Don’t Worsen Oregon’s Economic Challenges: Preserve Connection to Federal Tax Law

Since 2019, the state tax burden borne by individuals and businesses has grown tremendously. Individuals in Portland are paying a 13.9% marginal tax rate on incomes over $125,000, which is the highest rate imposed on that income threshold in the entire country. Meanwhile, state business taxes have increased 77% to $3.4 billion. As a result, Oregon’s economic outlook is in freefall. The state slid to 30th in general tax competitiveness, 49th in corporate tax competitiveness, and 47th as a place to move due in large part to the state’s high costs and anemic economy.

Economic Investment in Oregon is Lagging

Apart from tariffs, several indicators depict a gloomy economy throughout Oregon. Recent reports released by the Office of Economic Analysis show private sector employment has decreased, especially manufacturing jobs where the state is experiencing a pronounced recession. The same reports confirm Oregon’s population growth has stagnated since the pandemic. Given those factors, it is unsurprising that consumer confidence is lower in Portland than any other major metro region according to national surveys and the state has shed nearly 25,000 jobs from its workforce over the past year.

Disconnecting from Federal Tax Law Would Undermine Opportunities to Recover and Further Increase the Oregon’s High Tax Burden

Oregon’s current connection to federal tax law is the silver lining to the state’s aggressive and high tax posture. Not only does maintaining Oregon’s close connection to federal tax law bolster the state’s competitiveness by keeping it easy for Oregonians to pay their state taxes, but it also would preserve several provisions meant to spur economic investment in the state. Oregon must maintain this connection to federal tax law, especially those policies projected to reinvest $888 million back into Oregon’s economy, to keep from falling further behind. The polices include:

- **Bonus Depreciation/Full Expensing**: Restores and makes permanent full expensing for purchases that encourage businesses to invest in Oregon. For example, businesses can bolster their workforce by purchasing new machinery and equipment.
- **Research and Development (R&D) Expensing:** Expenses related to R&D investments may once again be immediately expensed. Continuing Oregon’s connection to this provision helps businesses leverage other economic development tools like the semiconductor tax credit.
- **Small Business Expensing**: Allows small businesses to more broadly benefit from their investments in the state. This benefit is targeted to small businesses and phases out at specified dollar thresholds.
- **Low-income Housing Development**: Provides preferential tax treatment for investments to low-income areas. While this provision is a continued policy, the eligibility for it was narrowed, which could help spur construction of residential housing throughout the state.

Help Oregon Businesses and Taxpayers by Maintaining the State’s Connection to Federal Tax Law