

### Background

Oregon law permits, but does not require, tax compliance before the issuance of some occupational licenses or contracts can be finalized.

Nationally, tax compliance is higher when there is substantial third-party reporting. For example, employers withhold taxes from employee paychecks and report these amounts to both the states and the IRS on Form W2 each year. However, the income earned by self-employed individuals and business entities is not subject to this same level of third-party reporting or withholding requirements. The result is that these kinds of taxpayers have lower tax compliance than with substantial third-party reporting.

Several agencies partner with DOR to determine tax compliance before issuing a license or executing a contract. However, who is subject to tax compliance requirements is inconsistent, resulting in different requirements by the issuer of the license or contract.

### What does this bill do?

[Senate Bill 800](#) requires applicants for occupational or professional licenses (including all “owners” as defined in ORS 60.470) to obtain a tax compliance certificate (TCC) from the department to be eligible to obtain such a license in Oregon.

The bill requires that the TCC be included with the application at the time it is submitted to the licensing agency for the issuance, reissuance, reinstatement or renewal of a license. If the applicant or owner does not include a current TCC, the application would be considered incomplete, and the agency could not process it. The applicant could resubmit the application with the TCC at any time.

The bill requires the department to determine which types of licenses have a lower rate of tax compliance than the average rate for all Oregon taxpayers based on information provided by licensing agencies. These licensees would be subject to the TCC requirement.

Once a license type is subject to the TCC requirement, the bill requires the department to monitor compliance for that license type over a period of five consecutive years. If the compliance rate for the entire group of licensees improves to 95 percent or greater over that 5-year period, the TCC requirement would be removed from the license type. Licensees who are employees of someone else would not be subject to the TCC requirement because employees have taxes withheld from their pay by their employers.

The bill aligns the existing license suspension process in ORS 305.385 with the new tax compliance requirement. Under current law, as a tool of last resort, the department may order the suspension of a license if the licensee is out of compliance after attempts to collect. Since some licenses are renewed annually, the use of the suspension process, as a tool of last resort, is removed.

When the owner of the license is a business, the bill also allows DOR to order the suspension of a license if the owner is not in compliance.

The bill gives the department authority to pass legal costs related to the license suspension on to the licensee.

Current law requires any person to self-certify that they are in tax compliance to receive a contract for providing goods, services, or real estate space to any state agency if the contract exceeds \$1,000. This amount has not been updated for years, so the bill increases that amount to \$10,000.

The bill also authorizes the department to share information with the Oregon State Bar when a member fails to file a tax return, or collect, withhold, or remit taxes for *any* trust fund tax program, not just payroll withholding as is required under current law.

### Why should you pass this bill?

This bill will improve compliance with the Oregon tax laws. Ensuring consistent compliance across different occupations and licenses provides an opportunity to improve equity between similar businesses. The department expects that this bill would reduce the financial advantage non-compliant licensees gain from not paying taxes and should create equity with their competitors who have properly collected and remitted taxes.

We encourage the Legislature to support this effort for improved tax compliance and equitable treatment of licensees.

### Is there a fiscal impact?

No. Due to recent increases in the number of TCC requests, the department already has plans to automate processing TCC requests.

### Agency Contacts

Deanna Mack, Division Administrator, Collection Division, [deanna.d.mack@dor.oregon.gov](mailto:deanna.d.mack@dor.oregon.gov)

Steven Ito, Revenue Manager, Collection Division, [steven.ito@dor.oregon.gov](mailto:steven.ito@dor.oregon.gov)

Marjorie Taylor, Legislative Director, [marjorie.taylor@dor.oregon.gov](mailto:marjorie.taylor@dor.oregon.gov)