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Initiative Petition 17:
A Description and Preliminary Analysis

Contents

(Includes technical clarifications made on 7.17.24)

Introduction

In simplest terms, Initiative Petition 17 (IP 17) proposes to increase state taxes paid by certain corporations and then distribute the increased revenue to Oregon residents in equal amounts. Basically, the revenue raised divided by the number of Oregon residents determines the flat rebate amount to be distributed to residents as either a refundable income tax credit or as a direct cash payment.

This report consists of seven sections: Introduction, Key Findings, Minimum Tax Change, Descriptive Analysis, Rebate Program, Economic & Revenue Analysis, and Alternative Interpretation. Following the summary list of key findings, the report moves to a description of the proposed tax change and provides examples of how it would affect hypothetical businesses. We then provide a descriptive analysis discussing the projected number of affected businesses, and the impact distribution by size of company and by economic sector. The section concludes with an overview of relative tax burden and the use of gross receipts taxes in other states.

The fifth section describes the rebate program and provides a distributional analysis of the expected tax credit recipients. For illustrative purposes, we use the 2026 rebate claimed on tax year 2025 tax returns filed in 2026.

The sixth section presents an analysis of the economic and revenue effects of the measure. The economic effects include the simulated long run impacts on various metrics of Oregon's economy, such as wages and the average price of goods and services. The impacts on state revenue include the 'static impact' of the measure - the direct tax impact on corporations and individuals - as well as secondary and 'dynamic feedback' effects. The revenue analysis includes the implied effects on state funds that are a direct consequence of the rebate program.

Lastly, throughout IP 17 there are several references to Section 1 of the measure to describe the pool of funds for the rebate program. There are competing interpretations of that language that affect how the size of that pool is calculated. This report largely relies on the interpretation that the net revenue increase from the tax change is the sole source of funds for the rebate program. One other interpretation leads to a larger rebate which would require the diversion of General Fund dollars to fully fund the rebate program. This report concludes with a description of this alternate interpretation and the consequences for the revenue analysis.

Key Findings

- While a comprehensive legal analysis is ongoing, it's important to highlight one particular issue. The language of IP 17 is subject to competing interpretations regarding the funds to be used for the rebate program. One interpretation is that these funds are limited to the net revenue raised by the tax increase. Another interpretation would require additional General Fund resources beyond the tax increase to fund the program. The analysis here relies on the former interpretation but does include a discussion of the latter interpretation in the final section.
- IP 17 increases corporation taxes, reduces personal income taxes, and has significant implications for the state's General Fund. The interaction of the rebate program with other aspects of state fiscal and revenue policy result in a mix of effects on each side of the ledger.

- IP 17 is expected to generate $1.3 billion of new revenue during the 2023-25 biennium, $4.3 billion in the 2025-27 biennium and $2.3 billion in the 2027-29 biennium. (See Table 15A) These estimates are adjusted for anticipated economic and structural feedback effects.
- IP 17 also creates additional obligations on the state's General Fund in the amounts of $3.9 billion in 2025-27 and $3.1 billion in 2027-29. (See Table 15B) These obligations consist of the rebate payments to individuals not filing a personal income tax return, biennial transfers to the Highway Fund, and an increased 2023-25 corporation kicker dedicated to K-12 funding. The Oregon Constitution requires revenue raised from the sale of motor fuel to be deposited into the Highway Fund.[1] Some portion of the corporate tax increase is expected to be based on the sale of motor fuels. The Constitution also requires the corporate "kicker" to be directed to education spending.[2] The current revenue forecast calls for a 2023-25 kicker so any increase in corporate tax collections during the last six months of this biennium would increase the corporate kicker.
- Roughly 84% of the total rebate amount is projected to be distributed via a refundable tax credit on personal income tax returns, reducing tax liability. Individuals not filing a tax return are assumed to receive the remaining 16% via direct payments from the Department of Revenue.
- The combined impact of increasing consumption taxes and reducing income taxes significantly alters the mix of taxes the state relies on to fund public services. State reliance on the income tax would fall from 64% to 38%. This change in the mix of revenue sources is expected to have modest impacts on Oregon's economy. Simulations show that population, income, and employment growth would modestly dampen over the next five years.
- The gross receipts tax established in the measure is expected to increase prices by 1.3%. The combined effects of the measure are expected to keep wages relatively unchanged with a projected decline of only 0.05%.
- Given the size of the revenue increase, its concentrated impact on a relatively small number of corporations, and the administrative challenges, there remains considerable uncertainty with the estimates. However, because the reduction in personal income taxes is tied to the revenue raised, any significant variation in the corporate tax collections would lead to an offsetting impact on personal income tax collections.

Minimum Tax Changes

Under current law, C-corporations that do business in Orgon are subject to a graduated, annual minimum tax that ranges from $150 to $100,000; the amount increases as sales in Oregon increase from less than $500,000 to $100 million. It is capped at $100,000 for sales above $100 million. C-corporations are required to pay the larger of their tax based on marginal rates of 6.6% and 7.6% or the minimum tax. S-corporations are subject to a minimum tax of $150, regardless of their amount of Oregon sales. Under IP 17, the minimum tax for C- and S-corporations with annual sales in Oregon that exceed $25M would increase.

IP 17 would modify Oregon's corporate minimum tax statute (ORS 317.090). When the Corporation Excise Tax was created in 1929, the minimum tax was set at $25. In 1931, the minimum tax was reduced to $10, where it remained unchanged until 2009. The Legislature established the current minimum tax structure with the passage of HB 3405 in 2009. A citizen referendum was filed to refer HB 3405 to the ballot where

[1] Oregon Constitution Article IX, Section 3a
[2] Oregon Constitution Article IX, Section 14

it was confirmed by voters in 2010 with the passage of Measure 67.[3] That measure also established a $150 flat minimum tax for S-Corporations and partnerships. Table 1 shows the current law minimum tax and how IP 17 would change it.

The S-corporation minimum tax differs from the C-corporation minimum tax because they are pass-through entities (PTE). Partnerships are another example of a PTE.[4] A key feature of PTEs is that they generally do not pay an entity-level income tax. Instead, the profit (or loss) is allocated to the shareholders, partners, or members. These owners then pay (federal and state) personal income taxes on their portion of the businesses' income.

Table 1 Minimum Tax Schedules

C-Corporation Minimum Tax ($)		
Oregon Sales	Current Law	Under IP 17
< $500,000	$150	$150
$500,000 to $1 Million	$500	$500
$1 Million to $2 Million	$1,000	$1,000
$2 Million to $3 Million	$1,500	$1,500
$3 Million to $5 Million	$2,000	$2,000
$5 Million to $7 Million	$4,000	$4,000
$7 Million to $10 Million	$7,500	$7,500
$10 Million to $25 Million	$15,000	$15,000
$25 Million to $50 Million	$30,000	$30,000 + 3% of sales > $25M
$50 Million to $75 Million	$50,000	$50,000 + 3% of sales > $25M
$75 Million to $100 Million	$75,000	$75,000 + 3% of sales > $25M
$100 Million or more	$100,000	$100,000 + 3% of sales > $25M
S-Corporation Minimum Tax ($)		
Oregon Sales	Current Law	Under IP 17
< $25 Million	$150	$150
$25 Million to $50 Million	$150	$30,000 + 3% of sales > $25M
$50 Million to $75 Million	$150	$50,000 + 3% of sales > $25M
$75 Million to $100 Million	$150	$75,000 + 3% of sales > $25M
$100 Million or more	$150	$100,000 + 3% of sales > $25M

In addition to changing the C-corporation minimum tax, IP 17 would also change the minimum tax for S-corporations with sales above $25 million. For C- and S-corporations with Oregon sales greater than $25 million, a new tax rate of 3% is imposed on sales above the $25 million threshold. For example, a C- or S-corporation with Oregon sales of $40 million would pay a corporate minimum tax of $30,000 for the first $25 million in sales (the current C-corporation tax) plus 3% on the next $15 million ($450,000) for a total minimum tax of $480,000.

Before proceeding to the analysis of the measure, it is important to point out key provisions of Oregon corporate tax law that are not changed by IP 17. While IP 17 modifies the corporate minimum tax, it does not change the current tax rates based on net corporate income. These rates are 6.6% for income below $1 million and 7.6% for income above $1 million. Oregon corporations will continue to calculate their taxes under both the net income tax rates and the corporate minimum schedule and pay the higher of the two. Under current law, 94.7% of corporate income tax revenue comes from the tax rates with the remaining 5.3% from the corporate minimum. These proportions would change dramatically under IP 17, with revenue from the corporate minimum accounting for 94.6% of corporation tax liability and tax from the rates accounting for 5.4%.

[3] IP 17 is similar to 2016's Ballot Measure 97, which was not enacted by voters. There are three primary differences between the measures. M97 would have applied only to C-corporations, used a 2.5% tax rate, and directed the revenue to the state General Fund. IP17 applies to C- and S-Corporations, uses a 3.0% tax rate, and directs revenue to a flat rebate program.

[4] For tax purposes, a Limited Liability Company can elect to be treated as a sole proprietorship, partnership, or a S- or C-corporation.

IP 17 also does not change Oregon's corporate apportionment methods or definition of Oregon sales. States use apportionment formulas to divide up income for corporations that operate in multiple states. Oregon's apportionment method is based entirely on sales. Generally referred to as the 'single sales factor', a corporation's federal income is apportioned to Oregon by multiplying that income by the ratio of Oregon sales to U.S. sales. What constitutes Oregon sales is defined in current statutes. Oregon sales are also used as a basis for calculating the corporate minimum tax.

IP 17 Tax Scenarios for Different Businesses

Examples of how the new IP 17 corporate minimum tax structure would affect hypothetical corporations in different situations are shown in Table 2. The minimum tax for C- and S-corporations with Oregon sales less than $25 million would not change. The proportional impact increases for corporations with higher total sales. The impacts on the affected S-corporations will be larger than that of a C-corporation with identical sales in Oregon because S-corporations currently pay only the minimum tax of $150 regardless of their amount of Oregon sales.

Table 2 Impact on Hypothetical Businesses

Hypothetical Business Paying Minimum Tax	Minimum Tax Under Current Law	Minimum Tax Under IP 17	Difference in Minimum Tax
C- Corp with Oregon Sales of $6 Million	$4,000	$4,000	$0
C- Corp with Oregon Sales of $20 Million	$15,000	$15,000	$0
C- Corp with Oregon Sales of $70 Million	$50,000	$1,400,000	$1,350,000
C- Corp with Oregon Sales of $150 Million	$100,000	$3,850,000	$3,750,000
C- Corp with Oregon Sales of $350 Million	$100,000	$9,850,000	$9,750,000
S-Corp with Oregon Sales of $6 Million	$150	$150	$0
S-Corp with Oregon Sales of $20 Million	$150	$150	$0
S-Corp with Oregon Sales of $70 Million	$150	$1,400,000	$1,399,850
S-Corp with Oregon Sales of $150 Million	$150	$3,850,000	$3,849,850
S-Corp with Oregon Sales of $350 Million	$150	$9,850,000	$9,849,850

It's important to note that the actual impact on a corporation is not solely determined by the change in the minimum tax. Corporations would still be required to calculate their tax due under the current net income marginal tax rate structure of 6.6% and 7.6%, as previously described. The tax due remains the larger of the two calculations.

Table 3 shows how IP 17 would interact with the current corporate tax rate on apportioned net income. The two columns under "Current Law Tax" show the tax from rates and the minimum tax. Similarly, the two columns under "IP 17 Tax" show the tax from rates and the minimum tax. The tax owed under each of the two scenarios is the larger of the two calculations, shown in ***bold italics***. Corporation A would pay tax based on its net income under both current law and IP 17. Corporation B's tax liability is determined by the tax rate under current law but would move to the minimum tax under IP 17; this is because their minimum tax would increase from $50,000 to $1.1 million. In contrast, due to its net income, Corporation C's tax liability is determined by the corporate income tax rates under both current law and IP 17 and therefore has no change in tax liability. Corporations D and E each have Oregon sales of $90 million but different levels of net income. Corporation D, with one million dollars of net income, would pay the minimum tax under each scenario but face a tax increase of $1.95 million. Corporation E's liability is based on net income under current law but moves to the minimum tax under IP 17. Both Corporations F and G move from the tax rates to the minimum tax under IP 17, with both paying the

same minimum tax because their sales are the same. Because Corporation F is less profitable in terms of net income apportioned to Oregon, it experiences a larger increase under IP 17 than the relatively more profitable Corporation G. In 2025, 798 C-corporations are projected to switch from paying taxes based on the corporate tax rates to the new higher minimum tax under IP 17.

Table 3 Compare Current Law Tax to IP 17 Tax

Hypothetical C-corporation	Oregon Sales ($M)	Net Income ($M)	Current Law Tax ($)		IP 17 Tax ($)		Difference ($)
			Tax From Rates	Minimum Tax	Tax From Rates	Minimum Tax	
A	$20	$4	***$294,000***	$15,000	***$294,000***	$15,000	$0
B	$60	$3	***$218,000***	$50,000	$218,000	***$1,100,000***	$882,000
C	$60	$18	***$1,358,000***	$50,000	***$1,358,000***	$1,100,000	$0
D	$90	$1	$66,000	***$75,000***	$66,000	***$2,025,000***	$1,950,000
E	$90	$6	***$446,000***	$75,000	$446,000	***$2,025,000***	$1,579,000
F	$200	$15	***$1,130,000***	$100,000	$1,130,000	***$5,350,000***	$4,220,000
G	$200	$30	***$2,270,000***	$100,000	$2,270,000	***$5,350,000***	$3,080,000

Descriptive Analysis

IP 17 statutorily changes the tax liability calculated for the Corporation Excise Tax beginning with tax year 2025. The additional revenue would be deposited into the General Fund. This section begins with an analysis of how it would affect the tax owed by C- and S-corporations across company size (as measured by Oregon sales) and economic sector. Rankings of how Oregon compares to other states is often a topic of interest, so the paper includes an analysis of how certain tax burden rankings would likely change should IP 17 become law. The section concludes with a brief review of gross receipts tax bases used in various states.

Based on simulations of historical tax return data and relying on the June 2024 Economic & Revenue forecast, we estimate the impacts of IP 17 for tax year 2025 and later. The analysis here focuses on tax year 2025. Corporation tax liability would increase from roughly $1,378 million to approximately $8,149 million. As specified in IP 17, corporations with Oregon sales under $25 million would be unaffected.

As shown in Table 4, a total of 120,476 corporations are projected to file an income or excise tax return for tax year 2025. C-corporations account for only 30% of filers (36,211) but 99% of the current law tax ($1,363 million). More than twice as many S-corporations (84,265 or 70%) are projected to file a tax return, accounting for the other 1% of the tax ($15.1 million).

Table 4 Corporations Affected by IP 17

C-Corporations ($M)						
	N	Current Law Tax	Share of Total	IP 17 Tax	Share of Total	Increase
Unafffected						
Sales < $25 Million	34,601	$276.4	20.3%	$276.4	4.1%	$0.0
Tax from rate > New Minimum Tax	188	$186.3	13.7%	$186.3	2.8%	$0.0
Affected						
Old Min Tax to New Min Tax	624	$23.7	1.7%	$1,931.6	28.7%	$1,907.9
Change from tax rate to New Min Tax	798	$876.9	64.3%	$4,346.5	64.5%	$3,469.6
Subtotal	**36,211**	**$1,363.3**	**100.0%**	**$6,740.8**	**100.0%**	**$5,377.5**
S-Corporations ($M)						
	N	Current Law Tax	Share of Total	IP 17 Tax	Share of Total	Increase
Unafffected						
Sales < $25 Million	83,474	$13.7	90.6%	$13.8	1.1%	$0.0
Affected						
Sales > $25 Million	791	$1.4	9.4%	$1,394.7	116.4%	$1,393.3
Subtotal	**84,265**	**$15.1**	**100.0%**	**$1,408.5**	**117.6%**	**$1,393.3**
Total	**120,476**	**$1,378.5**		**$8,149.2**		**$6,771**

According to our simulations, most C-corporations won't be affected by IP 17 because their Oregon sales are expected to be below $25 million (34,601). Another 188 C-corporations are unaffected because the tax from the marginal rates is expected to remain larger than their minimum tax. Altogether, only 1,422 C-corporations would be affected (just under 4%): 624 paid the old minimum tax and would continue to pay the new minimum tax; 798 would have owed taxes under the marginal rates but would move to the new minimum tax. Collectively, the taxes owed by affected C-corporations would increase from $900.6 million to $6,278.1 million, an increase of $5,377.5 million.

Only one percent of S-Corporations (791) have Oregon sales greater than $25 million. Under current law, these corporations would owe roughly $1.4 million in tax in 2025. IP 17 would increase that total to roughly $1,395 million. The vast majority (about 98%) of these firms would continue paying the minimum tax. The remaining two percent of S-corporations would move from the marginal rates to the new minimum tax.

Combining C- and S-corporations, about 1.8% of them will experience a tax increase under IP 17. Under current law, those 1.8% of corporations account for about 65% of corporate taxes, a percentage that will increase to about 94% under IP 17.

Distributional Analysis

We now move to an analysis of how the impacts of IP 17 would affect corporations based on their level of Oregon sales and across economic sectors. As shown in Table 5, corporations with Oregon sales greater than $25 million (2,401 businesses) would incur the full $6,771 million increase in corporate taxes. The share of tax paid by the 603 filers (456 C-corporations and 148 S-corporations) with sales above $100 million would increase from 56% to 79%. The tax increase resulting from IP 17 is expected to be heavily concentrated on a relatively small number of corporate taxpayers. More than 30 percent of the increased tax is expected to be paid by the top 30 taxpayers.

Table 5 Tax Year 2025 Impacts by Corporation Sales

C-Corporations ($M)						
Sales	N	Current Law Tax	Share of Total	IP 17 Tax	Share of Total	Increase
$25 Million or less	34,601	$276.4	20.3%	$276.4	4.1%	$0.0
$25 to $50 Million	712	$127.6	9.4%	$297.0	4.4%	$169.4
$50 to $75 Million	274	$95.1	7.0%	$347.3	5.2%	$252.2
$75 to $100 Million	168	$87.6	6.4%	$340.4	5.0%	$252.8
$100 to $250 Million	284	$232.6	17.1%	$1,162.7	17.2%	$930.1
Over $250 million	172	$544.1	39.9%	$4,317.0	64.0%	$3,773.0
Subtotal	**36,211**	**$1,363.3**	**100.0%**	**$6,740.8**	**100.0%**	**$5,377.5**
S-Corporations ($M)						
Sales	N	Current Law Tax	Share of Total	IP 17 Tax	Share of Total	Increase
$25 Million or less	83,474	$13.7	90.6%	$13.8	1.0%	$0.0
$25 to $50 Million	412	$0.5	3.2%	$129.8	9.2%	$129.3
$50 to $75 Million	162	$0.5	3.1%	$186.2	13.2%	$185.8
$75 to $100 Million	70	$0.1	0.9%	$141.5	10.0%	$141.4
$100 to $250 Million	113	$0.3	2.1%	$468.2	33.2%	$467.9
Over $250 Million	35	$0.0	0.2%	$468.9	33.3%	$468.9
Subtotal	**84,265**	**$15.1**	**100.0%**	**$1,408.5**	**100.0%**	**$1,393.3**
Total	**120,476**	**$1,378.5**		**$8,149.2**		**$6,770.8**

Table 6 shows the projected impacts for tax year 2025 by economic sector. All sectors would experience a tax increase under IP 17 compared to current law. The largest increases would be felt in the wholesale and retail sectors, increasing from $396 million to $3,376 million. The share of taxes paid by these sectors would increase from 29% to 41%. The largest percentage increase for a sector would be for utilities, going from roughly $8 million to $152 million.

Table 6 Tax Year 2025 Impacts by Sector

C- and S- Corporations ($M)						
	N	Current Law Tax	Share of Total	IP 17 Tax	Share of Total	Increase
Agriculture	4,840	$13.8	1.0%	$46.9	0.6%	$33.0
Mining	207	$2.0	0.1%	$8.0	0.1%	$6.0
Utilities	175	$8.0	0.6%	$152.1	1.9%	$144.1
Construction	15,245	$39.7	2.9%	$422.5	5.2%	$382.9
Manufacturing	6,823	$144.2	10.5%	$672.6	8.3%	$528.4
Wholesale	7,806	$222.8	16.2%	$1,718.7	21.1%	$1,495.9
Retail	8,816	$173.3	12.6%	$1,657.3	20.3%	$1,484.0
Transportation/Warehousing	3,232	$47.4	3.4%	$233.1	2.9%	$185.7
Information	4,209	$69.8	5.1%	$405.8	5.0%	$336.0
Finance & Insurance	8,225	$186.1	13.5%	$1,115.2	13.7%	$929.1
Real Estate, Rental	8,534	$26.6	1.9%	$121.3	1.5%	$94.7
Professional/Technical Services	20,367	$75.5	5.5%	$186.4	2.3%	$110.9
Management of Companies	3,246	$266.0	19.3%	$985.2	12.1%	$719.3
Admin Support/Waste Mgmt	5,659	$26.6	1.9%	$134.8	1.7%	$108.3
Educational Services	1,220	$3.3	0.2%	$9.5	0.1%	$6.2
Health Care and Social Asst	8,235	$15.4	1.1%	$129.3	1.6%	$114.0
Arts, Entertainment, Recreation	1,960	$2.6	0.2%	$10.1	0.1%	$7.5
Accomdation & Food Services	6,304	$10.9	0.8%	$43.4	0.5%	$32.5
Other	5,371	$44.6	3.2%	$97.0	1.2%	$52.4
Total	**120,476**	**$1,378.5**	**100.0%**	**$8,149.2**	**100.0%**	**$6,770.8**

Relative Tax Burden

One topic raised when discussing tax policy is the consideration how Oregon compares to other states. Because there is no formal, consistent revenue forecast for all states that would enable a uniform comparison for 2025, the most straightforward method for this discussion is to consider relative impacts using recent historical data, impose an estimate of the IP 17 impact for that historical time period, and then compare that "overlay" with other states. While there are a variety of ways to construct such rankings, each with its own advantages and disadvantages, we present three such rankings here. They are comparisons for: total state and local taxes, the personal income tax, and business taxes. For the first two we use the 2020-21 Census data on state and local government finances. For business taxes, we use the Council on State Taxation (COST) state-by-state estimates for the 2021-22 fiscal year.[5]

A broad look at how IP 17 would affect Oregon's relative total tax burden is shown in Table 7. This table is based on U.S. Census Bureau data for taxes imposed by state and local governments. These are taxes used to fund ongoing public sector services. They exclude charges, miscellaneous revenue, and insurance trust revenue. This table includes the increase in the corporate tax and the reduction in the personal income

Table 7 Total Tax Rankings

Measure	Actual (FY2020-21)	Estimated Under IP 17
Total Taxes Per Capita	$6,485	$6,716
Rank among states	*#17*	*#15*
Taxes as % of Income	10.5%	10.9%
Rank among states	*#13*	*#12*

[5] The most recent years of data for each source are used, resulting in the two different years.

tax from the estimated tax credit portion of IP 17's rebate. (As stated above, this accounts for about 84% of the statewide total rebates.)

The combined effect of increasing corporation taxes and reducing personal income taxes would make a modest change to Oregon's ranking. If it were in place for the 2020-21 fiscal year, IP 17 would have increased Oregon's per capita state and local tax burden from $6,485 to $6,716 ($231). This would have moved Oregon slightly up the list from the actual 17th highest to a rank of 15th under IP 17. As a percent of income, Oregon taxes would have increased from 10.5% to 10.9%; Oregon's ranking would have moved from the 13th highest to the 12th.

For business tax ranking, the shift is more pronounced. The annual COST study attempts to incorporate all state and local taxes that are initially paid by business. Unlike the Census data, this approach includes unemployment insurance taxes because they are paid by businesses. The largest taxes on a national basis are business property taxes, general sales taxes on business inputs, corporate income taxes and unemployment insurance taxes. COST includes business taxes based on gross receipts in the corporate income tax category. This includes taxes such as Ohio's Commercial Activity Tax, Washington's Business and Occupation Tax, and Texas' Margin Tax. Since IP 17 generates substantial revenue based on the sales or gross receipts of corporations, it appears to fit the method by which these taxes are considered.

Because Oregon does not have a sales tax on business inputs, Oregon's business tax burden had historically ranked relatively low according to the method used by COST. With the addition of the Corporate Activity Tax, Oregon has moved closer to the national average. In 2021-22, Oregon received an estimated 41.7% of state and local tax revenue from business entities compared to 44.6% nationally. Oregon's $12.8 billion in business tax collections in 2021-22 were 4.8% of the state's total personal income (one measure of the state's economy). Nationally, business taxes were 4.9% of total income.

Table 8 shows an estimate of how IP 17 would affect Oregon's business tax burden compared to other states. (This assumes other states have made no tax changes.) IP 17 moves the 2021-22 total business tax burden to an estimated $18.6 billion in Oregon. This increases the business tax share to 51%, above Washington's 50% and above the U.S. average of 45%. Idaho and California are below the national average. Under IP 17, Oregon business taxes as a share of state personal income rises from 4.8% to 7%. This would move Oregon above California's 5.6%, Washington's 5%, and Idaho's 3.9%, and the U.S. average (4.9%).

Table 8 Business Tax Rankings

State Fiscal Year (2021-22)	Total Business Taxes ($B)	Business Taxes as Percent of Total Taxes	Business Taxes as Percent of Total Income
Oregon (Actual)	$12.8	41.7%	4.8%
Oregon with IP 17	$18.6	50.9%	7.0%
Washington	$29.3	49.7%	5.0%
California	$167.2	41.8%	5.6%
Idaho	$4.3	41.9%	3.9%
U.S. Totals	$1,074.5	44.6%	4.9%

IP 17 also provides, in part, that the rebate be provided to individuals via a tax credit on personal income tax returns. Our analysis suggests that tax returns account for about 84% of the population. Using that as a proxy, we estimate that share of total rebates will be used to reduce personal

Table 9 Personal Income Tax Rankings

Measure	Actual (FY2020-21)	Estimated Under IP 17
Personal Income Taxes Per Capita	$2,645	$1,522
Rank among states	*#8*	*#24*
Personal Tax as % of Income	4.3%	2.5%
Rank among states	*#3*	*#26*

income taxes. In Table 9 we return to the Census data to consider this tax change on state rankings for the personal income tax. When looking at specific taxes, it's helpful to remember not all states impose each kind of tax. In fiscal year 2020-21, seven states did not impose a personal income tax. That said, if IP 17 were in place during this year, Oregon's ranking would have fallen from 8th highest to 24th highest when considering personal income taxes per capita. For personal income taxes as a percent of income, Oregon's ranking would have fallen from 3rd highest to 26th highest. One limitation of the data in this case is that it does not include recent local income tax changes passed by voters int the Portland area after fiscal year 2021. Including those would likely move Oregon back up the rankings a bit.

Shifting to a Gross Receipts Tax Base

IP 17 would fundamentally change Oregon's mix of state taxes. Oregon's current system is highly dependent on personal income taxes, which accounted for just under 64% of state tax revenue in the 2022-23 fiscal year (the most recent year for state-only census data). Table 10 shows how Oregon's mix of taxes would change if IP 17 were to become law.

IP 17 would reduce Oregon's relative dependence on personal income taxes from 64% to 38% of total state taxes. Under current law, corporate taxes based on gross receipts make up only 0.3% of state taxes (the current corporate minimum tax). IP 17 would boost this proportion to 33%. (The Census reports collections from the Corporate Activity Tax under General Sales and Gross Receipts taxes, accounting for just over 6% of state tax collections.) Corporate taxes based on net income would drop from 7.5% to 2.1% as the overwhelming majority of corporate revenue would shift from the marginal rate portion to the minimum tax portion of the Corporate Income & Excise Tax. The shift from minimal reliance on gross receipts taxes to roughly one-third reliance has significant implications for Oregon's tax system.

Table 10 State Tax Collections

Tax Category	Percent of State Tax Revenue	
	Actual	Under IP 17
Personal Income Taxes	63.6%	37.6%
Corporate Income Taxes	7.5%	2.1%
Corporate Gross Receipts Taxes	0.3%	33.1%
General Sales Taxes (CAT)	6.4%	6.1%
Selective Sales Taxes	13.2%	12.5%
Other Taxes	9.1%	8.7%
Total State Taxes	100.0%	100.0%

Gross receipts taxes have a long history of use by states but generally fell out of favor in the latter part of the 20th century. During the Great Depression and its aftermath, six states enacted general gross receipts taxes (West Virginia, Mississippi, Georgia, Indiana, Delaware, and Washington). By 2000, only Washington and Delaware continued to rely on gross receipts taxes as a major revenue source. However, four states have recently enacted taxes with a gross receipts tax base. Ohio enacted the Commercial Activity Tax based on gross business sales in 2005 and repealed their corporate income and franchise tax. In 2008, Texas enacted the Margin Tax which is a hybrid income/gross receipts base. In 2015, the Nevada Legislature approved the Nevada Commerce Tax, using a tax base similar to Ohio's. In 2019, Oregon created the Corporate Activity Tax (CAT), which is statutorily applied to commercial activity - as a type of modified gross receipts tax that includes a 35 percent subtraction for either input costs or labor costs. Table 11 contains a comparison of the characteristics of these taxes across the six states.

Table 11 State Gross Receipts Taxes

State	Tax	Year Enacted	Rates*	Revenue as Percent of Total State Taxes
Delaware	Gross Receipts Tax System	1913	0.0945% to 0.7468%	5.51%
Nevada	Commerce Tax	2015	0.051% to 0.331%	3.05%
Ohio	Commercial Activity Tax	2005	0.26%	6.57%
Oregon	Corporate Activity Tax	2020	0.57%	6.40%
Texas	Margin Tax	2008	0.375% to 0.75%	7.40%
Washington	Business & Occupation Tax	1933	0.14% to 3.3%	18.79%

* Excludes some exceptions; Tennessee imposes a gross receipts tax on certain activities and then exempts those receipts from its Business Tax.
Source: State Revenue Departments; LRO calculations

Comparing IP 17 with these general gross receipts taxes, several distinctions emerge:

- The six states in Table 11 impose their gross receipts tax on all business entity types while IP 17 applies only to C- and S-corporations with sales greater than $25 million. This means the IP 17 base is considerably narrower than that used in other states.
- With the exception of Washington, gross receipts taxes generate roughly 3% to 7% of total state tax revenue. With IP 17 estimated to raise about 33% of state tax revenue, it would replace Washington's Business & Occupation tax as the largest relative contributor to state taxes. That said, the measure requires the revenue raised to be used for the rebate program, with the majority of the funds directly reducing Oregon collections from the personal income tax. IP 17 simultaneously increases the reliance on a gross receipts tax while reducing the reliance on income taxes.
- With the exception of Delaware and Oregon, the other states with a general gross receipts tax also impose a retail sales tax. A retail sales tax on business input purchases has similar economic effects to a gross receipts tax. This can magnify economic distortions in those states that impose both taxes.

Because gross receipts taxes have been used at the state level for over a century, public finance economists have extensively analyzed their advantages and disadvantages. The major advantage of a general gross receipts tax is its broad base. Because it is a transaction or turnover tax, the gross receipts tax base is greater than a state's gross domestic product. For example, Washington's Business & Occupation Tax base is roughly 1.75 times the state's gross domestic product. A broad base translates into substantial revenue generation with low tax rates. Low tax rates are preferred because they minimize economic distortions. The lower the rate, the smaller the incentive for economic decision-makers to take steps (such as changing location) to avoid the tax. Another advantage of gross receipts taxes is their relative cyclical stability. Washington's Business & Occupation Tax has demonstrated slightly more instability than its retail sales tax, but less instability than Oregon's personal income tax and considerably less than Oregon's corporate income tax.

Gross receipts taxes also have a number of disadvantages that have been identified over the years. A major concern is the distorting impact of pyramiding. Pyramiding occurs when the gross receipts tax is built in at the time each transaction occurs and then passed on to the next stage. Because industries vary greatly in the number of transactions that occur, the effective tax rates can be considerably higher for those industries with multiple transactions compared to those which have very few. The Washington Legislature found that the degree of pyramiding ranges widely with the highest occurring in the food processing industry and the lowest in the computer programming and data processing industry. Because the degree of pyramiding varies widely, effective tax rates will also vary widely among

industries, thereby distorting market prices and decisions. A related disadvantage is the potential impact of higher costs on particular industries and the impact on their competitiveness with respect to out-of-state companies. Finally, the gross receipts tax is subject to the same equity concerns as the retail sales tax because under most circumstances it eventually leads to higher consumer prices. Any tax that is based on general consumption will have a regressive impact on the distribution of the tax burden, meaning that lower income households will experience a higher tax burden as a percentage of their income than higher income households.

Because IP 17 is based on gross receipts, it is generally subject to the advantages and disadvantages of a gross receipts tax. However, IP 17's unique base also raises additional considerations. By narrowing the base to large C- and S-corporations, IP 17 adds another element of potential market distortion by creating an advantage for businesses that are not directly affected compared to the large corporations which are directly subject to the tax. However, by focusing the tax base on large corporations, IP 17 may lead to greater exporting of the tax beyond the state's boundaries. This can occur through reducing the returns to owners of the affected corporations (stockholders) or through lower federal taxes through increased deductions of state and local taxes on federal tax returns.

Rebate Program

The revenue raised from IP 17 is dedicated to a rebate program in which Oregon residents each receive an identical amount.[6] The increased revenue is first used to pay administrative costs and fund the hold harmless provisions; the remainder is distributed to residents, regardless of age, as either a refundable tax credit or cash payment. Eligibility for the rebate requires individuals to have resided in Oregon more than 200 days in a year. If the number of days in Oregon is less than 200 due to either the person's birth or death, then they are still considered eligible for a rebate. Individuals are also eligible to receive a rebate on behalf of their qualifying dependents or wards. The rebate is not subject to Oregon's personal income tax and is not subject to other reductions, such as garnishments.

IP 17 also prohibits the inclusion of the rebate when determining the eligibility or amount of need with respect to public assistance (ORS 411.010) or medical assistance (ORS 414.025) programs. To achieve this, the IP requires Oregon to request a waiver from the federal government.[7] If denied, individuals could experience a reduction in benefits due to the rebate.[8] If that is the case, IP 17 directs a portion of the increased revenue to these adversely affected residents so that they are, in total, held harmless from the rebate program. Essentially, these individuals would receive the regular rebate and an additional amount to fully compensate them for their reduction in benefits.[9] Lastly, individuals may decline to receive a rebate but if they opt into the program, the rebate must be claimed by December 31 of the rebate year.

[6] The calculation for determining the amount of funds for the rebate program is open to interpretation. The impact estimates used here are the difference between total corporation income & excise taxes under IP 17 compared to the current law projections in the June Economic and Revenue Forecast. Conceptually, this means that all funds for the rebate program are limited to the additional state revenue raised by the tax change.

[7] A similar waiver was recently requested for Oregon's new child tax credit which proposed to distribute a portion of the credit on a quarterly basis if the waiver were approved. The federal government denied the waiver request.

[8] One impact that is not quantified here is the loss of federal dollars to Oregon. The hold harmless provision effectively replaces federal dollars with part of the increased revenue from IP 17.

[9] This process would need administrative review as each additional amount intended to prevent a reduction in benefits would likely result in an additional reduction in benefits.

In an operational sense, the amount of increased revenue collected in one year determines the amount of funds available for the rebate program the following year. For example, increased taxes collected in calendar year 2025 are the source of rebate funds distributed in calendar year 2026. The following discussion provides an example of how the rebate program could work. For simplicity, we focus on the first year of the tax increase (2025) and the first year of rebates (2026). By December 31, 2025, the Department of Revenue (DOR) estimates the amount of increased tax collections received during 2025. Administrative and 'hold harmless' costs are deducted from the total to arrive at a net program balance for the rebates. The DOR estimates the number of individuals eligible for a rebate and calculates the per-individual rebate amount by dividing the available balance by the number of eligible individuals. The DOR then makes the rebate available as either a refundable income tax credit or as a cash payment made within 45 days of an individual's request.

For the purposes of this analysis, we assume that one percent of the revenue increase is used to fund the administrative costs and 'hold harmless' provisions. The remaining 99% of the revenue increase is available for the rebates. While there are many administrative logistics to be determined, we assume that Personal Income Tax filers would receive the rebate as a refundable tax credit and all others would receive a direct payment. Table 12 shows how the tax credits would be distributed by income level for projected 2025 tax filers and as cash payments to those who do not file a tax return. The current population forecast for 2025 is 4,337,600, which translates into an estimated 2026 rebate of $1,159 per person.

Table 12 Impact of Tax Credit by Income Level and Cash Rebates (in 2026)

Income Category ($)	Returns	People	Oregon Tax ($Millions)			
			Current Law	IP 17	Tax Change	% Change
LESS THAN 10,000	170,556	168,578	$2	-$194	-$195	-11750%
10,000 TO 20,000	151,904	188,945	$42	-$177	-$219	-517%
20,000 TO 30,000	161,914	236,164	$137	-$137	-$274	-200%
30,000 TO 40,000	180,112	275,791	$277	-$43	-$320	-115%
40,000 TO 50,000	161,634	255,319	$356	$60	-$296	-83%
50,000 TO 70,000	241,940	409,682	$734	$259	-$475	-65%
70,000 TO 100,000	260,662	490,849	$1,163	$594	-$569	-49%
100,000 TO 200,000	443,625	1,028,659	$3,747	$2,554	-$1,192	-32%
200,000 TO 500,000	166,806	434,129	$3,465	$2,962	-$503	-15%
500,000 AND OVER	26,642	73,645	$2,484	$2,399	-$85	-3%
Subtotal	1,965,798	3,561,761	$12,407	$8,278	-$4,128	-33%
Part-Year Filers	44,023	73,668	$142	$57	-$85	-60%
No return (cash pmt)		702,171			-$814	
Total		**4,337,600**			**-$5,027**	

The current projection for 2025 is that 2,009,821 personal income tax returns will be filed (1,965,798 full-year and 44,023 rebate eligible part-year filers), representing 3,635,429 people. In total, $4,213 million in tax credits will be claimed. The number of people not filing a tax return is estimated at 702,171. They would likely be recipients of the cash payments, though they could file a tax return to receive the rebate credit as well as potentially claim other refundable tax credits (if applicable). Together, $4,213 million (84%) would be distributed via the tax credit and $814 million (16%) would be distributed via the direct payment.

A few other impacts are reflected in the table. Total Personal Income Taxes would shrink by 33%, falling from $12,407 million to $8,278 million (this change is also reflected in Table 9 above). The rebate program would significantly reduce or eliminate personal income tax liability for filers with less than $40,000 of income. Collectively, filers with less than $40,000 of income would move from paying $458 million in taxes to receiving a refund of $550 million. The largest average tax reduction per tax return is projected for the higher income categories (over $3,000) due to a greater number of individuals (i.e., taxpayer, spouse, dependents) per return. The overall average tax reduction per return is $2,100.

It's worth noting that for the first rebate year of the program, the average rebate amount and overall total rebates paid will be substantially less than in later years due to the timing of the increased corporate tax revenue in calendar year 2025. For example, the average rebate paid in 2026 (2025 tax year returns) is expected to be about $1,160 per person, compared with projected rebates of $1,605 and $1,686 paid in 2027 and 2028, respectively. Corporate tax collections in calendar year 2025 are less than the taxes owed for tax year 2025.

Many corporations use a fiscal year that is different from the calendar year. Consequently, the impact of the tax increase will be realized gradually throughout calendar year 2025 as with each passing month, more corporations would begin the 2025 tax year. For example, some corporations use a July to June fiscal year. The changes in IP 17 won't affect their tax payments until October of 2025 (after their first fiscal year quarter). The increased revenue collections in calendar year 2025 are projected to be roughly 75% of the full increase associated with tax year 2025. The remaining 25% is expected to be paid during 2026 and would be part of the rebate paid in 2027. In this manner, the rebate paid in any given year would be due to an increased tax liability that, generally, stems from two tax years.

There are a number of administrative challenges and a collection of estimates that will be involved annually to determine the rebate amounts. On an ongoing basis, the calculation the DOR would make each December 31 could look something like the following:

Total amount for rebates =
- Estimated higher corporate tax collections received during the calendar year
- + any amount from the previous year's rebate that was not claimed
- - administrative costs
- - funds necessary for the hold harmless provisions
- +/- any corrections made to the prior year's estimate of higher tax collections ("true up")

The "true up" is more of an updated estimate because actuals will be unavailable for many corporations in this timeframe. Due to the use of fiscal years by corporations and statutory filing extensions, an estimate close to actual tax liabilities is not generally known until three years after the tax year. For example, actual 2025 tax year liability - with or without IP 17 - will generally not be known until late 2027 or early 2028.

Economic and Revenue Effects

This section of the paper provides a preliminary review of the economic impacts and a more detailed review of the revenue impacts. The revenue analysis is the traditional examination of the initial tax impacts on corporations and individuals (the 'static impacts'); also included are initial estimates of the

'dynamic feedback' effects (behavioral responses by businesses and households). The section concludes with an analysis of consequential impacts on the General Fund and Highway Fund.

Economic Effects

To gauge the potential long run economic effects of the measure we used LRO's Oregon Tax Incidence Model (OTIM) to simulate how the tax and rebate would affect employment, wages, prices, and other state economic metrics. The economic analysis provided by using OTIM enables a comparison between the current economic forecast and the projected differences under IP 17. Basically, the OTIM results reflect estimated deviations from the current law economic and revenue forecast.

OTIM is a long-term computable general equilibrium model of the Oregon economy. It consists of a series of equations linking different sectors of the state economy with each other and the outside world. OTIM is designed to show how the state economy responds to a major change in tax policy. It does this by modeling an introduced change in tax policy (e.g., tax rates or deductions, new taxes, etc.) and then estimates how wages, prices, migration, labor force participation, capital investment and other economic variables respond based on the model's underlying assumptions. OTIM then calculates a new equilibrium level of income consistent with the changes in wages, investment and other variables initiated by the policy. The model results compare the new equilibrium with the starting point. In effect, OTIM compares one point in time (economic condition pre-policy change) with a new point in time after the economy has responded to the change in tax policy. We assume that it takes roughly 5 years for the economy to fully respond to a major change in tax policy. For further details on OTIM see LRO Research Report #4-15.

We used OTIM to simulate the economic and distributional effects of IP 17. Distribution of the corporate tax increase was allocated across industries based on the 2021 Oregon tax returns as shown in Table 6. An effective tax rate was calculated based on estimated taxable sales in each industry. The overall effective tax rate, calculated as the initial tax increase divided by total Oregon intermediate and final sales by businesses of all entity types, is estimated at 1.3%. However, this effective rate varies considerably by industry with the 5 highest taxed sectors (retail trade, wholesale trade, finance & insurance, business services, and transportation) accounting for 75% of the overall tax. The new corporate minimum would account for 95% of the total corporate tax, with the remaining 5% collected based on the marginal corporate tax rates. Corporate taxes paid to state and local governments are deductible against the federal income tax. Consequently, a portion of the Oregon tax increase on corporations is likely to be exported to the federal government through increased deductibility on federal returns.

The preliminary analysis provided in Table 13 summarizes the simulation results for measures of the overall state economy. Based on the assumption that it takes 5 years for the economy to fully adjust to the new tax, the simulation allows a comparison of the current forecast for Oregon's economy in 2030 to projections if IP 17 were to become law. IP 17 acts as both a consumption tax and an income tax cut for individuals. From a macro perspective, it is important to note that these results reflect a modest dampening effect on projected growth over the next five years, not outright declines.

The three top-line metrics - income, population, and employment - are each projected to grow a bit less under IP 17; reductions in growth of roughly one percent or less for each of the metrics. Under current law, the 2030 projection for state personal income is $400 billion. Under IP 17, simulations indicate that personal income would be roughly $397.1 billion instead, about 0.71% less. Population increase would be a bit less, with population increasing by 122,000 rather than 124,000 during the five years. Of these three metrics, employment would experience the largest impact, but still a net change of less than one percent. Oregon's employment is projected to reach 2.830 million in 2030. If IP 17 becomes law, that figure is

projected to be 2.802 million, meaning roughly 28,000 fewer new jobs. Wages are projected to be slightly lower (-0.05%) while prices are expected to be higher (1.3%) in 2030 under IP 17.

Table 13 Simulated Impact on Broad Economic Measures

Metric	2025 Baseline	Under Current Law			Under IP 17			Difference: IP 17 & Current Law	
		2030	Change 2025-2030	Percent Change	2030	Change 2025-2030	Percent Change	Total	Percent
Personal Income (billions)	$308.4	$400.0	$91.5	29.7%	$397.11	$88.7	28.8%	-$2.8	-0.71%
Population (thousands)	4,338	4,461	124	2.9%	4,459	122	2.8%	-2.2	-0.05%
Employment (thousands)	2,732	2,830	97	3.6%	2,802	69	2.5%	-28	-0.99%
Wages (2025=100)	100	122.0	22.03	22.03%	121.97	21.97	21.97%	-0.06	-0.05%
Price Level (2025=100)	100	112.1	12.1	12.1%	$113.6	13.6	13.6%	1.44	1.3%

Revenue Effects

To describe the impacts of the proposed policy change, this report includes simplifying assumptions related to administration and timing. This section includes an analysis of the revenue impact by tax year and fiscal year. The tax year analysis is for illustrative purposes only; the analysis by fiscal year incorporates how we expect the timing of the rebate program to actually work. Recall that the mechanics of the rebate program do not align with the timing of corporate tax returns. The rebates will be based on taxes collected during the previous calendar year, which will be a mix of corporate tax years.

Of particular note for this analysis is how the rebate program is expected to work. As previously mentioned, 84% of the rebate would be distributed as a refundable tax credit. The remaining 16% would be distributed as a cash payment. The former affects the revenue side of the ledger while the latter affects the spending side. Because only 84% of the rebate affects tax collections, the net revenue impacts will show gains. This is only half the picture. Table 14 shows the components of the revenue impacts, and the bottom row of Table 14 identifies the amount of General Fund dollars to be specifically earmarked for the rebate cash payments; these are not revenue losses, but they are commitments of GF resources.

To estimate the revenue impact of IP 17, we started with corporate tax return simulations of tax years 2017 through 2021. Taxable gross receipts are then projected based on the June 2024 state economic and revenue forecast. This produces an estimate of corporate tax liability by tax year. This is a static revenue impact estimate prior to consideration of any “dynamic” behavioral effects attributable to the change in tax policy. The funds dedicated to the rebates themselves are assumed to be 99% of the corporate tax revenue increase.

The second step of the revenue analysis involves a review of how the increase in the corporate tax affects other aspects of the state’s public finance system. To start, we examine the impacts on the state’s retaliatory tax and personal income tax (aside from the rebate tax credit).

Corporations in the Finance & Insurance sector are estimated to experience a tax increase from $186 million to $1,115 million for tax year 2025. The portion of this increase paid by insurance companies is

expected to reduce Oregon's retaliatory tax, which is currently projected to add roughly $100M to the General Fund annually. The retaliatory tax has unique qualities - it's calculation for a given company involves a comparison of the insurance taxes imposed in Oregon to those imposed by the insurer's home state. Setting aside these complexities for a moment, IP 17 is expected to reduce retaliatory tax collections, resulting in a General Fund loss of roughly $70M each year. The language of IP 17 does not allow for the increased tax collections to offset this loss.

The increased taxes paid by S-corporations will flow through to the personal income tax returns of each company's shareholders. As previously described, these S-corporations do not currently pay Oregon income taxes at the entity level. All of the profit (or loss) is allocated or distributed to the shareholders. In considering first-order effects and ignoring behavioral responses, the $1,393 million S-Corporation tax increase for tax year 2025 would be a reduction in Oregon income of about $940 million.[10] The corresponding projected loss to the GF is $77 million. The language of IP 17 does not allow for the increased tax collections to offset this GF loss.

Lastly, the dynamic effects are modeled to capture the impact of behavioral changes in response to the underlying tax policy and spending changes. These are often referred to as feedback effects caused by the estimated changes in economic activity. OTIM produces an estimate of these effects on revenue resulting from economic changes induced by the tax policy change. These dynamic feedback effects are assumed to phase in over 5 years in 20% increments per year. The revenue feedback effects of consumption-based taxes tend to be smaller than those triggered by income or property taxes. This explains the relatively small feedback effect estimated for IP 17. OTIM estimated feedback effects typically vary from 1% to 10% for general tax policy changes.

Table 14 Revenue Impacts by Tax Year ($M)

General Fund	2025	2026	2027	2028	2029	2030	2031	2032	2033
Static Estimate									
Corporation Tax	$6,771	$7,171	$7,568	$7,964	$8,364	$8,781	$9,206	$9,644	$10,098
Rebate Tax Credit	-$5,618	-$5,950	-$6,280	-$6,608	-$6,940	-$7,286	-$7,638	-$8,002	-$8,378
Other*	-$146	-$164	-$172	-$179	-$186	-$193	-$201	-$209	-$217
Dynamic Effects	-$56	-$77	-$135	-$212	-$266	-$310	-$324	-$340	-$355
Net Impact on Tax Liability	$950	$980	$982	$966	$972	$992	$1,042	$1,094	$1,147
* Includes the retaliatory tax and the personal income tax									
GF Dollars for Cash Rebates	-$1,085	-$1,149	-$1,213	-$1,276	-$1,340	-$1,407	-$1,475	-$1,546	-$1,618

IP 17 first applies to the 2025 corporate tax year. An analysis of simulations run on historical tax years from 2017 through 2021 indicates a strong link between annual growth in the proposed tax increase and annual growth in Oregon personal income. Consequently, current projections for the growth in personal income are used to estimate the tax increase through 2033. The dynamic effects for the 2025 tax year are minimal because the economic effects have just started to take effect. Over subsequent years, the dynamic revenue loss generally increases from -$56 million in 2025 to -$355 million in 2033. The feedback effects remain relatively small due to the offsetting nature of a personal income tax reduction tied to the corporation tax increase. While net annual growth in tax liability from IP 17 is slowed a bit by these feedbacks, growth is expected to occur on a year over year basis, with net impact estimated at $950 million in 2025, and gradually increasing to $1,147 million in 2033.

The bottom row of Table 14 is not a revenue impact. It is provided to show the demands placed on the

[10] Reflects a combination of less income being passed through as well as increased loss.

General Fund for the direct payments portion of the rebate program. The revenue gain shown in the table is driven by only 84% of the IP 17 rebates being distributed via the tax credit. The funds for the remaining 16% of the rebates are in the General Fund. Those funds will either be claimed by individuals or included in the following year's rebate (see the flowchart on page 15, in the Rebate Program section).

Table 15A converts the tax year liability estimates to revenue collections estimates by fiscal year. This is based on estimated payment requirements for corporations as well as an examination of current monthly tax payment patterns for the Corporate Excise and the Corporate Activity Taxes. Corporations tend to overpay their income tax liability and receive refunds rather than risk paying penalties for underpayments. Under IP 17, we expect payments to exceed final liability by a lesser margin as a gross receipts based minimum tax should be easier for corporations to predict.

Roughly 20% of the 2025 tax year liability is expected to be collected in the final 6 months of the 2023-25 biennium. The remainder of the first year's liability is then collected over the next two fiscal years. While Corporate Excise Tax collections would increase General Fund receipts by about $15 billion in the 2025-27 biennium, that amount is dedicated to the rebate program and interacts with existing state laws – as described in the next section.

The table also shows how the rebate tax credits lag the collections from the corporate tax. For example, the rebate tax credit in FY26 ($4,213 million) is tied to tax collections from calendar year 2025, which includes the FY25 and part of the FY26 corporate impacts. The timing of the impact is assumed to align with that of personal income tax returns. In other words, the impact of the 2025 rebate tax credit would largely reflect tax returns and payments made through April of 2026. Due to the timing of collections for corporations and the one-year lag for the rebates, the net revenue impact is expected to have significant annual changes during the first few years of the program; it is projected to eventually exhibit a more stable pattern.

Table 15A Revenue Impact by Fiscal Year, Biennium ($M)

Fiscal Year	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Corporation Tax	$1,333	$7,140	$7,577	$7,614	$8,009	$8,412	$8,829	$9,256	$9,697
Rebate Tax Credits	$0	-$4,213	-$5,867	-$6,197	-$6,526	-$6,857	-$7,199	-$7,550	-$7,911
Other Effects	-$23	-$164	-$184	-$251	-$329	-$386	-$430	-$450	-$471
Net Revenue Impact	$1,311	$2,763	$1,526	$1,165	$1,154	$1,169	$1,200	$1,256	$1,315

Biennium	2023-25	2025-27	2027-29	2029-31	2031-33
Net Revenue Impact	$1,311	$4,289	$2,320	$2,369	$2,570

Please note that Tables 15A (above) and 15B (in the following section), are best understood when interpreted together. Table 15A shows revenue impacts from tax changes whereas Table 15B shows the implied effect of new General Fund obligations. After a description of these obligations, Table 15B is a table of the estimates by fiscal year and biennium.

General Fund Obligations

The previous section focused strictly on the revenue implications of the proposed measure, basically the inflow of revenue to the state. It also described the General Fund obligations to pay for the portions of the rebates that will be cash payments, not tax credits. IP 17 also interacts with other aspects of Oregon law. The requirement for the increased revenue to be distributed to Oregonians annually has the consequence of twice dedicating certain funds. Two areas of concern discussed here are the revenue raised from the taxation of motor fuels and the dedication of corporation kicker dollars to K-12 spending.

The Oregon Constitution requires that taxes raised from the sale of motor fuel be deposited into the Highway Fund.[11] Our analysis indicates IP 17 would raise roughly $300 million to $350 million annually from such sales that would need to go to the Highway Fund. The language of IP 17, however, does not allow for deposits into the Highway Fund. Rather, such revenue is to be included in the funds for the rebate program. Consequently, without legislative action, it is assumed here that these funds would be transferred from the General Fund to the Highway Fund.

A second such impact is how IP 17 would interact with Oregon's "corporate kicker". As of the June 2024 revenue forecast, a corporate kicker of $588 million is projected for the 2023-25 biennium. Per Oregon's Constitution, these funds are dedicated to K-12 spending during the 2025-27 biennium.[12] If IP 17 becomes law, any IP 17 dollars collected between January 1, 2025, and June 30, 2025, would increase the corporate kicker. This means the 2023-25 corporate kicker would increase to $1,921 million ($588 +$1,333). Similar to the situation with tax collections on motor fuels, the language of IP 17 includes the $1,333 million dollars as funds for the rebate program. Consequently, these dollars would be committed to both 2026 rebates and 2025-27 K-12 spending. Without legislative action, a reduction in other areas of the General Fund spending would be required to account for the duplicative commitment of dollars.

Table 15B shows the projected timing of rebate payments as well as these two effects. The Highway Fund transfers are assumed to occur immediately following each fiscal year. For example, the IP 17 revenue from motor fuels received during fiscal year 2024-25 would be transferred in fiscal year 2025-26. The impact on the General Fund due to the interaction between the rebate program and the corporate kicker isn't identical to the transfer of motor fuel tax revenue. It's a dedication of General Fund dollars to education spending, but it can be thought of as a transfer to the State School Fund. This impact is shown as the -$1,333 million impact in Fiscal Year 2025-26. While the Highway Fund and K-12 Education spending provisions are in the state's Constitution, IP 17 is a statutory change. The Legislature has the authority to act on potential changes to IP 17 to address such interactive effects. This paper does not speculate as to what such actions could be.

Table 15B Implications for the General and Highway Funds ($M)

Fiscal Year	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
General Fund									
Rebate Payments	$0	-$814	-$1,133	-$1,197	-$1,260	-$1,324	-$1,391	-$1,458	-$1,528
Motor Fuels Taxes	$0	-$281	-$350	-$345	-$337	-$328	-$321	-$317	-$313
Corporate Kicker to K-12	$0	-$1,333	$0	$0	$0	$0	$0	$0	$0
Highway Fund	$0	$281	$350	$345	$337	$328	$321	$317	$313
Biennium	**2023-25**	**2025-27**		**2027-29**		**2029-31**		**2031-33**	
General Fund	$0	-$3,912		-$3,139		-$3,364		-$3,616	
Highway Fund	$0	$632		$681		$649		$630	

Considering Tables 15A and 15B together helps provide a more complete picture of the projected impacts of IP 17 by bringing together the estimated revenue impacts and additional commitments of General Fund. For example, consider the 2025-27 biennium. The revenue gain of $4,289 million shown in Table 15A corresponds to the new General Fund obligations of $3,912 shown in Table 15B. Combining these two impacts results in a General Fund change in "net position" of $377 million. For the 2027-29 biennium that combined effect is a "net position" of -$819 million. Each of these calculations excludes the revenue gain to the Highway Fund.

[11] The Oregon Constitution, Article IX, Section 3a

[12] The Oregon Constitution, Article IX, Section 14

Alternative Interpretation of IP 17's "Increased Revenue"

The analysis in this report uses the interpretation that IP 17 would increase taxes on corporations and then distribute those increased taxes to individuals via a flat rebate (allowing for certain costs). The language of the measure includes references, in various ways, to the "increased revenue" or "funds" generated in Section 1 of the IP. This leaves open the possibility for different interpretations of "increased revenue". As of the writing of this report, we do not have a formal legal opinion on its interpretation. One such alternative interpretation would result in an amount for the annual rebates that exceeds the estimated revenue raised as described in this report.

A contextual key to understanding the issue at hand is to recognize that Section 1 of IP 17 changes a portion of the Corporation Excise Tax. This tax consists of two components: a marginal income tax rate structure and the minimum tax (see Table 1). Under both current law and IP 17, corporations perform both calculations and pay the larger of the two.[13]

The core question is: what is the legally required method for calculating the amount of funds available for the rebate program? There may be several possibilities, but two are provided here:

A. ***Net Change in Tax*** **-** Equal to the change in total Corporation Income & Excise Taxes from current law projections compared to projections under IP 17 (IP 17 tax collections minus current law collections); or
B. ***Change in Minimum Tax*** - Equal to the change in taxes from just the minimum tax portion of the Corporate Excise Tax under current law compared to the projection of minimum tax collections under IP 17 (IP 17 minimum tax collections minus current law minimum tax collections).

This report has relied on interpretation A, meaning the amount of revenue available for the rebate program is equal to the amount of revenue raised by the measure. Interpretation B would mean that the total amount of rebates would exceed the revenue raised by the measure, with the difference likely required from the General Fund. Table 16 uses Tax Year 2025 as an illustration. As described above, IP 17 is estimated to increase corporation income taxes by $6,771 million dollars. This can be viewed as a net difference of the change in taxes from the rate portion and the minimum tax portion of the corporate tax. The marginal tax rate portion actually falls by $876 million as taxpayers shift from ratepayers to min-payers. When considering only the minimum tax portion, revenue under IP 17 actually increases by $7,646 million. Interpretation A means $6,771 million is the amount available for the rebate program. Interpretation B would mean that $7,646 million of tax year 2025 receipts would be dedicated to the rebate program. IP 17 does not identify a source for the additional $876 million dollars.

Table 16 Tax Year 2025 Estimates ($M)

Tax Calucation	Current Law	IP 17	Difference
Tax Rates	$1,313	$437	-$876
Minimum Tax	$66	$7,712	$7,646
Total	$1,378	$8,149	$6,771

Tables 17A and 17B (interpretation B) are analogous to Tables 15A and 15B (interpretation A). In simplest terms, the amount of tax credit claimed is increased by roughly 13% annually. Due to the larger rebates under interpretation B, the net revenue impacts reported in Table 17A are smaller than the corresponding amount reported in Table 15A.

[13] Under current law, roughly 40% of C-corporations with Oregon sales above $25 million tend to have a minimum tax that is the larger of the two calculations. Under IP 17, that percentage is expected to increase to roughly 90%.

Table 17A Alternative Impacts by Fiscal Year, Biennium ($M)

Fiscal Year	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Corporation Tax	$1,333	$7,140	$7,577	$7,614	$8,009	$8,412	$8,829	$9,256	$9,697
Rebate Tax Credits	$0	-$4,758	-$6,626	-$6,999	-$7,370	-$7,744	-$8,130	-$8,527	-$8,934
Other Effects	-$23	-$164	-$184	-$251	-$329	-$386	-$430	-$450	-$471
Net Revenue Impact	$1,311	$2,218	$767	$364	$310	$282	$269	$279	$291
Biennium	**2023-25**	**2025-27**		**2027-29**		**2029-31**		**2031-33**	
Net Revenue Impact	$1,311	$2,985		$674		$551		$571	

Tables 17B is analogous to Table 15B. The only difference is the amount of cash payment rebates. Consider the 2025-27 biennium. The revenue gain of $2,985 million shown in Table 17A corresponds to the new General Fund obligations of $4,164 shown in Table 17B. Combining these two impacts results in a General Fund "net position" of -$1,179 million. For the 2027-29 biennium that combined effect is a "net position" of -$2,783 million. As with Tables 15A and 15B, considering Tables 17A and 17B together helps provide a more complete impact picture by bringing together projected revenue impacts and the additional commitments of General Fund dollars that are both consequences of IP 17, as drafted.

Table 17B Alternative Implications for the General and Highway Funds ($M)

Fiscal Year	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
General Fund									
Rebate Payments	$0	-$919	-$1,280	-$1,352	-$1,423	-$1,496	-$1,570	-$1,647	-$1,726
Motor Fuels Taxes	$0	-$281	-$350	-$345	-$337	-$328	-$321	-$317	-$313
Corporate Kicker to K-12	$0	-$1,333	$0	$0	$0	$0	$0	$0	$0
Highway Fund	$0	$281	$350	$345	$337	$328	$321	$317	$313
Biennium	**2023-25**	**2025-27**		**2027-29**		**2029-31**		**2031-33**	
General Fund	$0	-$4,164		-$3,457		-$3,715		-$4,002	
Highway Fund	$0	$632		$681		$649		$630	