Testimony of Eric Fruits, Ph.D.
Joint Committee on Tax Reform

June 13, 2017

Chairman Hass, Chairman Barnhart, and Committee Members:

My name is Eric Fruits. I am a Portland area economist. As a professor, I have taught courses in economics and public finance.

I have submitted more thorough analysis to the committee through OLIS.

This proposal is more than just a rejiggering of the tax system, it is a $2 billion tax increase on businesses and consumers.

The proposal has been called the "Son of Measure 97," but in many ways it's worse than Measure 97.

Measure 97 hit the largest of large businesses. The proposal is worse because it shifts the corporate tax burden to small businesses and medium size businesses.

Owners of partnerships, LLCs, and S-corporations are hit hard by this proposal. In fact they are hit with a triple whammy—and maybe a quadruple whammy:

1. Their minimum tax increases to $250 a year.
2. They get hit again with a new Commercial Activities Tax, which is a tax on their sales to Oregon consumers.
3. They get hit a third time on their personal income taxes with the elimination of the special pass-through tax rate.

4. Some will get hit a fourth time with the increase in tax rates on higher income earners.

Remember: New businesses, small businesses, and many emerging businesses are formed as partnerships, LLCs, and S-corporations.

The proposal is worse than Measure 97 because the largest and most profitable C-corporations will get tax cuts. Some of these tax cuts will be in the millions of dollars a year.

The current system taxes C-corporations on their profits. Bigger companies with bigger profits pay bigger taxes.

The current system is based on the ability to pay. It's fair, it makes sense, and it's progressive.

This proposal eliminates the current tax on profits and replaces it with the Commercial Activities Tax—a tax on Oregon sales.

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). **The unprofitable business will pay about $6,000 <u>more</u> in taxes under the proposal, while the profitable company will pay about $75,000 <u>less</u>.**

Name your favorite business Boogieman. Is it Comcast? PGE? Starbucks? Wells Fargo? Nike, Adidas, Columbia Sportswear? Intel? Oracle?

Under this proposal, all of those companies will likely see their tax bills drop by thousands, if not millions of dollars.

Remember, this proposal is raising business taxes by $2 billion. You can't get around that. If the big corporations with big profits are getting a tax cut, who's making up the difference?

This proposal punishes struggling companies and start-up companies.

The new Commercial Activities Tax is clearly a tax on Oregon sales. The lengthy exchange on potatoes and French fries in last week's committee hearing made that especially clear.

Any version of a tax on sales is—must be—passed along to Oregon consumers in the form of higher prices. All of LRO's analysis of this tax and Measure 97 confirmed that.

LRO also confirmed that this proposal will reduce disposable incomes for nearly all Oregonians. I have yet to see an economic study showing that lowering household incomes grows the economy.

It's late in the session, but this committee has a lot of work to do on this measure.

- It hammers small business, mid-sized business, and businesses struggling to make ends meet.
- It gives big, profitable C-corporations a big tax cut.
- It raises prices to Oregon consumers and cuts their disposable income.

Yes, indeed. This Son of 97 is much worse than its father.

# # #