

# Tax burden analysis of state and local tax changes on businesses in Oregon

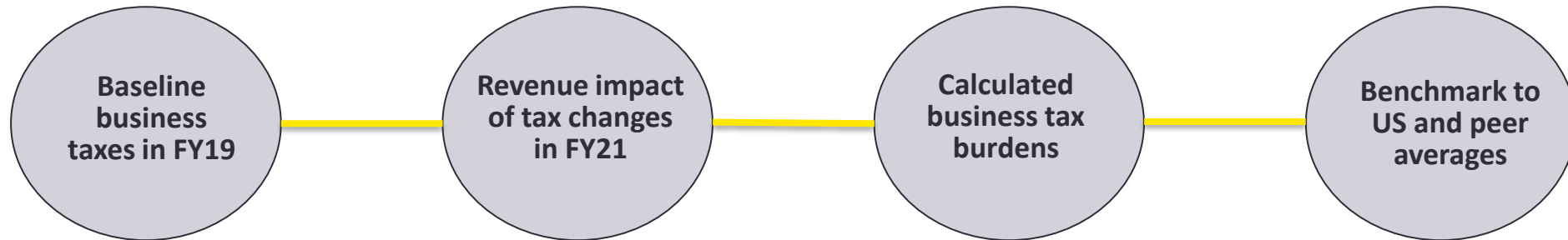
Analysis performed by EY's Quantitative Economics and Statistics Team (EY QUEST)

**December 2022**



# EY approach

- ▶ **Objective:** Analyze the change in business tax collections due to recent state (Oregon) and local (Portland-area) tax changes and analyze how this has impacted Oregon’s tax competitiveness with peer states.



- ▶ Collected total state and local tax revenue data in FY19 using US Census State and Local Finance survey data and state and local annual financial reports to develop a “pre-tax change” baseline of tax collections in FY19
- ▶ Estimated the business share of each category. This was straightforward for some taxes, such as corporate income taxes. For others we apportioned the tax category between business and households (e.g., business share of property taxes is based on county assessed values by property type)

- ▶ Identified recently enacted state tax changes and local tax changes in the Portland region
- ▶ Reviewed state and local annual financial statements for FY21 to understand tax collections by tax type and collections due to the new taxes in FY21
- ▶ Constructed full-year business tax revenue estimates for the Oregon paid leave payroll tax in FY21 (which isn’t effective yet) and used local financial statements to estimate the full-year impact of the Preschool for All program and the Metro area supportive housing services

- ▶ Estimated business tax collections by applying business share estimates to each tax type
- ▶ Adjusted revenue figures using full-year estimates for tax changes not fully phased in by FY21
- ▶ Calculated separate state, statewide local, and Portland area business tax collections in FY21 and compared these business tax collections in each geography in FY19

- ▶ Calculated the total effective business tax rate (TEBTR) as state and local business tax collections divided by gross state product
- ▶ Oregon’s TEBTR is calculated for both FY19 (pre-tax changes) and FY21 (includes tax changes) but also economic conditions and filing extensions due to COVID-19
- ▶ Compared Oregon’s TEBTR to the TEBTR of peer states and the US average

# Executive Summary (1/2)

1

## 52% increase in state business taxes between FY19-21

Business taxes increased by \$1.9 billion between FY19 and FY21. With the future impact of the Paid Leave payroll tax, business taxes would have been \$2.3 billion in FY21 (52% increase over FY19 levels).

2

**Increase in state effective business tax rate to 3.0%** \$2.3 billion in state business taxes is equivalent to 3.0% of gross state product in FY21, which is a measure of economic activity in the state. At 3.0%, Oregon's total effective business tax rate (TEBTR) is higher than the US average, which was 2.6% in FY21

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## 15% increase in local effective tax rate in FY21

The statewide local total effective business tax rate (TEBTR) increased from 2.1% in FY19 to 2.4% in FY21.

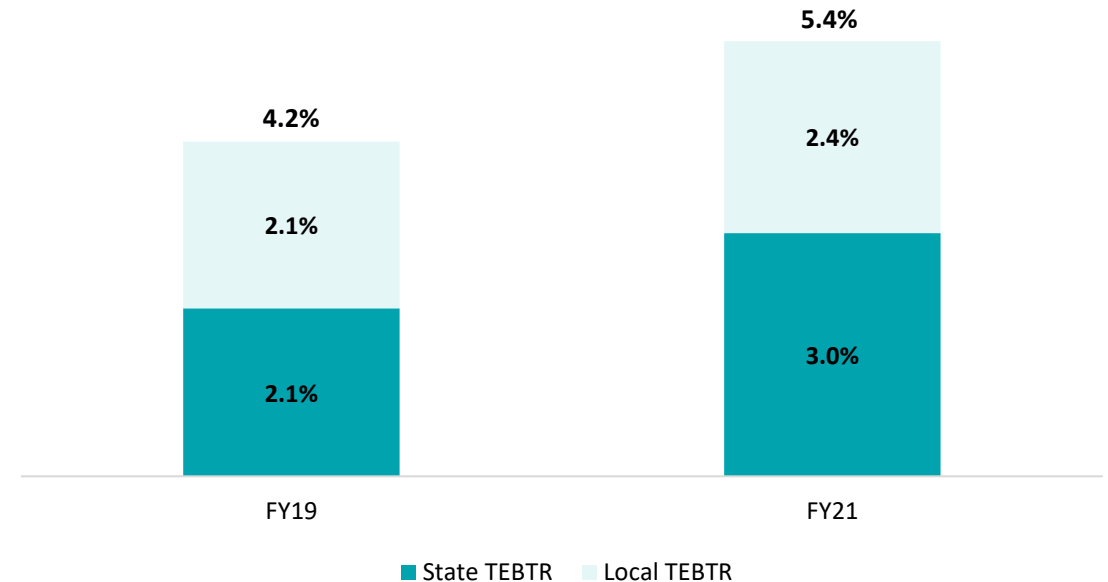
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## Oregon's state and local TEBTR at 5.4% is above the US average of 5.0%

Oregon's total state and local TEBTR of 5.4% makes Oregon the 21<sup>st</sup> highest tax burden state nationally and 18% higher than the US average.

## Total state and local TEBTR for Oregon businesses in FY19 (before tax changes) versus FY21 (with estimates of tax changes fully-phased in)

(TEBTR = total state and local business taxes divided by gross state product)



Source: EY analysis using US Census State and Local Finance Survey data for FY21 and state annual financial statements

Note: FY21 includes estimates of a full year of the following taxes: Paid Leave program payroll tax, which will begin collecting taxes on January 1, 2023, and local business income and personal income taxes dedicated to the Preschool for All program and Metro supportive housing services, which became effective midway in FY21

# Executive Summary (2/2)

5

## Oregon TEBTR is higher than most peer states

At 5.4%, Oregon's total effective business tax rate is now higher than most peer states and is more than a percentage point higher than its FY19 TEBTR of 4.2%.

6

## 32% tax increase for Portland businesses since FY19

Portland businesses are estimated to have experienced a 32% increase in local taxes from FY19 to FY21. This includes new taxes at the city, county, and Metro levels. It also includes estimate of full-year taxes for the Preschool for All and Supportive Housing Services programs.

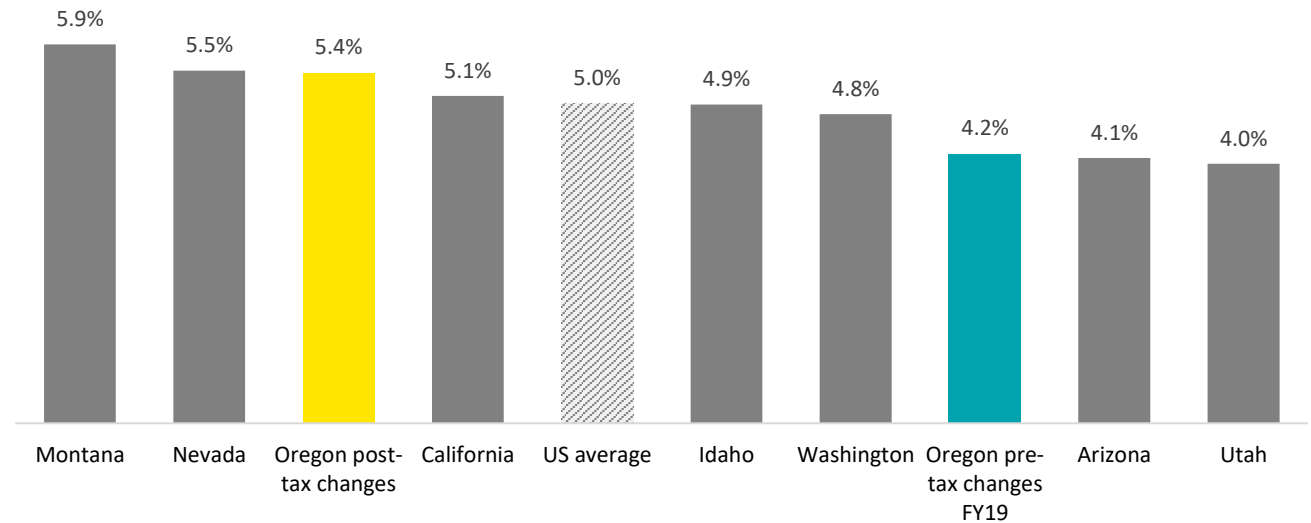
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## Business tax increases between FY19 and FY21 include the effects of tax changes, economic factors, and administrative decisions

The impact of Covid-19 disruptions are reflected in the business tax collections in FY21. This includes economic factors and income tax filing extensions. This is relevant for a set of business taxes, such as corporate income taxes and property taxes.

## State and local TEBTR for Oregon versus peer states in FY21

(TEBTR = total state and local business taxes divided by gross state product)



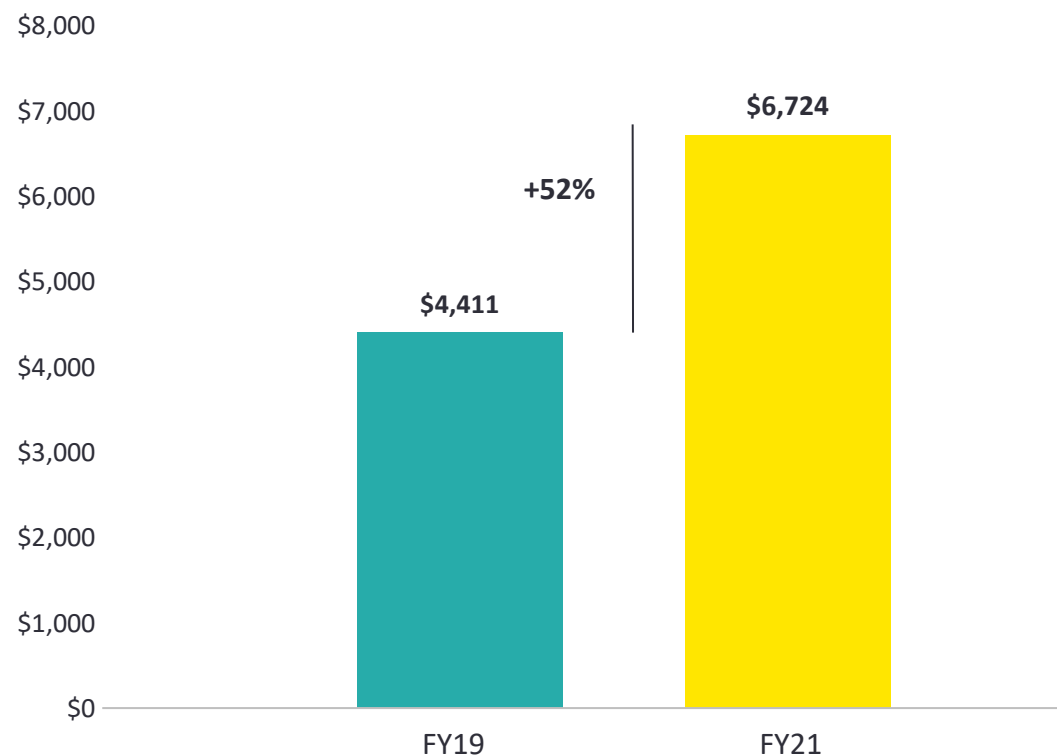
Note: Oregon pre-tax changes is FY19 TEBTR and Oregon post-tax changes is FY 21 TEBTR

Source: EY analysis using US Census State and Local Finance Survey data for FY21 and state annual financial statements

# 52% increase in Oregon state business taxes between FY19 and FY21

## State business tax burdens in Oregon, pre- and post-state tax policy changes

*Business tax collections in millions*



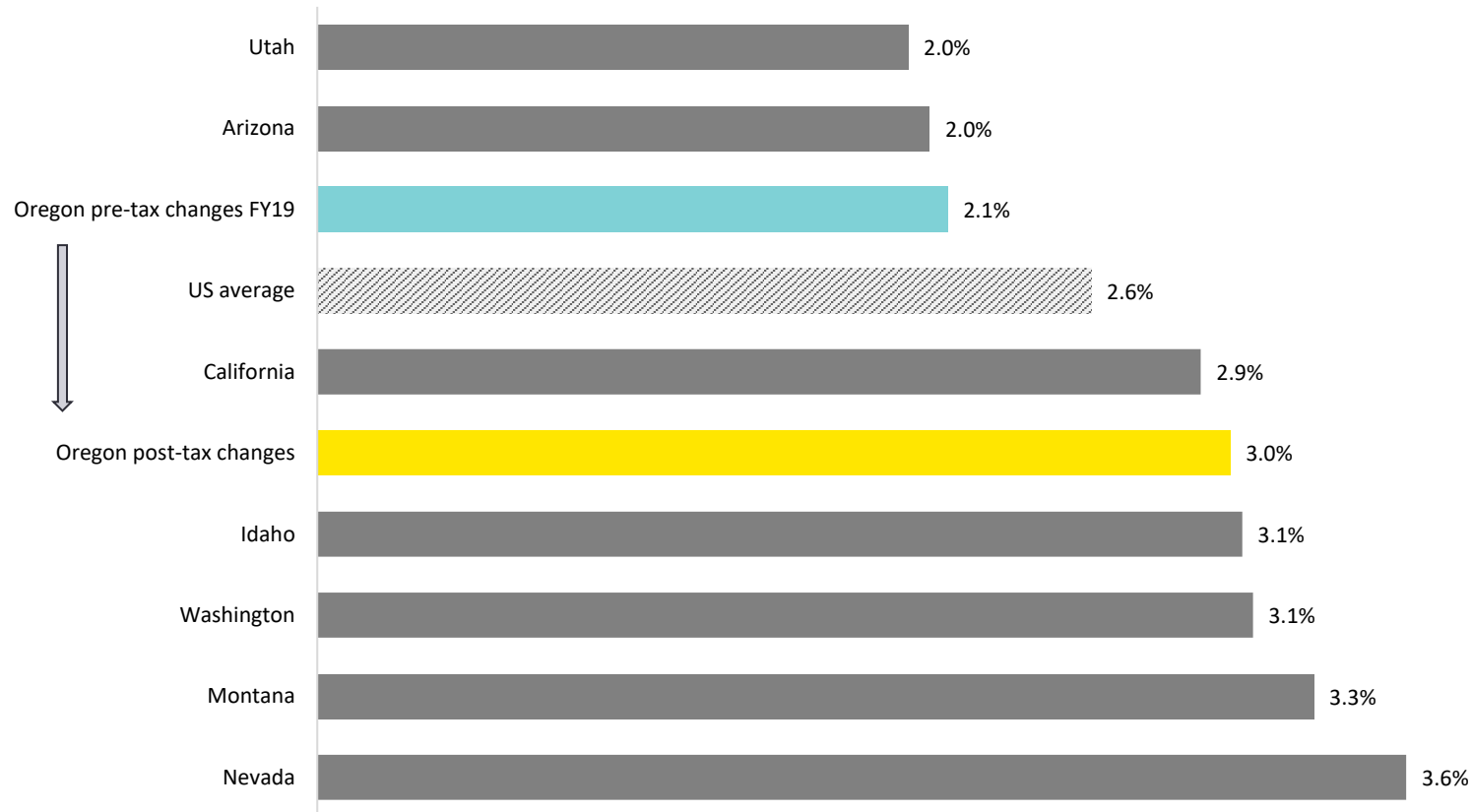
- ▶ Business taxes, which include an estimate of the paid leave payroll tax, are estimated at \$6.7 billion in FY21, which is an increase of \$2.3 billion over FY19
- ▶ The new corporate activity tax (CAT) adds nearly \$1.2 billion in FY21 business collections
- ▶ Combined personal income taxes, corporate activity and healthcare provider taxes increase by 26% over FY19 levels

\* Oregon Paid Leave program will start collecting a 1% payroll tax in January of 2023. This is an estimate of a full-year revenue from the business portion of the payroll tax on employee payroll in FY21.

Source: EY analysis using Oregon Annual Comprehensive Financial Reports (ACFR)

# Oregon's state effective business tax rate increases from 2.1% to 3.0%

## State total effective business tax rate (TEBTR) comparison for Oregon and peer states, FY21



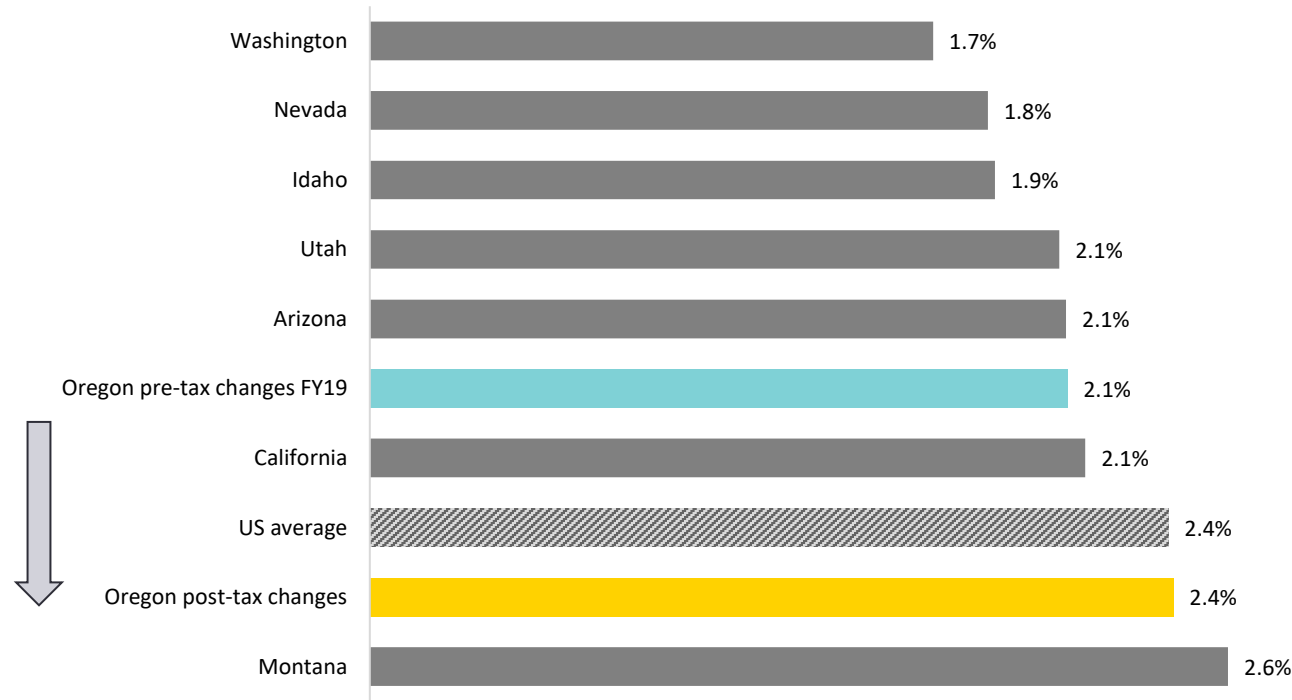
- ▶ A \$2.3 billion increase in state business taxes is equivalent to 3.0% of gross state product in FY21, which is a measure of economic activity in the state.
- ▶ At 3.0%, Oregon's total effective business tax rate (TEBTR) is higher than the US average, which was 2.6% in FY21
- ▶ Oregon's state ranking falls from 14th lowest to 21st highest nationwide

Note: Oregon pre-tax changes is FY19 TEBTR

Source: EY analysis using Oregon Annual Comprehensive Financial Reports (ACFR) US Census Bureau Annual Survey of State and Local Government Finances

The statewide local TEBTR increased from 2.1% in FY19 to 2.4% in FY21

### Local total effective business tax rate (TEBTR) comparison for Oregon and peer states, FY21



Source: EY analysis

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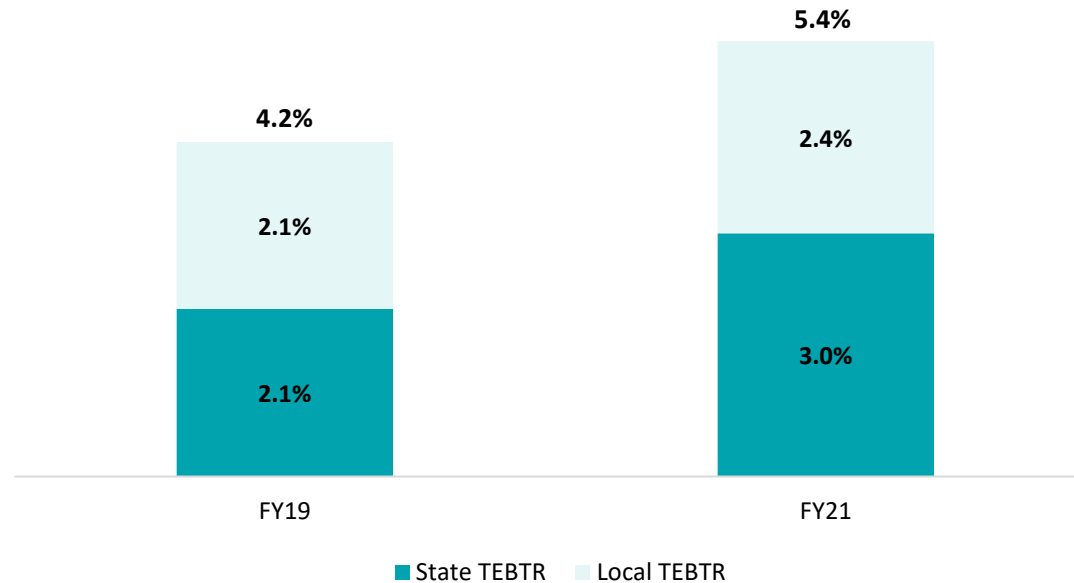
\*Note: Oregon pre-tax changes is TEBTR value in FY19 and Oregon post-tax changes include full year tax estimates.

- ▶ City, county, and Metro taxes in the Portland area contributed to an increase in the statewide local TEBTR from 2.1% in FY19 to 2.4% in FY21.
- ▶ Oregon's TEBTR of 2.4% is slightly above the U.S. average and higher than peer states except for Montana

# Oregon's state and local total effective tax rate increased 30% from FY19 to FY21 from 4.2% to 5.4%

## Total state and local TEBTR for Oregon businesses in FY19 (before tax changes) versus FY21 (with estimates of tax changes fully-phased in)

(TEBTR = total state and local business taxes divided by gross state product)



Source: EY analysis using US Census State and Local Finance Survey data for FY21 and state annual financial statements

Note: FY21 includes estimates of a full year of the following taxes: Paid Leave program payroll tax, which will begin collecting taxes on January 1, 2023, and local business income and personal income taxes dedicated to the Preschool for All program and Metro supportive housing services, which became effective midway in FY21

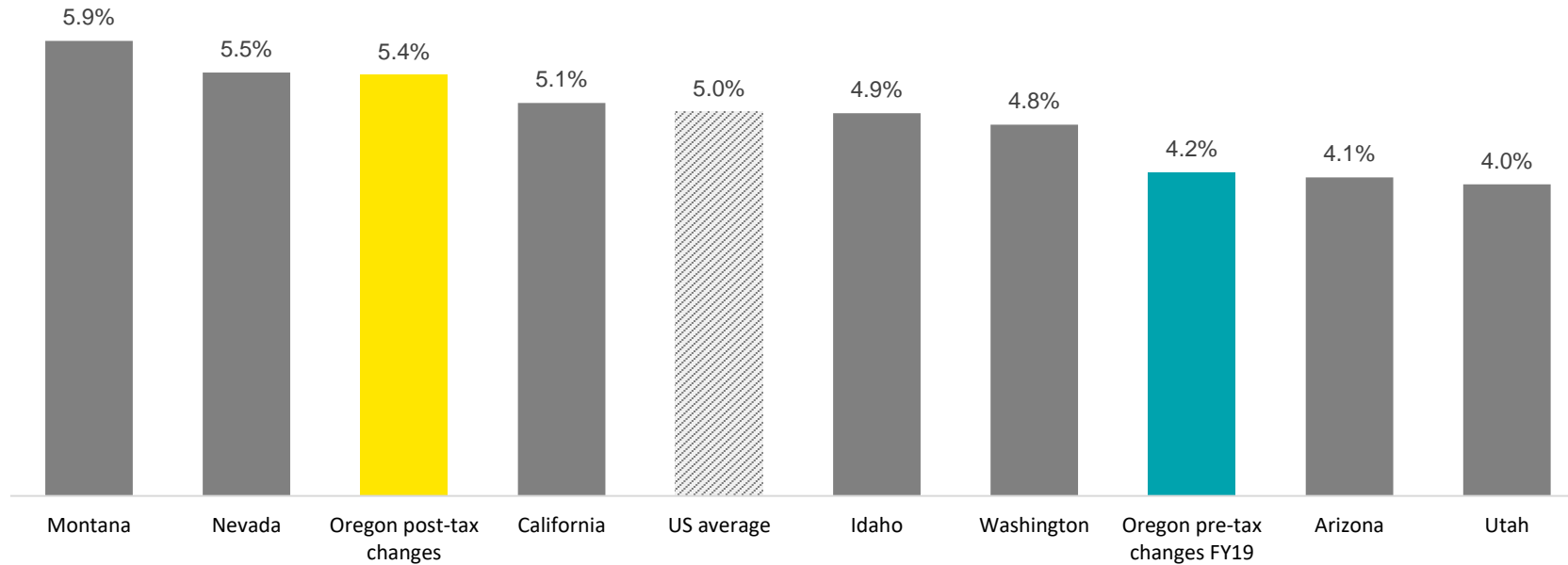


# Oregon's overall state and local tax competitiveness has declined compared to peer states

- ▶ In FY19, Oregon had the third lowest state and local TEBTR at 4.2% among peer states.
- ▶ In FY 21, Oregon had the third highest state and local TEBTR at 5.4% among peer states and was above the US average of 5.0%.

## State and local TEBTR for Oregon versus peer states in FY21

(TEBTR = total state and local business taxes divided by gross state product)



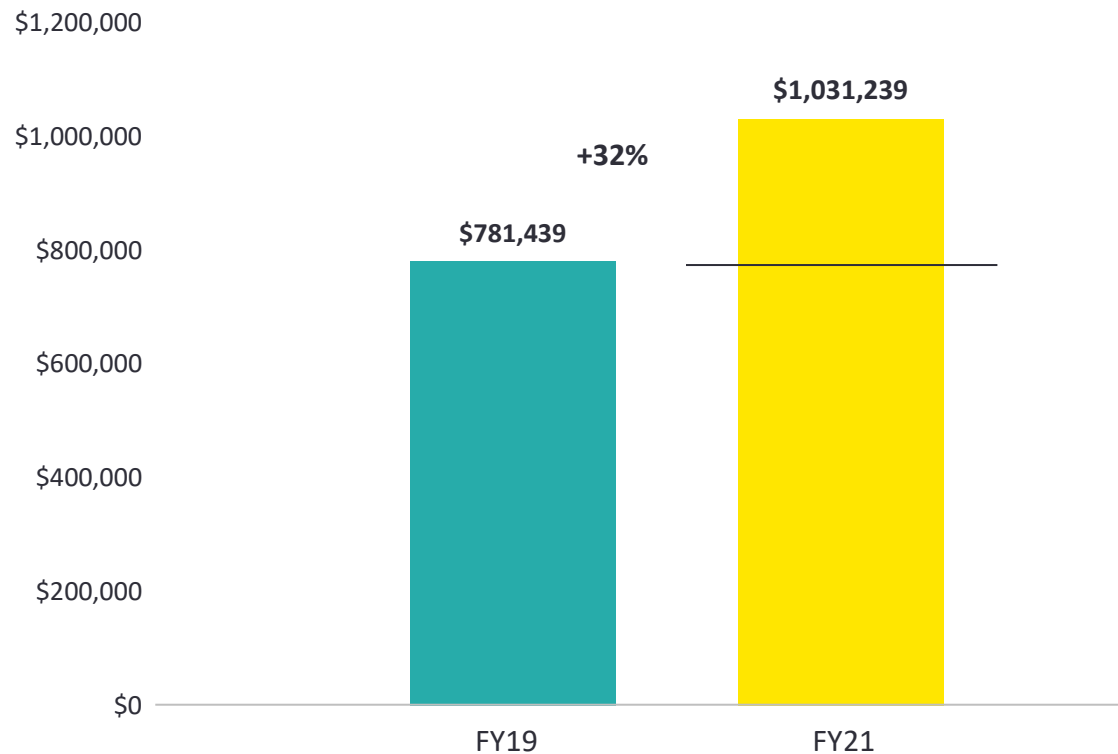
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Source: EY analysis using US Census State and Local Finance Survey data for FY21 and state annual financial statements

# Portland businesses are estimated to have experienced a 32% increase in local taxes from FY19 to FY21 tri-county area taxes

## Local level business tax collections in the combined City of Portland, Multnomah County, and Metro Area, FY19 to FY21

*Business collections in thousands*



- ▶ FY21 Personal income, gross receipts, corporate net income and property taxes increased by 40% to reach over \$1 billion over FY19 levels
- ▶ Nearly half (46%) of the business taxes in the tri-county region are due to Portland city taxes

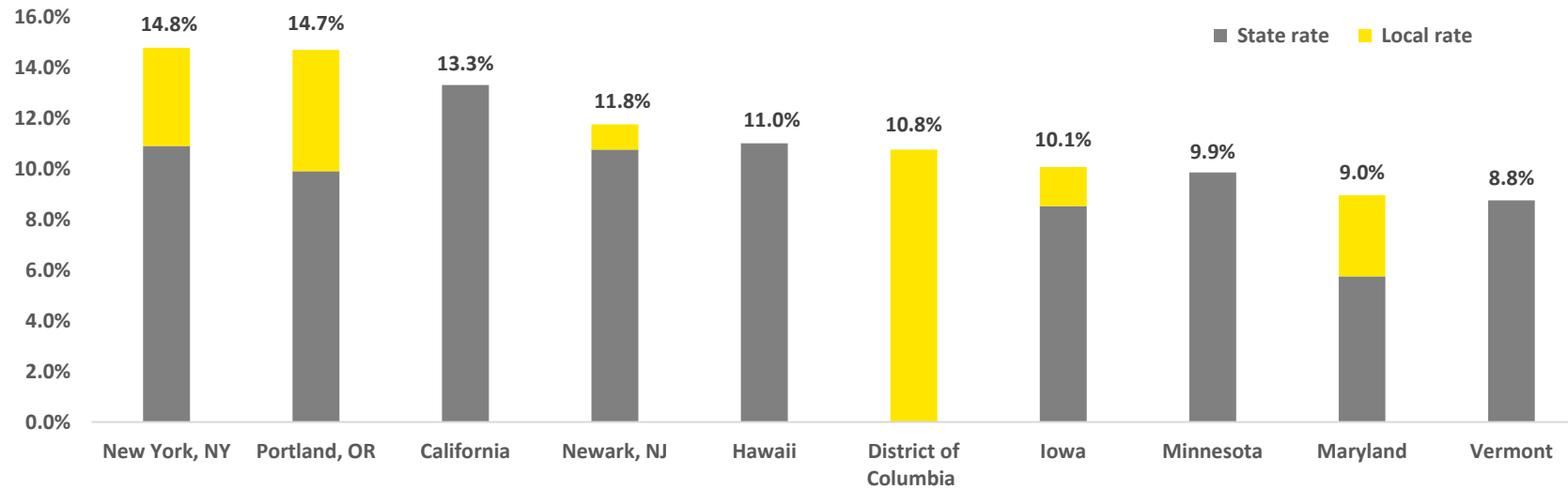
Source: EY analysis of Census data, City of Portland FY19-FY21 ACFR, City of Portland, Oregon Adopted Budget 2021, Multnomah County FY19-FY21 ACFR, Oregon Metro FY19-FY21 ACFR

\*Includes estimates of tax based on FY22 estimates once the tax is fully phased in

# After tax changes, Portland has the **second highest** total state and local individual income tax rate in country

- ▶ Local individual income tax rates for Portland include the Multnomah County Preschool for All income tax rate of 3.0%, the Metro Supportive Housing Services income tax rate of 1.0%, and the TriMet Transportation District income tax rate of 0.7937%. The state top marginal tax rate in Oregon is 9.9%.

**Ten highest combined state and local individual income tax jurisdictions in the United States  
(Tax Year 2022)**



Source: Data on state marginal income tax rates and brackets from Wolters Kluwer CCH. Data on local income tax rates compiled from internal research.

Notes: Only one jurisdiction per state is shown. Local rate for Iowa applies to Sidney and Fremont-Mills school districts. Local rate for Maryland applies to Baltimore, Baltimore County, Dorchester County, Howard County, Kent County, Montgomery County, Prince George's County, Queen Anne's County, Somerset County, Wicomico County.

# Conclusion

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The impact of Covid-19 disruptions are reflected in the business tax collections in FY21. This includes economic factors and income tax filing extensions. This is relevant for a set of business taxes, such as corporate income taxes and property taxes.

## State tax collections increased by \$1.8 billion for categories in which tax changes were introduced (once fully phased in by 2022)

Tax change	Short Description	Effective Date	Business Share	Business Revenue FY19	Business Revenue FY21	FY21 vs FY19 Difference
<b>Corporate Activity Tax</b>	\$250 + 0.57% of taxable gross receipts	1/1/2020	100%	--	\$1,179 million	+\$1,179 million
<b>Individual Income Tax</b>	Reduction in rates for three lower brackets to 4.75%, 6.75%, and 8.75%	1/1/2020	11%	n/a	n/a	n/a
<b>Health Premium Assessment (part of healthcare provider taxes)</b>	Extension of tax and rate increase from 1.5% to 2.0%	1/1/2020	100%	\$800 million	\$1,068 million	+\$268 million
<b>Oregon Paid Leave*</b>	1% payroll tax	1/1/2023	40%	--	\$394 million	+\$394 million
<b>Total</b>						+\$1,841 million

\*Oregon Paid Leave is effective January 2023. Revenue estimates are based on FY21 payroll for Oregon employees with an adjustment for those that would not be subject to the payroll tax.

Note: For the corporate activity tax and the Oregon Paid Leave the FY21 difference represents the net impact the tax change. For the individual income tax, the effect of the rate reductions cannot be isolated from economic factors. The Health Premium Assessment is included in reporting categories with other healthcare provider taxes and is not able to be shown separately.

# Portland business tax collections increased by \$175 million in FY21 compared to FY19

## Summary of recently enacted Portland tax changes:

Tax change	Short Description	Effective Date	Business Share	Business Revenue FY19	Business Revenue FY21	FY21 vs FY19 Difference
<b>Portland gross receipts tax</b>	1% gross receipts tax on large businesses (New tax)	1/1/2019	100%	\$6.4 million	\$116.3 million	+\$109.9 million
<b>Portland parks property tax</b>	\$0.80 per \$1,000 of assessed property value (New tax)	1/1/2021	39%	\$0	\$65 million	+\$65.0 million
<b>Portland public school debt property tax</b>	\$2.50 per \$1,000 of assessed property value (Continuation of existing tax)	1/1/2021	39%	Not a new tax	Not a new tax	\$0
<b>Total</b>						<b>+\$174.9 million</b>

Source: City of Portland ACFRs, FY2019-FY2021

Note: For the Portland gross receipts tax and the Portland parks property tax, the FY21 difference represents the isolated impact the tax change. The Portland public school property tax is a continuation of an existing tax and therefore does not have an incremental impact.

# Multnomah County and Metro taxes resulted in \$209 million in new business taxes in FY2021

## Summary of Multnomah County and Metro area tax changes

Tax change	Short Description	Effective Date	Business Share	Business Revenue FY19	Business Revenue FY21	FY21 vs FY19 Difference
<b>Multnomah County business income tax</b>	Increase in business income tax rate from 1.45% to 2.0% (Rate increase of existing tax)	1/1/2020	100%	\$99.5 million	\$136.2 million	+\$36.7 million
<b>Multnomah County individual income tax (Preschool for All)*</b>	1.5% tax on income above \$125K for single filers and \$200K for joint filers; 3.0% tax on income over \$250K for single filers and \$400K for joint filers (New tax)	1/1/2021	11%	\$1 thousand	\$10.2 million	+\$10.2 million
<b>Multnomah County library property tax</b>	\$0.61 per \$1,000 of assessed property value (New tax)	1/1/2021	39%	--	\$485 thousand	+\$485 thousand
<b>Metro income tax (Supportive Housing Services)</b>	1.0% tax on income above \$125K for single filers and \$200K for joint filers Large businesses pay 1% tax on business profit (New tax)	1/1/2021	11% of individual income taxes; 100% business income taxes	--	\$159.5 million - business income tax \$2.2 million - personal income tax	+\$159.5 million - business income tax +\$2.2 million - personal income tax
<b>Total</b>						<b>+\$209.1 million</b>

Source: EY analysis of Census data, Multnomah County FY19-FY21 ACFR.

\*Individual income tax on pass-through business income is an estimate of a full year of tax collections using expected revenue amounts in FY22 as reported in the Multnomah County FY21 ACFR.