668 million total).

REVENUE IMPACT ESTIMATES ($ millions)

	2017-19	2019-21	2021-23	2023-25
Commercial Activity Tax (CAT) (effective 1/1/19) • Applies to all entities, based on Ohio model • Filing threshold $150,000 in receipts • $250 minimum for receipts less than $3 million • Rates applied to receipts above $3 million: o 0.75% for services o 0.35% for retail trade o 0.25% for wholesale o 0.15% for agriculture/forestry/fishing o 0.48% for all other	539	2,515	2,763	3,023
Credit on CAT for Pass Throughs (50% credit in 2019, 25% credit starting in 2021)	(67)	(198)	(173)	(189)
New Personal Income Tax Rate Structure (effective 2019 tax year) 4.5%, 6.5%, 8.75% for taxable income <$25K (single)/<$50K (joint), 9.0%, 9.9% [current brackets are 5%, 7.0%, 9.0%, 9.9%]	(68)	(353)	(379)	(407)
Repeal Pass Through Special Rate (effective 1/1/17)	282	277	332	398
Corporate Income Tax • Temporary rate increase (2017 and 2018) to 8% and 9% [current rates are 6.6% (first $1 million) and 7.6% (above $1 million)] • Eliminate corporate income tax structure (2019)	204	(1,076)	(1,122)	(1,171)
NET REVENUE IMPACT	**890**	**1,165**	**1,421**	**1,654**

Pass-Through Tax Rate Reduction Policy

Legislative Revenue Office

12/12/2016

Policy Description & Requirements

- The policy objective is to provide a more favorable rate structure for business income earned by taxpayers who actively manage their own businesses
- Taxpayers can have income from partnerships, S-corporations, and LLCs taxed at lower marginal rates
- Policy is NOT intended to benefit passive investment or rental income
- Primary requirement is the taxpayer must "materially participate" in the business
  - Basically, taxpayer must have regular, continuous, and substantial participation in the business
- Have at least one full-time, non-investor employee
- Qualifying employees must work at least 1,200 hours in Oregon

2015 Tax Rate Brackets

Joint Income Tax Rates	
Taxable Income ($)	Tax Rate
< $6,700	5.0%
$6,700 to $16,800	7.0%
$16,800 to $250,000	9.0%
$250,000 or more	9.9%

Non-Passive Income Tax Rates	
Taxable Income ($)	Tax Rate
< $250,000	7.0%
$250,000 to $500,000	7.2%
$500,000 to $1 Million	7.6%
$1 Million to $2.5 Million	8.0%
$2.5 Million to $5 Million	9.0%
$5 Million or more	9.9%

Gross Tax Calculation: Taxpayer Opt-In

Base approach -- Gross Tax A is calculated under traditional method: *(All Income - Deductions) x (Regular Rates) = Gross Tax A*
Opt-in approach -- Gross Tax B is calculated under the new law: *(Non-passive Income) x (New Rates) = Gross Tax B.1* *(All Other Income - Deductions) x (Regular Rates) = Gross Tax B.2* *(Gross Tax B.1) + (Gross Tax B.2) = Gross Tax B*
The taxpayer will choose the lesser of the two gross tax amounts: *Gross Tax = Lesser of "Gross Tax A" or "Gross Tax B"*

Exhibit 2

Revenue Impacts

	2013-15	2015-17	2017-19	2019-21	2021-23
Projected Revenue Impact, $M	-38	-205	-239	-277	-332

Preliminary Tax Year 2015 Data, Full-Year Filers

Revenue Impact ($M)			
Income	Estimated	Preliminary	Difference
$0 - $50k	-$0.8	$0.0	$0.8
$50k-$70k	-$1.4	-$0.1	$1.3
$70k-$100k	-$4.0	-$0.4	$3.6
$100k-$200k	-$15.9	-$3.5	$12.3
$200k-$500k	-$28.9	-$14.5	$14.4
> $500k	-$40.1	-$47.6	-$7.5
Total	-$91.1	-$66.3	$24.9
Means ($)	-$1,171	-$4,958	

Number of Claimants			
Income	FY Filers	Claimants	Share
$0 - $50k	1,009,876	293	0.0%
$50k-$70k	201,760	442	0.2%
$70k-$100k	205,415	938	0.5%
$100k-$200k	224,363	3,697	1.6%
$200k-$500k	59,144	4,861	8.2%
> $500k	11,936	3,133	26.2%
Total	1,712,494	13,364	0.8%

Tax Reduction Distribution

	Returns		Tax Cut	
Tax Cut	Number	Share	$ Million	Share
< $5k	9,813	74.0%	$14.5	21.8%
$5k - $10k	1,692	12.8%	$11.6	17.5%
$10k - $15k	684	5.2%	$8.4	12.7%
$15k - $20k	358	2.7%	$6.1	9.1%
$20k - $25k	210	1.6%	$4.7	7.1%
$25k - $30k	144	1.1%	$3.9	5.9%
$30k - $35k	86	0.6%	$2.8	4.2%
$35k - $40k	61	0.5%	$2.3	3.4%
$40k - $45k	48	0.4%	$2.0	3.0%
$45k - $50k	29	0.2%	$1.3	2.0%
$50k - $55k	36	0.3%	$1.9	2.9%
$55k - $60k	24	0.2%	$1.4	2.0%
$60k - $65k	17	0.1%	$1.0	1.5%
$65k - $70k	11	0.1%	$0.7	1.1%
$70k - $75k	15	0.1%	$1.1	1.6%
$75k - $80k	36	0.3%	$2.8	4.1%
Total	13,261	100.0%	$66.5	100.0%

Tax by Income

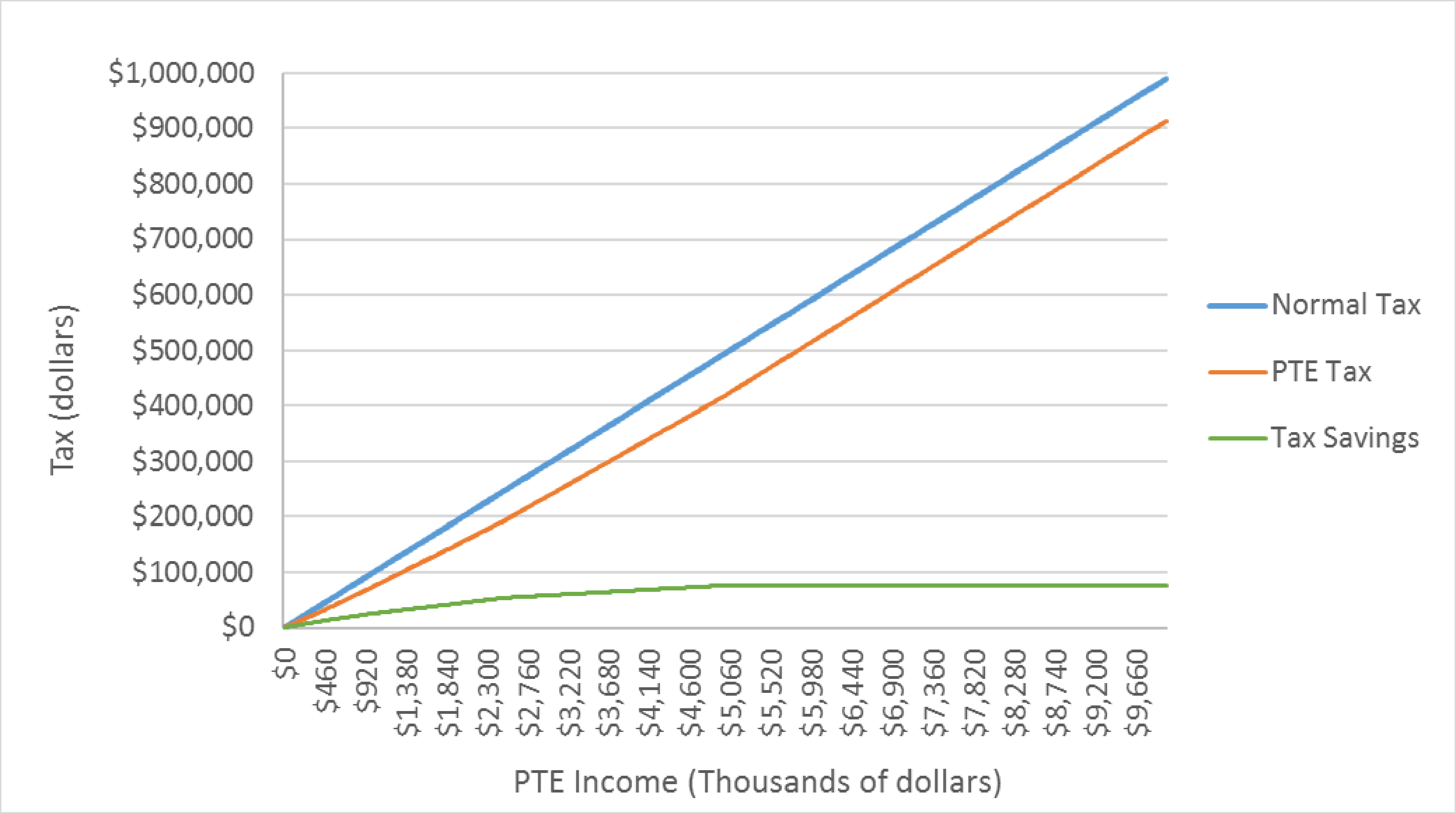

Exhibit 2

Schedule E Income Forecast

(Office of Economic Analysis)

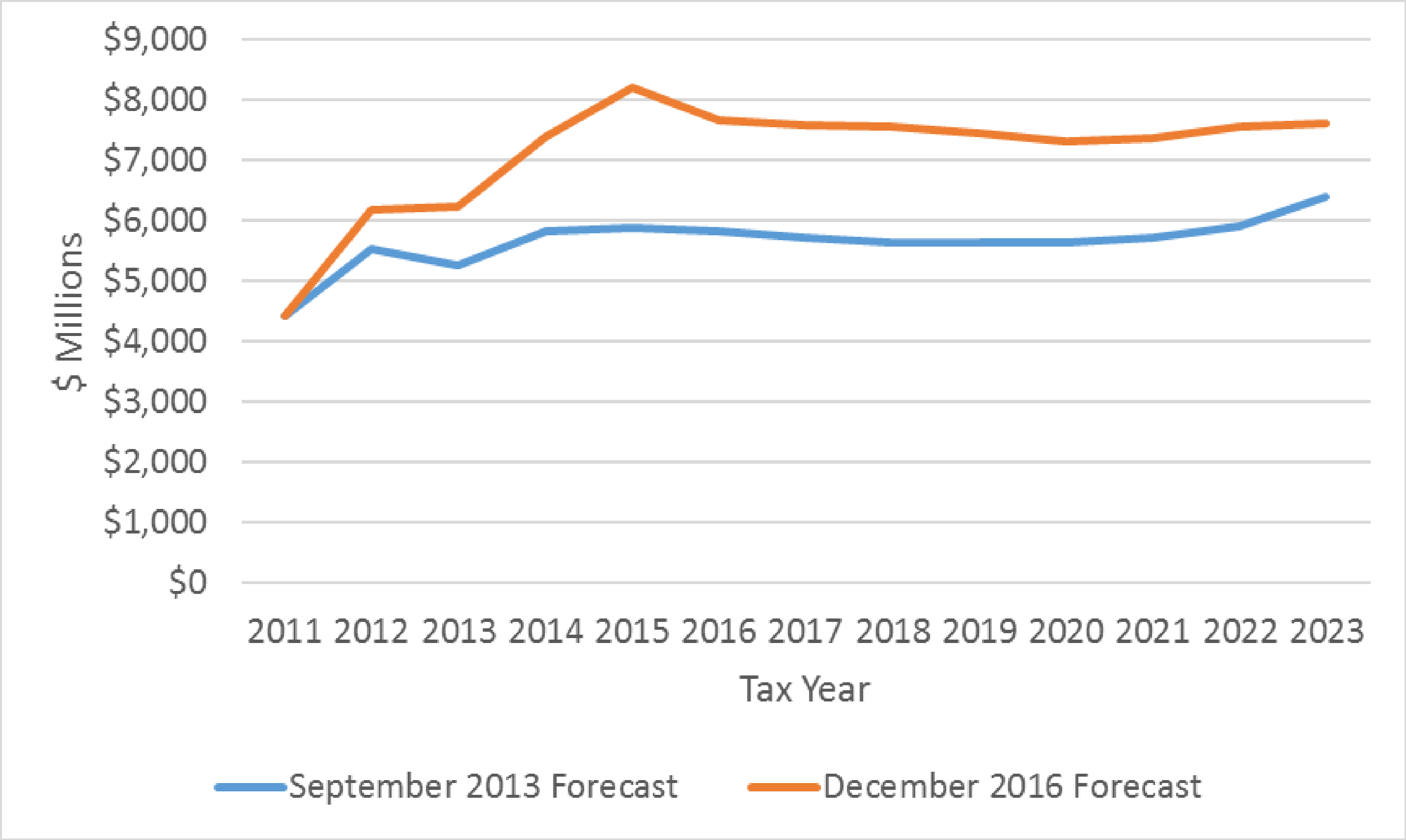

Exhibit 2

Impacts by County

County	Filers	Claimants	Share	Tax Change Total ($M)	Tax Change Mean ($)	County	Filers	Claimants	Share	Tax Change Total ($M)	Tax Change Mean ($)
Baker	6,131	65	1.1%	-$0.1	-$1,384	Lake	2,697	20	0.7%	$0.0	-$2,132
Benton	33,376	284	0.9%	-$1.2	-$4,340	Lane	143,386	1,441	1.0%	-$8.1	-$5,589
Clackamas	169,535	2,036	1.2%	-$12.3	-$6,065	Lincoln	18,122	77	0.4%	-$0.2	-$2,040
Clatsop	14,844	108	0.7%	-$0.5	-$4,893	Linn	46,990	248	0.5%	-$1.0	-$3,833
Columbia	19,847	82	0.4%	-$0.3	-$3,737	Malheur	9,043	50	0.6%	-$0.1	-$1,680
Coos	23,284	167	0.7%	-$0.5	-$2,711	Marion	125,464	898	0.7%	-$4.1	-$4,610
Crook	8,449	50	0.6%	-$0.1	-$2,853	Morrow	4,000	16	0.4%	$0.0	-$3,125
Curry	8,583	57	0.7%	-$0.2	-$3,444	Multnomah	328,573	2,360	0.7%	-$12.9	-$5,479
Deschutes	72,564	780	1.1%	-$3.4	-$4,336	Polk	30,562	203	0.7%	-$0.8	-$4,040
Douglas	39,457	155	0.4%	-$0.7	-$4,215	Tillamook	10,478	93	0.9%	-$0.3	-$3,160
Grant	2,677	30	1.1%	$0.0	-$1,649	Umatilla	27,133	161	0.6%	-$0.6	-$3,756
Harney	2,677	18	0.7%	$0.0	-$2,052	Union	9,987	98	1.0%	-$0.3	-$2,908
Hood River	9,933	144	1.4%	-$0.4	-$3,071	Wallowa	3,019	65	2.2%	-$0.1	-$1,459
Jackson	85,554	809	0.9%	-$3.3	-$4,135	Wasco	9,694	41	0.4%	-$0.2	-$3,766
Jefferson	8,121	31	0.4%	-$0.1	-$4,540	Washington	232,809	1,650	0.7%	-$8.9	-$5,423
Josephine	31,405	221	0.7%	-$1.1	-$4,924	Yamhill	39,162	267	0.7%	-$1.1	-$4,133
Klamath	24,026	173	0.7%	-$0.5	-$2,693	Other*	110,912	455	0.4%	-$2.6	-$5,769
						TOTAL	560,463	13,364	2.4%	-$66.3	-$4,958

* County missing, out-of-state, Gilliam, Sherman, or Wheeler

Exhibit 2

Future Policy Adjustments

- By July 1, 2018: LRO compares estimated and actual impacts for tax years 2015 & 2016. If actual exceeds the estimate by15%, then the PTE tax rates are proportionately increased such that the difference is reduced to 5%. The new rates apply beginning with tax year 2019.

- By July 1, 2022: LRO compares estimated and actual impacts for tax years 2019 & 2020. If the difference exceeds 25% in either direction, the PTE tax rates are adjusted upwards or downwards such that the difference is 115% or 85%. The new rates apply beginning with tax year 2023.

Exhibit 3

Commercial Activity Taxes

GOOD		BAD	
 Washington	Enacted in 1935, this activity tax has provided stable funding for over 80 years. 1. Taxes a broad base (every entity with sales in WA) at a **low-rate** (averaging .48%) with differential rates for low-margin businesses; 2. Allows for **no corporate income tax**; and 3. Generates nearly 18% of the state's revenue.	 Kentucky	Enacted in 2005, this activity tax was repealed in 2006. 1. Imposed a **complex** structure on taxpayers who first had to calculate their tax liability paying the lessor of either 9.5 cents per $100 of gross receipts or 75 cents per $100 of gross profits. 2. Taxpayers were then required to pay the greater of the state corporate income tax, the activity tax, or $175. 3. The **complexity** forced Kentucky to repeal the tax during a special session.
 Nevada	Enacted in 2015, this activity tax quickly stabilized revenue. 1. Taxes a broad base (every entity with sales over $4 million) at **low-rates** (ranging from .051 to .338%) to promote fairness among different industries; and 2. Allows for **no corporate income tax**.	 Indiana	Enacted in 1933, this activity tax was repealed in 1963. 1. Taxed most businesses at a **high rate of 1.0% rate**; 2. Required **complex** deductions to offset its 1.0% rate; and 3. Generated insufficient revenue while holding back the state's economy forcing its repeal.
 Ohio	Enacted in 2005, this activity tax has remained popular with business and policymakers. 1. Taxes a broad base (every entity with sales over $1 million in OH) at a single **low-rate** (.26%) while exempting certain sales to help low-margin businesses; and 2. **Replaced the corporate income tax** and **lowered personal income tax rates**.	 New Jersey	Enacted in 2002, this activity tax was repealed in 2006. 1. Taxed a **narrow base** by exempting S corps., investment companies, professional organizations, and cooperatives; and 2. Imposed administrative **complexity** by forcing corporations to determine tax liability under either the gross receipts calculation or the gross profits calculation. 3. The structure created gross unfairness forcing its repeal.