
Testimony to the House Revenue Committee on HB 2548

February 1, 2023

Chair Nathanson, Vice-Chairs Reschke and Walters, and Members of the House Revenue Committee:

Good morning. My name is Jeff Newgard and I am speaking today as a tax policy consultant, a small business owner, and a resident of the Portland area about an issue that has consumed more of my time than I am frankly willing to admit. Hopefully, by the end of my comments today, I will have you convinced that HB 2548 is not only good but necessary legislation.

As someone who has watched every revenue hearing since the 2011 session, I have spent many hours listening to thoughtful conversations and debates over the state's local tax structure. These include property taxes, marijuana taxes, lodging taxes, franchise taxes, and the list goes on. However, one area of local taxes that surprisingly has never come up in that time are local income taxes. To be fair, unlike all these other taxes, very few state laws mention local income taxes. HB 2548 says there should be one.

A small business in Portland is subject to seven different income taxes from the city, county, regional, state, and federal governments, each using a different set of rules and definitions for defining income. I am hearing more and more stories from taxpayers frustrated not only about paying these taxes, which is understandable, but about the costs of calculating these taxes. I frequently hear concerns from taxpayers about paying more in accounting fees than they are in tax payments to local governments.

Until very recently, the Portland area governments relied on an outdated tax rule apportioning the income from intangible sales based on the business's location, not their customers' location. The tax rule created a counterintuitive incentive favoring out-of-area firms at the expense of local companies investing in their local workforces.

After two years of working with local revenue officials and a round of litigation in the Multnomah County Circuit Court, the Portland area business community finally convinced local officials that following the state's rules would not only eliminate the tax preference for out-of-area businesses but raise more revenues for the localities. Although we were successful in reforming one small part of the Portland area tax code, a lot of work remains to be done. The Portland area tax code remains out of alignment in its structure, its rules, and its administration.

As revenue committee members, you will often hear about the benefits of uniform rules and definitions. The greatest example of this is Oregon using the federal tax law as the underpinning of its own tax code's rules, definitions, and procedures. HB 2548 simply says the same principles should apply to local governments. The legislature has spent decades defining and revising its income tax code. It may not be perfect, but it is what we have to work with. Wheels are great; let's not reinvent them.

To be clear, while I know many people out there are disgruntled by the number of Portland area taxes, HB 2548 does nothing to make them go away. HB 2548 simply says that if a local government or its voters choose to impose an income tax, they need to rely on the state's rules and definitions for determining income as their starting point. This measure is not about ending a tax or limiting a local government's authority to impose a tax—it is only to create some guardrails to provide uniformity.

As a final point, I want to acknowledge an amendment in the works that would repeal Section Five of the introduced bill. This section results from a drafting miscommunication that only applied the bill's requirements to future taxes, effectively grandfathering all the existing taxes. The purpose of this legislation is to establish sideboards on the parameters local jurisdictions can impose an income tax, including those that already do.

Thank you very much for scheduling today's hearing. I ask for your support in passing a measure that would simplify local taxes, reduce compliance complexities and costs, and give our good friends in the tax accounting community a much-deserved break. I'm happy to answer any questions.