Comments for House Interim Committee and Economic Development and Small Business
Jody Wiser 12.7.2022

Chair Bynum and members of the Committee:

I'm Jody Wiser, of Tax Fairness Oregon, a network of volunteers who advocate a rational and equitable tax code. We appreciate your invitation to discuss Oregon's tax system, especially because of the current emphasis on the semiconductor industry and boosting support for business generally. There are calls for more subsidies. I'll first share some of the ways the federal and state government already subsidize businesses through reduction of taxes of all types.

Over the past 40 years, the share of federal and state tax borne by business has fallen, and that borne by middle-income taxpayers has risen. Congress allowed businesses to ship paying taxes at the corporate level by conducting most business as pass-throughs. One of them, REITs, is a common ownership form for real estate. Everything from cell towers to timberland, apartments to data centers are now owned as REITS. Unless their owners are Oregonians, they pay no state income tax. Thus, much business activity that used to be taxed no longer is.

Over recent decades, the legislature has also shifted taxes away from business. Among the changes:

- Over phases completed in 2005, Oregon slashed taxes for manufacturers that sell production outside of Oregon by adopting the "single sales factor,"[i] dropping payroll and property from the apportionment formula. The CAT tax also is based only on Oregon sales, so global companies like Nike and Intel pay little.
- In 2013 and again in 2021, the legislature reduced tax rates for pass-through entities.
- Under Enterprise Zones and the Strategic Investment Program, businesses are exempt from property taxes for 3, 5 or 15 years. All kinds of businesses get these exemptions—brew pubs, wind farms, distribution centers, manufacturers.
- Under Urban Renewal Zones and the Industrial Site Readiness Program the cost of new infrastructure for businesses is shifted from businesses to residents or the General Fund.

A circumstance that has not changed: Oregon has no sales tax, a significant factor in business-to-business transactions that reduces costs of construction, equipment and supplies by 5-9%.

If the legislature were to increase tax subsidies for business, the money would come from one of two places: reduced services, or increased tax burden for employees. That's not explicit in the Semiconductor Task Force report but it is so.

That is certainly true of bill drafts before this committee. We will have extended comments on each of the bills. Suffice to say that the business subsidies under LC 1174, 1175 and 1194 are not targeted. They will be used broadly, not solely to entice semiconductor businesses to bring their new facilities and federal subsidies to Oregon.

To the extent the legislature increases subsidies for semiconductor expansion or anything else, we urge it to adopt a budget and use the appropriations process, not the tax code. The Governor's Strategic Reserve Fund is a nimbler instrument for directing expenditures to gather federal CHIPS funded businesses to Oregon. Grants can be targeted to individual projects. Some businesses will want funding for training, others for research dollars, or for infrastructure. No business should be offered more than the anticipated new tax revenue[ii] over a limited time period. **The tax credits and reimbursements in your committee bills are likely to result in runaway expenditures, as happened with the Business Energy Tax Credits (the BETC). An appropriation will allow the legislature to properly debate the necessary trade-offs of economic development and other legislative priorities.**

Coupled with current law, the tax breaks in your bill set would give away more revenue than all the income taxes of new employees, some of it for four or five years, most for decades.[iii] How then will the legislature fund services to employees, children and business?

A brief comment on OBI's E&Y report. We find it a narrow, cherry-picked collection of factoids. Its main contention, that Oregon has moved from a low-tax state to average, is because the Legislature and the voters have increased funding for K-12 education and mandated benefit standards like paid family leave and health insurance. Like all other taxes, the new levies of recent years pay for something: public goods. The OBI report says nothing about that.

Oregon indeed leads the nation in semiconductor research and development. Subsidies to retain that position should be targeted, not sprayed across the business landscape. We recommend that you determine your priorities, choose a budget for this semiconductor push, and put the execution in the hands of the Governor and her administration.

We read the bills and follow the money

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[i] Rule 150-314-0385

[ii] Using the data from the ECONorthwest memo in the appendix of the August Semiconductor report, we've made the numbers more easily used. They claim from a new semiconductor facility:

- $2.8 million a year in ongoing revenue for 100 direct hires and 200 additional hires in the community—suppliers, teachers, retail workers, etc.
- $4.4 million in state and local revenue from $100 million of construction spending

[iii] The tax breaks include:

- 10% for the New Employment/Family Wage Tax Credit
- 50% for Industrial Land Readiness
- 50% for Gain Share

The bills also would:

- Revive and increase the research credit, up to $9 million per business
- Provide $20,000 to $25,000 per new job for the Investment, Renovation and Job Creation Tax Credit
- Extend for 10 years the 3-, 5- and 15-year Enterprise zones without review or revision