Ballot Measure 118:
A Description and Analysis

REPORT #7-24
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Introduction

This report is a follow-up to the LRO report on the [Initiative Petition 17 (IP 17)], which has been certified as Ballot Measure 118 for the November election. Measure 118 (M118) proposes to increase state corporate taxes and then distribute the increased revenue to Oregon residents in equal amounts. After accounting for certain costs, the increased taxes paid under the corporate minimum tax would be divided by the number of Oregon residents, resulting in a fixed payment to residents as either a refundable income tax credit or as a direct cash payment.

Since the release of IP 17 report, Legislative Counsel (LC) has issued opinions on Measure 118 addressing two legal questions. The analytical results have not changed, but this report presents the results in a different manner. It consists of six sections: Introduction, Key Findings and Impacts, Minimum Tax Changes, Descriptive Analysis, Revenue and Cash-Flow Impacts, and Rebate Program. The Key Findings and Impacts section provides a high-level synopsis of the analysis.

The Minimum Tax Changes and Descriptive Analysis sections included here are for context and are identical to corresponding sections in the IP 17 report. The Minimum Tax Changes section describes the proposed tax change and provides examples of how they would affect hypothetical businesses. The Descriptive Analysis section discusses the projected number of affected businesses, and the impact distribution by size of company and by economic sector.

The fifth section, Revenue and Cash-Flow Impacts, provides an analysis of the proposal relying on the LC opinions and fewer assumptions. While the underlying analytical results are unchanged from previous analyses, there are two key differences in how the results are presented. First, the projected impacts on the Corporation Excise Tax are separated into the impacts on the minimum tax and the rates tax. Second, the impact of the rebate program is not separated into its component parts. Rather than making assumptions to distinguish between traditional revenue impacts (i.e., the tax credit) and fiscal impacts (i.e., direct rebate payments), all aspects of the rebate program are combined into what are referred to here as 'cash-flow' impacts. The Rebate Program section also provides additional analysis of the measure's Hold Harmless provision and highlights certain administrative aspects.

Key Findings and Impacts

This section provides a synopsis of the analysis and a summary review of the projected impacts. As with the IP 17 report, this report relies on the June revenue forecast.[1]

Key Findings

- M118 increases corporation taxes, creates a rebate program, and has significant implications for the state's General Fund.
- M118 is expected to increase corporation tax revenue by $1.3 billion during the 2023-25 biennium, $14.7 billion in the 2025-27 biennium and $15.6 billion in the 2027-29 biennium.
- The rebate program is projected to cost $13.6 billion in the 2025-27 biennium and $17.1 billion in the 2027-29 biennium

[1] The September economic forecast was not significantly different from the June forecast, so an update would not change the results in a meaningful way.

- M118 would increase the 2023-25 corporate kicker. The Constitution 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 this biennium would increase it.
- Dynamic modeling 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 the general price level by 1.3%. The combined effects of the measure are expected to keep wages relatively unchanged with growth slowing by only 0.05%.[3]
- 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 rebate program is tied to the revenue raised from the corporate minimum tax, variations in the collections would have an offsetting impact on the rebate program.

Impacts

Exhibit 1 below provides the fiscal year and biennial estimated cash-flow impacts. Because Measure 118 would simultaneously increase taxes and create a spending program, the customary delineation of revenue and fiscal (i.e., spending) impacts is challenging. The two types of impacts are intertwined. Relaxing certain assumptions about the rebate program allows for the combining of revenue and fiscal impacts into what this report refers to as cash-flow impacts. As displayed in Exhibit 1 and described in greater detail in the Revenue and Cash-Flow Impacts section, M118 would result in a negative cash flow because the net increase in Corporation Excise Tax collections would be less than the amounts required to fund the rebate program. There would also be a reduction in transfers to the Rainy Day Fund (RDF) due to the impact on the Corporation Excise Tax collections.

Exhibit 1 Total Estimated Impacts, by Fiscal Year, $ Millions

Fiscal Year	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Tax and Rebate Impacts							
Corporation Excise Tax	$1,354	$7,209	$7,649	$7,687	$8,084	$8,489	$8,908
Rebates	$0	-$5,677	-$7,906	-$8,350	-$8,793	-$9,240	-$9,701
Other Tax Effects	-$44	-$233	-$255	-$324	-$404	-$463	-$509
Corporate Kicker to K-12	$0	-$1,333	$0	$0	$0	$0	$0
Net Cash-Flow Impact	**$1,311**	**-$35**	**-$512**	**-$988**	**-$1,113**	**-$1,214**	**-$1,301**
Biennium	**2023-25**	**2025-27**		**2027-29**		**2029-31**	
Net Cash-Flow Impact	$1,311	-$547		-$2,101		-$2,515	
Rainy Day Fund	-$19	-$80		-$88		-$96	

[2] Oregon Constitution Article IX, Section 14

[3] For a discussion of the economic impacts, refer to the IP 17 report.

To explain a bit further, the term 'cash-flow impact' refers to the combined effects of a change to revenue and a change to required spending. For example, a revenue reduction and an increase in spending are both 'negatives' with respect to the state budget; they both reduce resources that would otherwise be available. Taking this approach allows the rebate program to be described as a negative, combining the negative revenue impact of a tax credit with the increased spending requirement of the direct payments. Then, the increase in corporation taxes -- a positive (net increase to the state) -- can be combined with the impact of the rebate program -- a negative (a tax decrease and a spending increase) -- to provide the net cash-flow impacts on state financial resources.

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 M118, the minimum tax for C- and S-corporations with annual sales in Oregon that exceed $25M would increase.

M118 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 it was confirmed by voters in 2010 with the passage of Measure 67.[4] That measure also established a $150 flat minimum tax for S-Corporations and partnerships. Exhibit 2 shows the current law minimum tax and how M118 would change it.

[4] 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.

Because S-corporations are a type of pass-through entity (PTE), their minimum tax differs from that for C-corporations. Partnerships are another example of a PTE.[5] 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.

C-Corporation Minimum Tax ($)		
Oregon Sales	Current Law	Under M118
< $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 M118
< $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, M118 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 M118. While M118 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 M118, with revenue from the corporate minimum accounting for 94.6% of corporation tax liability and tax from the rates accounting for 5.4%.

M118 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.

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

M118 Tax Scenarios for Different Businesses

Examples of how the new M118 corporate minimum tax structure would affect hypothetical corporations in different situations are shown in Exhibit 3. 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.

Exhibit 3 Impact on Hypothetical Businesses

Hypothetical Business Paying Minimum Tax	Minimum Tax Under Current Law	Minimum Tax Under M118	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.

Exhibit 4 shows how M118 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 "M118 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 M118. Corporation B's tax liability is determined by the tax rate under current law but would move to the minimum tax under M118; 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 M118 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 M118. Both Corporations F and G move from the tax rates to the minimum tax under M118, 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 M118 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 M118.

Exhibit 4 Comparison of Current Law Tax and M118

Hypothetical C-corporation	Oregon Sales ($M)	Net Income ($M)	Current Law Tax ($)		M118 Tax ($)		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

M118 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.

Based on simulations of historical tax return data and relying on the June 2024 Economic & Revenue forecast, we estimate the impacts of M118 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 M118, corporations with Oregon sales under $25 million would be unaffected.

As shown in Exhibit 5, 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).

Exhibit 5 Corporations Affected by M118, Tax Year 2025

C-Corporations ($M)						
	N	Current Law Tax	Share of Total	M118 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	M118 Tax	Share of Total	Increase
Unafffected						
Sales < $25 Million	83,474	$13.8	90.9%	$13.8	1.0%	$0.0
Affected						
Sales > $25 Million	791	$1.4	9.1%	$1,394.7	99.0%	$1,393.3
Subtotal	**84,265**	**$15.1**	**100.0%**	**$1,408.5**	**100.0%**	**$1,393.3**
Total	**120,476**	**$1,378.5**		**$8,149.2**		**$6,771**

According to our simulations, most C-corporations won't be affected by M118 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. M118 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 would experience a tax increase under M118. Under current law, those 1.8% of corporations account for about 65% of corporate taxes, a percentage that will increase to about 94% under M118.

Distributional Analysis

We now move to an analysis of how the impacts of M118 would affect corporations based on their level of Oregon sales and across economic sectors. As shown in Exhibit 6, 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 M118 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.

Exhibit 6 Tax Year 2025 Impacts by Corporation Sales

C-Corporations ($M)						
Sales	**N**	**Current Law Tax**	**Share of Total**	**M118 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**	**M118 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**

Exhibit 7 shows the projected impacts for tax year 2025 by economic sector. All sectors would experience a tax increase under M118 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.

Exhibit 7 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**

Revenue and Cash-Flow Impacts

As described in the introduction, the analytical results presented here are the same as those presented in the IP 17 report (specifically, in the “Alternative Interpretation” section). The tax impacts, however, are presented differently. With respect to the Corporation Excise Tax, the estimates are separated into impacts on the minimum tax and the rates tax. This section provides this analysis of the Corporate Excise Tax before turning to other tax impacts and General Fund implications.

What is absent from this report is a discussion of the rebates likely to be distributed as personal income tax credits. This analysis relaxes the assumption of how the rebates would be claimed. Rather than separating the impacts of the rebate program into those of tax credits (a revenue reduction) and direct payments (increased spending), they are combined into a single cash-flow impact concept.

Corporation Revenue Impacts

To estimate the revenue impact of M118, 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 under M118 for future tax years based on the existing business decisions of corporations. M118 first applies to the 2025 corporate tax year. The historical simulations indicate a strong link between annual growth in the proposed tax increase and annual growth in Oregon personal income. Consequently, projections for the growth in personal income are used to estimate the annual tax increases. These estimates are known as a static revenue impact estimates; they do not consider other possible economic effects of the measure.

The revenue raising mechanism in M118 is an increase in the corporate minimum tax. To best understand the tax increase, it's important to have a basic understanding of the Corporation Excise Tax.[6] It consists of two components: a marginal income tax rate structure (shown here in the box) that will be referred to here as the "rates tax", and a minimum tax (see Exhibit 2), referred to here as the "minimum tax". Under both current law and M118, corporations determine their tax under both calculations and pay the larger of the two. Measure 118 does not change this process.

C-Corporations Rates Tax	
Taxable Income	Tax Before Credits
Not over $1M	6.6% of taxable income
Over $1M	$66,000 + 7.6% of income over $1M

Under current law, roughly 40% of C-corporations with Oregon sales above $25 million pay the minimum tax because it is larger than their rates tax. Under M118, that percentage is expected to increase to roughly 90%. The Corporation Excise tax owed by many C-corporations would move from the rates tax to the minimum tax. Consequently, there would be an increase in revenue (to the state) from the minimum tax and a reduction in revenue (to the state) from the rates tax.

Nearly all S-corporations pay the minimum tax under current law and would continue to do so under M118.

Traditionally, the Legislative Revenue Office publishes revenue impact estimates for net changes to the Corporate Excise Tax. This analysis separates that net impact into the two components: the reduction in rates tax collections and the increase in minimum tax collections. Based on legal analysis from the Office of the Legislative Counsel, M118 specifically requires the increased minimum tax collections to be dedicated to the Rebate Program. (As noted above, the increase in minimum tax collections will be greater than the net increase in corporate excise tax collections.) The measure makes no reference to the revenue impacts on the rates tax so the reduction noted above is not considered in determining the funding level for the rebate program.[7]

Revenue estimates are commonly presented by either tax year - to highlight the impacts from changes in tax law - or by fiscal year - to show the impact of changes on cash flow. Fiscal year estimates are key for budgeting purposes because the state uses a July through June fiscal year. A key feature of M118 is that while the legal changes to the tax are based on tax years, the Rebate Program is structured on a calendar year basis.

Many corporations use a fiscal year (i.e., business tax year) that is different from the calendar year for a variety of reasons. The tax year determines the laws governing the calculation of tax and corresponds to

[6] Often referred to as the "corporate income tax".
[7] This LC opinion can be found here.

the calendar year in which the corporation's fiscal year begins. Consequently, the full impact of the tax increase will be realized gradually throughout calendar year 2025 as with each passing month, more corporations would begin their 2025 tax year. For example, some corporations use a July to June fiscal year. The changes in M118 would not affect these corporations' tax payments until October of 2025 (after the first quarter of their fiscal year). To demonstrate their differences, the estimated impacts on the minimum tax, the rates tax, and their net impact are presented using each of these perspectives: by tax years, then by fiscal years, then by calendar years.

Exhibit 8 shows, by tax year, the estimated changes to the rates tax and the minimum tax. The green bars show the estimated increases in the minimum tax while the red bars show the estimated reductions in the rates tax. The dark orange bars show the net, "new" revenue to the state. The funds for the rebate program, which are discussed in the next section, are based on the green bars.

Exhibit 8 Corporation Excise Tax Impacts, by Tax Year

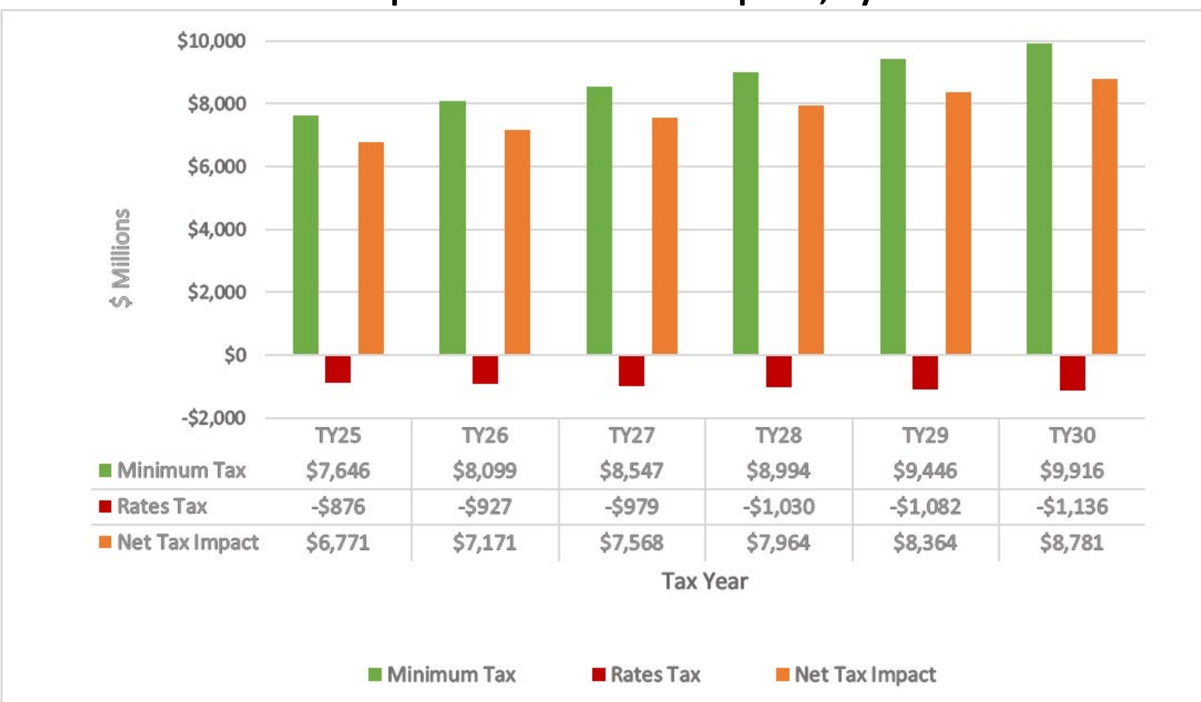
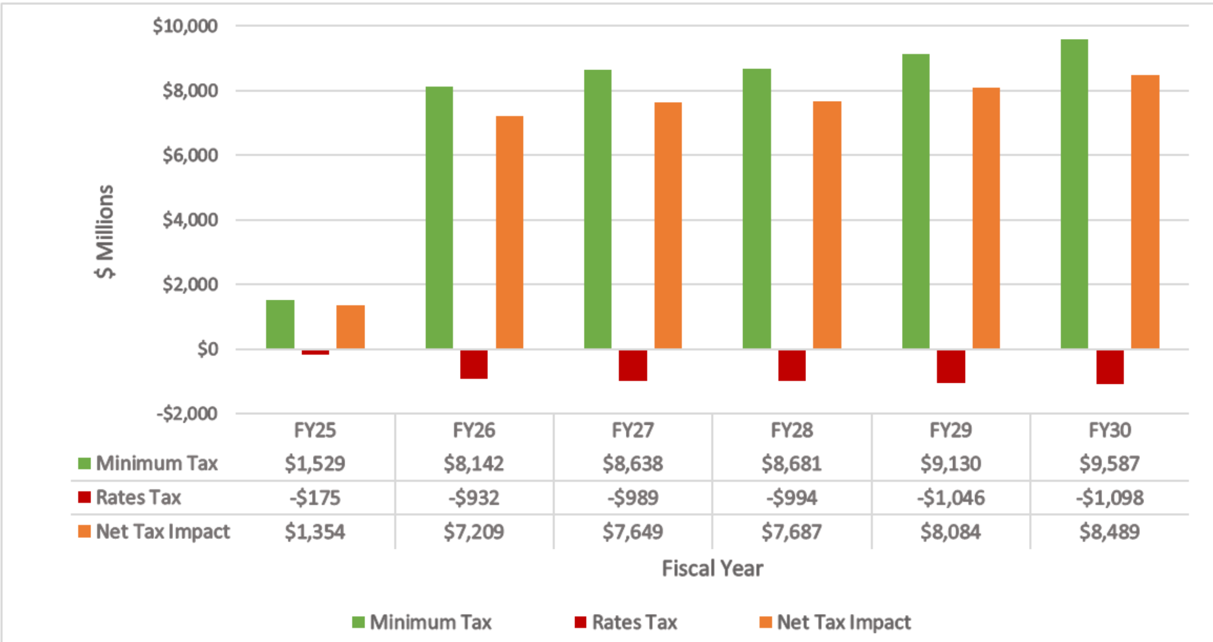


Exhibit 9 converts the tax year liability estimates to revenue collection estimates by Oregon fiscal year, which runs from July through June.[8] The table is based on estimated payment requirements for corporations as well as an examination of current monthly tax payment patterns for the Corporate Excise and the Corporate Activity Taxes. Corporations tend to overpay their income tax liability and receive refunds at the end of their tax year, rather than risk paying penalties for underpayments. Under M118, payments are expected 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 which ends on June 30, 2025. The remainder of the first year's liability is then collected over the next two fiscal years.

[8] For this reason, revenue impact estimates are most often presented by fiscal years so they can be incorporated into the state budgeting process.

Exhibit 9 uses the same color scheme as Exhibit 8. Measure 118 would take effect in the middle of Fiscal Year 2025, so the impact is comparatively low. Any impact would be due, for the most part, only to corporations whose tax year begins by the Spring of 2025. By Fiscal Year 2026, the program impacts are expected to be fully phased in.

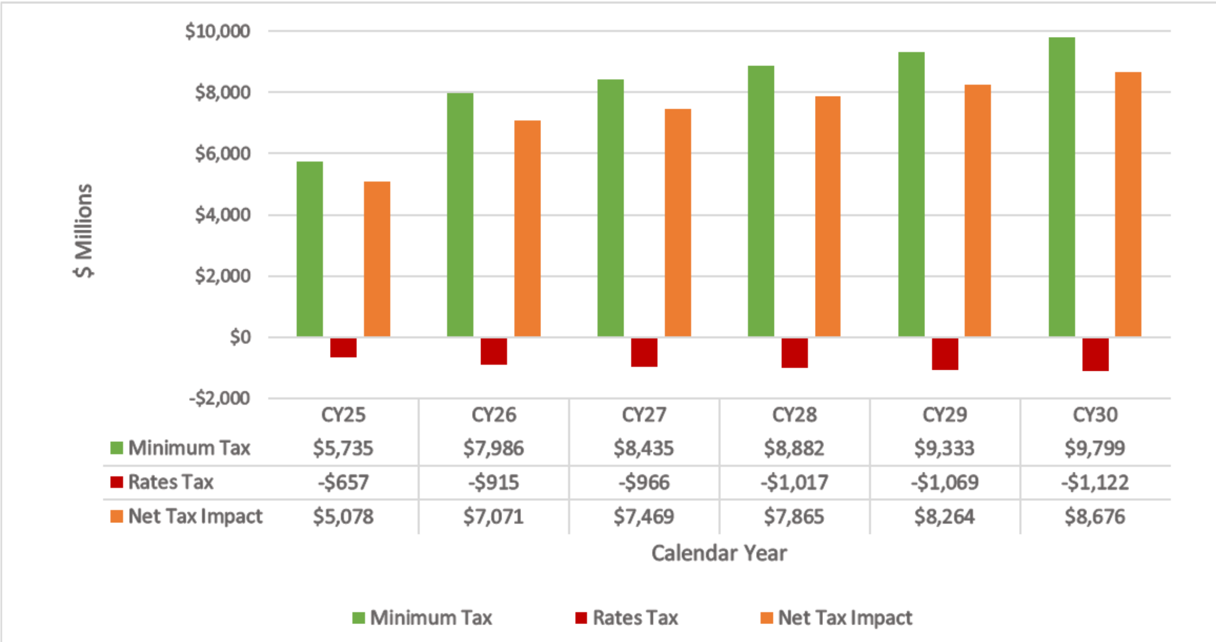
Exhibit 9 Corporation Excise Tax Impacts, by Fiscal Year



To best understand how the increase in revenue from the minimum tax connects to the rebate program, the estimated impacts must be seen from a calendar year perspective. For example, if passed by voters, the first rebates would be paid to individuals in calendar year 2026 based on estimated corporate minimum tax collections in calendar year 2025. Referring to Exhibit 9, these 2026 rebates are reflected in the sum of the FY25 green bar and about half of the FY26 green bar.

Exhibit 10 shows the estimates by calendar year. Based on an analysis of the both the Corporate Excise and Corporate Activity taxes, 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.

Exhibit 10 Corporation Excise Tax Collections, by Calendar Year



Before moving to how the change in the minimum tax is connected to the rebate program, the following section contains brief descriptions of revenue impacts that flow from the statutory change proposed in M118. These estimates are identical to those in the IP 17 report, they are just presented differently.

Secondary Revenue Impacts

Following the analysis of the direct impacts on the parts of the Corporation Excise Tax, a complete analysis involves the potential impacts on other aspects of the state's public finance system. To start, we examine the impacts on the state's retaliatory tax, the personal income tax (aside from the proposed rebate tax credit), and the dynamic effects. Exhibit 11 shows these impacts by fiscal year.

Exhibit 11 Other Tax Collections, by Fiscal Year, $ Millions

	FY25	FY26	FY27	FY28	FY29	FY30
Retaliatory Tax	-$21	-$69	-$71	-$73	-$75	-$77
Personal Income Tax	-$12	-$103	-$96	-$101	-$106	-$112
Dynamic Effects	-$11	-$60	-$88	-$150	-$222	-$275
Subtotal	-$44	-$233	-$255	-$324	-$404	-$463

The Retaliatory Tax

The retaliatory tax is imposed on insurance companies domiciled in a state other than Oregon. The tax has unique qualities - its calculation for a given company involves a comparison of the insurance taxes imposed in Oregon to those imposed by the insurer's home state.[9] Setting aside these complexities for a moment, M118 is expected to reduce retaliatory tax collections. Corporations in the Finance & Insurance sector are estimated to experience a tax increase in tax year 2025 from $186 million under current law to $1,115 million under M118. 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 result is a projected General Fund loss of roughly $70M each year. The language of M118 does not allow for the increased minimum tax collections to offset this General Fund loss when calculating collections to be paid out as rebates.

The Personal Income Tax

The increased taxes paid by S-corporations would flow through to the personal income tax returns of each company's shareholders. As previously described, these S-corporations do not currently pay Oregon taxes on their net income at the entity level. All of the profit (or loss) is allocated or distributed to the shareholders. In considering direct effects and ignoring behavioral responses, the minimum tax increase paid by S-Corporations would be a reduction in Oregon income and, consequently, a reduction in personal income tax collections.[10] The annual revenue loss is roughly $100 million. Exhibit 11 also includes projected impact of a reduction in Oregon's federal tax subtraction. The impact from S-corporations accounts for, on average, 88% of the total impact, with the federal tax subtraction impact accounting for the remaining 12%. The language of M118 does not allow for the increased tax collections to offset this General Fund loss when calculating collections to be paid out as rebates.

Dynamic Effects

Lastly, the dynamic effects on tax collections were 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. The use of the Oregon Tax Incidence Model (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. Exhibit 11 shows this phase-in as the annual revenue loss grows to $275 million over five years. 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 M118 which increases taxes based on corporations' gross receipts. OTIM estimated feedback effects typically vary from 1% to 10% for general tax policy changes.

Rainy Day Fund

Under current law, a portion of the Corporation Excise Tax is directed to the Rainy Day Fund (RDF) instead of the General Fund. As previously described the rates tax consists of two marginal tax rates -- a 6.6% tax rate on taxable income up to one million dollars and a 7.6% tax rate on taxable income above that level. Corporation taxes collected above a tax rate of 7.2% are deposited into the RDF. Consequently, the reduction in revenue from the rates tax results in less money going to the RDF. Because this fund is a type of savings account for the state, this impact is not included in the cash-flow impact. The table to the right shows these impacts.

Rainy Day Fund Impact, $ Millions

Biennium	2023-25	2025-27	2027-29	2029-31
RDF	-$19	-$80	-$88	-$96

[9] More information can be found on the DCBS website, here.

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

Other General Fund Obligations

M118 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 in the IP 17 report 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. Our previous analysis included estimates of the tax collected on the sale of motor fuels and how that would affect the General Fund and Highway Fund. An updated legal analysis from The Office of the Legislative Counsel concludes that such transfers would not be required.[11] Consequently, the impacts are excluded from this report.

A second impact is how M118 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.[12] Per Oregon's Constitution, these funds are dedicated to K-12 spending during the 2025-27 biennium. If M118 becomes law, any M118 dollars collected between January 1, 2025, and June 30, 2025, would increase the corporate kicker. This means the 2023-25 corporate kicker would increase by roughly $1.3 billion. The language of M118 includes this revenue 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.

While of lesser magnitude (and not quantifiable), this interaction with the corporate kicker would be ongoing. Unexpected increases in collections from the corporation minimum tax in future biennia could be similarly dedicated to both K-12 spending and to rebates.

[11] The LC opinion can be found here.

[12] The September forecast shows a projected corporate kicker of $883M.

Rebate Program

Measure 118 creates a rebate program with the goal of providing each Oregon resident with an equal payment. Specifically, the measure states that the "increase in corporate minimum tax revenue" is to be dedicated to the rebate program. This means the individual rebate amount equals the increase in the minimum tax divided by the number of people residing in Oregon.[13] Individuals would claim their rebate as either a tax credit on their personal income tax return or as a direct payment by contacting the Department of Revenue (DOR). The IP 17 report made assumptions about how the rebates would be claimed. As previously mentioned, this report does not go into that detail. Instead, the combined impacts of the tax credit and direct payment are simply described as a cash-flow impact for the rebate program.

Measure 118 also specifies certain administrative costs that are to be funded out of the increased minimum tax revenue, provides directions for how the rebates are to be calculated, and provides direction on how to address situations where an individual may experience a reduction in other public benefits due to their rebates. A full analysis of these elements of M118 is beyond the scope of this paper and would require extensive review by individuals within the affected state agencies. This section, however, provides a high-level overview of how the program might be implemented.

This section of the report first describes how the cost of the rebate program compares to available funds before moving to a discussion of some administrative issues.

Program Resources

Section 2 of M118 defines the resources to be used for the rebate program. The language of the Measure specifically states that the "increase in corporate minimum tax revenue" is to be dedicated to the rebate program. A direct reading of the measure indicates that any impact to the rates tax should not be considered. As previously stated, an LC opinion confirms this interpretation.[14]

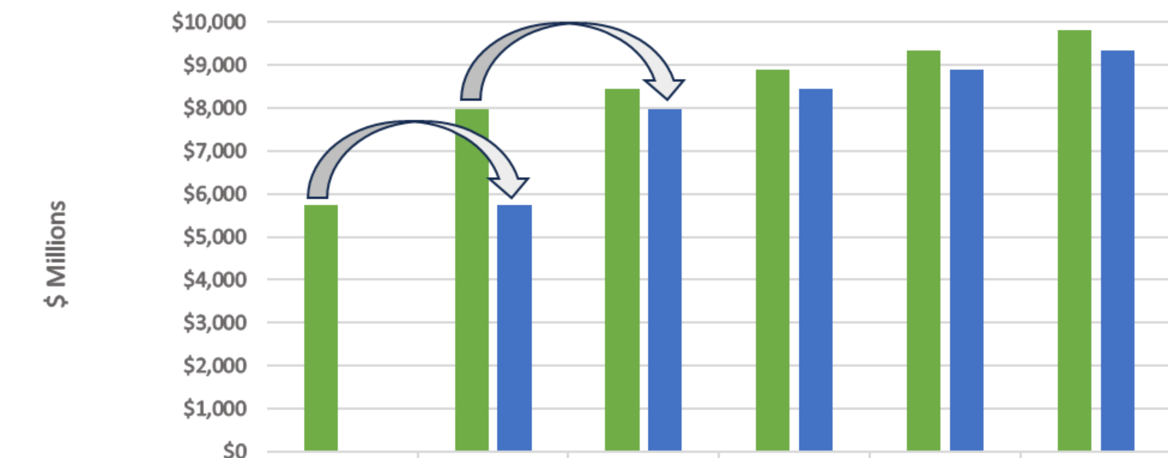
Referring back to Exhibit 10, the net, new Corporation Excise Tax revenue to the state is shown with the orange bars (e.g., $7,071 million in 2026) while the required funding for rebates is as shown as the green bars (e.g., $7,986 in 2026). Exhibits 12 and 13 compare the funding for the rebate program to: (1) the increased minimum tax collections; and (2) the net new Corporation Excise Tax revenue, which combines the increase in minimum taxes with the loss in rates taxes.

[13] Excluding certain administrative costs and any amount of hold harmless payments.

[14] See the link provided in footnote 7.

Exhibit 12 shows the comparison of increased minimum tax revenue and the funding for the rebate program. The green bars in Exhibit 12 are taken directly from Exhibit 10. The blue bars in Exhibit 12 show the funding from the rebate program. The table shows the lagged nature of the receipts and distribution of the rebates. The estimated minimum tax collections in year Y equal the funding for the rebates in year Y+1. For example, the $5,735 estimated to be collected in calendar year 2025 is the amount available for the rebates to be distributed in calendar year 2026. It's important to note, however, that this exhibit does **not** include other revenue impacts, particularly the impact of the rates tax. The revenue loss to the rates tax is included in the Exhibit 13.

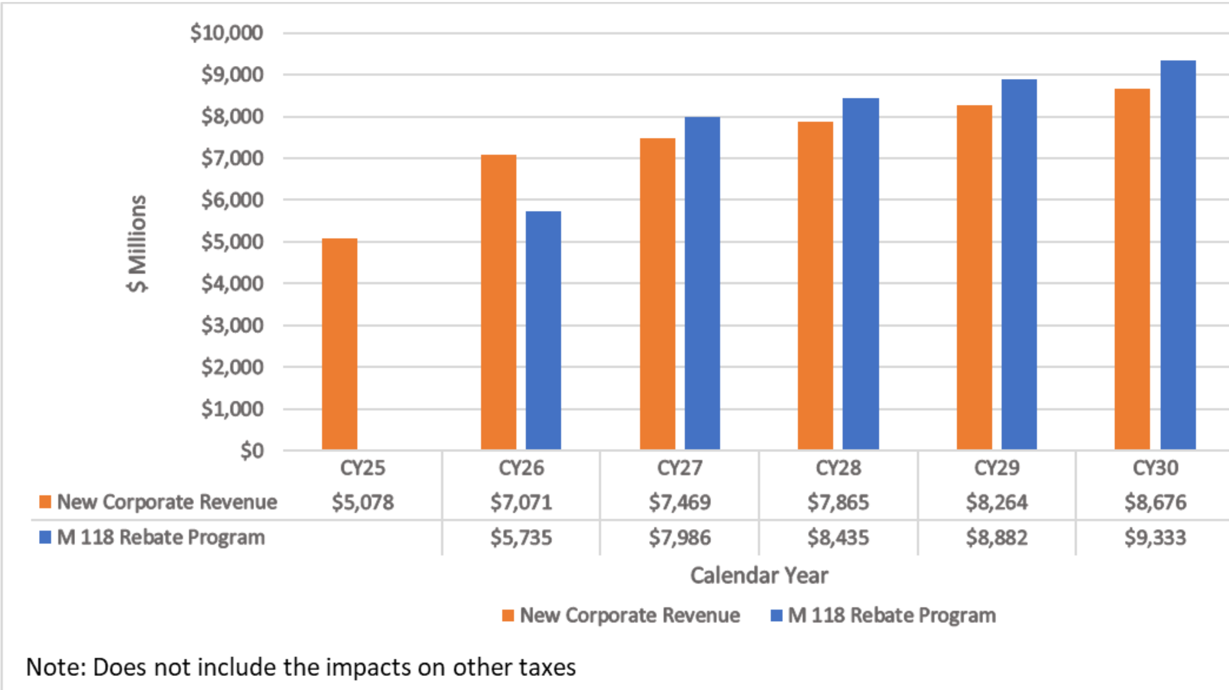
Exhibit 12 Corporation Minimum Tax Collections and Rebate Funds by Calendar Year



	CY25	CY26	CY27	CY28	CY29	CY30
New Min Tax Revenue	$5,735	$7,986	$8,435	$8,882	$9,333	$9,799
Rebate Program Funds		$5,735	$7,986	$8,435	$8,882	$9,333

From a state resources perspective, and in particular with respect to the General Fund, the impact on collections from the corporation rates tax is central to the ability of the Legislature to enact a balanced budget. Exhibit 13 compares the net change in General Fund revenue from the full Corporate Excise Tax. The orange bars show the combined effect of the revenue gain from the minimum tax (i.e. green bars in Exhibits 10 and 12) and the revenue loss from the rates tax (i.e., the red bars in Exhibit 10), caused by corporations moving from the rates tax to the minimum tax. Please also note that secondary revenue impacts described above are **not** included in this chart. This exhibit reflects only the net impact on corporate tax collections.

Exhibit 13 Corporate Excise Tax Revenue and Rebate Funds by Calendar Year, $ Millions



Administration

There are a number of administrative considerations involved with the rebate program. A detailed analysis of program administration is beyond the scope of this paper. At a high level, however, the increased revenue is first used to pay administrative costs and fund the Hold Harmless provision. The remainder is then distributed to all Oregon residents, regardless of age, income, or other factors, 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. This section of the report provides some analysis of the rebate calculation, administrative costs, and the Hold Harmless provision.

Rebate Calculation

M118 identifies five steps to the annual calculation of rebates. For the first round of rebates in 2026, the calculation would involve only three steps, but the calculation in subsequent years would involve all five. On an ongoing basis, DOR would be required to determine the rebate amount by each December 31.

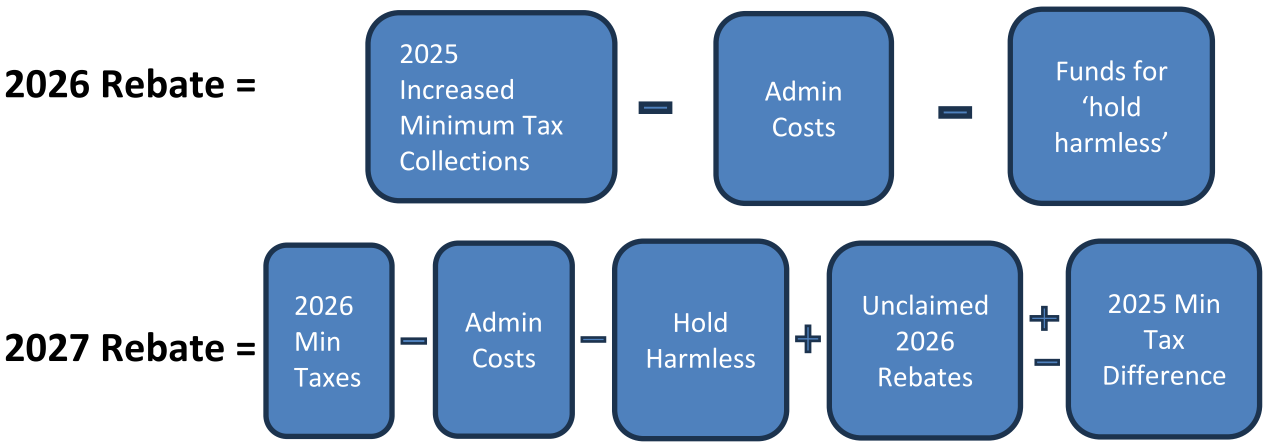
- **(Increased) Estimated Minimum Tax Collections**
  Beginning with 2025, the DOR must estimate, by December 31 of each year, the increase in minimum tax collections received during the calendar year. For each calendar year, no corresponding tax returns will have been filed by that date. For example, by December 31, 2025, DOR will have no tax returns for tax year 2025.[15] Consequently, the 2026 rebate would be based solely on estimated payments for tax year 2025. Subsequent rebates would be based on a combination of data from estimated payments and filed tax returns. For example, by December 31, 2026, DOR would have no tax returns for tax year 2026, but they will have received most (but not all) tax returns for tax year 2025. Those tax returns could be used to refine estimates of the increased minimum tax collections from the prior year, but this adjustment is likely included in the 5th bullet point below.
- **Unclaimed Rebates**
  Rebates that remain unclaimed at the end of one calendar year are added to the amount available for the subsequent rebate. This would include both direct payments and personal income tax credits.
- **Administrative Costs**
  State budgets are made on a biennial basis. For purposes here, the assumption is that the biennial administrative costs would be apportioned between the two rebate calculations made during each biennium. Basically, the amount subtracted here is the annual cost of calculating and distributing the rebates. The language of the measure may not provide sufficient guidance to the affected state agencies for calculating these costs and allocating the relevant funds.
- **Hold Harmless**
  Because this type of program has no state precedent, there are a number of challenges to identifying all the implications. The intent in this report is to provide a high-level perspective of how the state may estimate the funds necessary to achieve the measure's intent. The greater the funds allocated to this provision, the lesser the basic rebate provided to all recipients. The funds necessary for this provision are unknown but expected to be significant. Additional detail is provided in the next section.
- **Updated Estimate of the Prior Year's (Increased) Minimum Tax Collections**
  Starting with December of 2026, some corporations will have filed their tax return that corresponds to the prior calendar year. For example, by December 2026, the DOR will have received most tax year 2025 tax returns, but not all. This group of taxpayers will be, generally, those corporations that use the calendar year as their fiscal year or have their fiscal year start early in the calendar year. These tax returns will allow the DOR to calculate an updated estimate, not a final calculation, for the prior year's funds available for the rebates. As described previously, the full set of corporate tax returns are not received by the DOR until two years after the tax year.

It is worth noting that the "true up" described in this fifth bullet point 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

[15] With the possible exception of some short-year returns.

M118 - will generally not be known until fiscal year 2028 since tax year 2025 tax returns can be filed in late 2027 and still be filed on time.

The flowcharts below show the outline of how the available funds for the rebates would likely be calculated.



Administrative Costs

The Financial Estimate Committee (FEC) is tasked with writing a statement for the Voter's Pamphlet that describes the financial effects of ballot measures.[16] To do this for Measure 118, The Department of Administrative Services (DAS) asked state agencies to estimate their anticipated costs to implement the measure were it to become law.[17] The DOR would be required to administer the benefit payments.[18] According to the information the department provided to the FEC, they would need 22 new positions in 2023-25 at a total cost of $1.6 million. For 2025-27, they would need 199 new positions at a total cost of $48.2 million. The costs for other state agencies are described as "indeterminate...but could be significant".

Hold Harmless provision

Measure 118 also prohibits the inclusion of the rebate when determining the eligibility or amount of need with respect to various programs such as public assistance (ORS 411.010) or medical assistance (ORS 414.025) programs. To achieve this for programs that receive federal funds, the measure requires Oregon to request a waiver from the federal government.[19] If denied, individuals could experience a reduction in benefits due to the rebate. If that is the case, M118 directs a portion of the increased revenue to these adversely affected residents so that they are, in total, held harmless from the rebate program. Conceptually, these individuals would receive the regular rebate and an additional amount to fully compensate them for their reduction in other public benefits.[20] While quantifying this impact depends on the full cost of the Hold Harmless provision, this process would effectively replace federal dollars with some increased minimum taxes from m118.

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[16] The FEC materials for IP 17 (Measure 118) can be found here.
[17] The full write-up can be found here.
[18] The DOR currently administers the Corporate Excise Tax and the measure does not change that.
[19] 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.
[20] This process would need administrative review as each additional amount intended to prevent a reduction in benefits could result in an additional reduction in benefits.

Specifically, Section 2(4)(c) states that the rebates may not:

> ...be used to determine the eligibility or amount of need of an applicant for or recipient of benefits, ***including*** public assistance, as defined in ORS 411.010, and medical assistance, as defined in ORS 414.025... (emphasis added)

The measure's list is not comprehensive. Because the language refers to programs "including" public assistance and medical assistance, an exact, full list of affected programs is not entirely clear. Section 4 of the measure provides additional information on the process for requesting federal waivers and which programs would be affected by M118. It states:

> The Department of Human Services shall seek waivers or other exemptions from the federal government that are necessary to exclude payments under Section 2 of this 2024 Act from consideration for the temporary assistance for needy families program in ORS 412.001 to 412.069, the Supplemental Nutrition Assistance Program (as defined in ORS 411.806), medical assistance (as defined in ORS 414.025), and ***any other need-based program*** funded in whole or in part with federal funds, including those administered by the Social Security Administration...(emphasis added)

The Department of Administrative Services (DAS) included an executive branch analysis of the Hold Harmless provision for the FEC. That analysis can be found here. The Hold Harmless provision requirements appear to apply to programs that have some level of federal funding. For some context, below is a list of 12 programs that may be affected.

1. Temporary Assistance for Needy Families (TANF)
2. Supplemental Nutrition Assistance Program (SNAP)
3. Medicaid (Oregon Health Plan)
4. Children's Health Insurance Program (CHIP)
5. Healthier Oregon
6. Summer Electronic Benefit Transfer (EBT) Program
7. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
8. Employment Related Day Care (ERDC)
9. Supplemental Security Income (SSI)
10. Section 8, public housing, and other federally subsidized housing programs
11. Adoption/Guardianship Assistance Programs
12. Low Income Home Energy Assistance Program
13. Other federally subsidized programs

Due to the complexity of qualification requirements, we do not attempt to make estimates of how much federal benefits might be reduced, causing some share of the rebate program funding to be directed to the recipients of these benefit programs. It is possible, however, to make assumptions at the program level about the cost of the Hold Harmless provision to describe the impact on the rebates that would be received by other residents.

Exhibit 14 provides example information for the first two years of the program based on several assumptions. Importantly, it is not known at this time what the potential cost of the Hold Harmless provision could be. To that end, Exhibit 14 provides examples of how the total cost of the Hold Harmless provision could affect the rebate. These four examples are not exhaustive and simply shows the interactions among the administrative costs, Hold Harmless provision, and the resident rebate.

The first key assumption is that administrative costs are $100M per year. As described in the previous section, state agencies do not have a full estimate of these costs. To simplify the analysis, these costs are held fixed for the two years, however, they would likely increase over time. The second key assumption is the total cost of the Hold Harmless provision. Exhibit 14 includes four levels: 1 percent, 5 percent, 10 percent, and 20 percent of program funds. As the cost of the Hold Harmless is increased, the total available for the rebates declines, along with the average rebate. For example, for rebate year 2026 and an assumed Hold Harmless cost of $57 million, the average rebate is estimated to be $1,286. Similarly, an assumed Hold Harmless cost of $573M reduces the average rebate to $1,167.

Exhibit 14 Base Rebate and Four Hold Harmless Scenarios

Rebate Year	Oregon Population	Total Program Funds ($M)	Admin Costs ($M)	Hold Harmless		Base Rebate Funds ($M)	Average Base Rebate ($)
				Share of Funds	Total Funds ($M)		
2026	4,337,600	$5,735	$100	1%	$57	$5,578	$1,286
				5%	$287	$5,348	$1,233
				10%	$573	$5,061	$1,167
				20%	$1,147	$4,488	$1,035
2027	4,361,900	$7,986	$100	1%	$80	$7,806	$1,790
				5%	$399	$7,486	$1,716
				10%	$799	$7,087	$1,625
				20%	$1,597	$6,288	$1,442