

Oregon must protect working families by rejecting calls for broad business tax cuts

Commentary



March 20, 2020 By [Daniel Hauser and Juan Carlos Ordóñez](#)

In this time of crisis, Oregonians will need public services like never before. The state will need to devote significant resources to respond to a public health crisis of unprecedented scope, all while working to protect Oregon families slammed by an economic crisis. It is unclear how long the coronavirus (COVID-19) emergency and resulting economic fallout will last — how long state resources will be going toward preventing Oregonians from dying or suffering financial ruin.

What is clear is that Oregon will have fewer resources at hand to fight the emergency. Tax collections shrink during economic downturns, and this downturn could turn out to be very deep. Already, unemployment claims have [begun to surge](#). While Oregon is better positioned than most states when it comes to the size of its reserve funds, those funds will dry up rapidly. And unlike the federal government, a state like Oregon cannot run a deficit. Oregon cannot spend more revenue than it collects.

It is imperative that Oregon lawmakers resist calls from business lobbyists for broad tax cuts or new tax subsidies that would further weaken revenue collections. These have [already emerged](#). To heed such calls would undermine the state's ability to fight the pandemic, protect Oregon families, and keep essential services going.

The pandemic is impacting businesses unevenly

While many businesses — perhaps most — are hurting, not all businesses are faring equally during the pandemic.

Following Governor Brown's order to close many restaurants and bars, there have been widespread job losses in food service and hospitality industries. The regional restaurant chain McMenamins has laid off [more than 3,000 employees](#).

On the other hand, Amazon announced plans to hire 100,000 workers to deal with a ["surge in demand" during the coronavirus crisis](#). Around the country, some [software companies](#) and [grocery stores](#) report booming business. And at least one Oregon winery is seeing a boost in sales, the leader of Oregon's largest business lobby [told Oregon lawmakers](#).

Broad tax cuts and new, poorly-targeted tax breaks risk subsidizing profits for businesses able to ride out or even thrive during the crisis. And in doing so, the state will have fewer resources to protect the health and financial well-being of Oregonians.

Tax credits benefit companies with profits, not the businesses struggling the most during the crisis. Several business organizations have called on the Oregon legislature to create a new tax credit for retaining workers, allowing remote work, and providing paid time off. At this point, the details of the proposal remain unclear. Nevertheless, by their nature, tax credits benefit companies with profits. Sometimes, companies can carry forward these tax credits, using them in later years to offset future profits. In either scenario, tax credits would not help companies struggling right now with cash flow problems. Instead, they would undermine available funding to purchase protective equipment for healthcare workers or extend childcare support to first responders.

Delaying Corporate Activities Tax is unwarranted and would undermine school funding

The [business community's](#) call for the state to suspend the implementation of the new Corporate Activities Tax for at least a year would undermine funding for early childhood and K-12 education without targeting relief at impacted businesses. Enacted last year to take effect in 2020, this tax confronts a chronic underfunding of Oregon schools. Delaying this tax imperils K-12 and early childhood education funding going forward. Income tax collections, the main way the state of Oregon has historically financed public schools, are certain to fall, as more Oregonians are laid off and lose income. Revenue from the Corporate Activities Tax can serve as a backstop for our schools in the uncharted times to come.

Few businesses — and only the largest — are subject to the Corporate Activities Tax (CAT). It applies only to those with sales in Oregon exceeding \$1 million, after deducting 35 percent of the cost of inputs or labor, whichever is larger. Before the arrival of the pandemic, [state analysts estimated that less than one-in-ten businesses in the state would pay the tax](#). Restaurants and other businesses that have closed during the pandemic are not selling anything, putting the CAT's \$1 million threshold well out of reach.

While some businesses may be uncertain as to whether they will still owe the tax, the state has already taken steps to address the situation. Earlier this month, the Oregon Department of Revenue issued a rule [suspending penalties for underpayment](#) for those business making a "good faith effort to estimate their first quarter payments."

With state tax cuts being an ineffectual remedy, the best hope for struggling businesses rests with Congress. The federal government's ability to deficit spend gives it the power to provide the kind of direct assistance small businesses need.

In these trying times, Oregon lawmakers need to act in the best interest of the state as a whole. While the state should look for ways to assist small businesses strained by the coronavirus crisis, broad tax cuts and credits are an ineffectual remedy that will steer away resources from pressing needs.

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