OREGON CENTER for PUBLIC POLICY

6 ways Oregon is replicating the ugly congressional Republican budget bill – and what to do about it

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Oregon would do well to disconnect from these tax provisions in the congressional Republican budget.

Oregon is on track to lose nearly $900 million in revenue, money it had already budgeted for schools, healthcare, and other essential services. The reason this money is about to disappear is that Oregon's tax code automatically connects to most of the federal tax code. And Congress just made a bunch of changes to the federal tax code as part of the Republican budget bill, otherwise known as H.R. 1 or the One Big Beautiful Bill Act, passed in early July — changes that mainly benefit the rich.

Oregon has the option to step in and retake control of our tax code. Lawmakers can stop any one of these tax breaks by "disconnecting," effectively preventing the federal tax breaks from being replicated in Oregon's tax code. Corporations and individuals who qualify will still get the federal tax breaks, which isn't something Oregon has any say over, but they would not get the cherry on top, the additional state tax break.

Detailing all the tax provisions in the Republican budget bill would eat up far too much space. So, below we point out some of the worst federal tax changes Oregon is on course to replicate, and would do well to disconnect from. How much revenue loss would be avoided from disconnecting from any one of the items below is still unclear, as further analysis from the Legislative Revenue Office is needed. But what is clear is that disconnecting from any of those items would preserve funding for schools and other essential services.

Bonus depreciation: at best, a subsidy for investments in other states

The tax break known as bonus depreciation is basically a windfall for corporations, subsidizing things they would likely do anyway. Typically, businesses can depreciate their purchases of equipment over time, reflecting the loss of value of the equipment due to wear and tear. Bonus depreciation allows businesses to depreciate the full value right away.

Even assuming that bonus depreciation incentivizes businesses to invest more, of which there is little evidence, it makes no sense for Oregon to replicate this federal tax break. Why? Because Oregon can't limit the deduction to investments in Oregon. A corporation that builds a data center in Idaho would get the same Oregon tax benefit from bonus depreciation as if it had built the data center in Oregon or Florida. Since it is unconstitutional for Oregon to limit the bonus depreciation to investments in Oregon, the best approach is not to do it at all.

Research and Experimentation expensing: another giveaway

In 2017, Congress reformed Research and Experimentation (R&E) expensing, taking away the ability of corporations to deduct such expenses all at once. Instead, Congress required companies to deduct the expenses over time, an approach more aligned with economic logic. The deduction still suffers from the fact that it subsidizes research of questionable value.

The Republican budget bill enacted in July, however, once again allows corporations to fully deduct their R&E expenses in the first year. Piling it on, the bill allows companies with less than $31 million in gross receipts to claim the deduction retroactively to tax year 2022.

Even if one believes that the R&E tax deduction is a good way to incentivize business investment, making it retroactive is totally wasteful. Giving companies money for things they've already done is not an incentive — it's a giveaway.

Finally, regardless of the merits of the R&E tax deduction, it makes no sense for Oregon to double down on this policy. As with bonus depreciation, the business investments that companies could deduct would likely be almost entirely investments made in other states.

Foreign-Derived Intangible Income deduction: again, no benefit to Oregon

The Republican budget bill extended and expanded the Foreign-Derived Intangible Income (FDII) deduction, a policy that lowers taxes for corporations that park their patents or trademarks in the U.S. The supposed goal is to reduce offshore corporate tax avoidance, which often involves moving the corporation's intellectual property offshore to a country that levies little or no corporate income taxes.

Regardless of whether one thinks it's a good idea to bribe corporations with big tax breaks so they cut back on their tax avoidance schemes, it makes no sense for Oregon to double down on this policy. A company that moves a patent from the Cayman Islands to Nevada would see FDII lower its Oregon tax bill. No part of that transaction benefits the Oregon economy. The only result is that Oregon loses revenue it otherwise would collect. Oregon should follow Colorado in putting an end to this waste.

New auto loan interest deduction: a poorly targeted deduction that could blow up in cost

The Republican budget bill created a new deduction for the interest on new auto loans. Up to $10,000 in interest per year is deductible for people who make up to $200,000, with a phase-out to $250,000 per year (both figures are for joint filers). Only cars assembled in the U.S. qualify.

This deduction spends a lot of money subsidizing the car purchases of middle- and upper-middle-income families, doing nothing for those who most need help buying a car. The deduction leaves lower-income families stranded on the side of the road. They are unlikely to buy a new vehicle because of the steep cost. And even if they did, they would likely get minimal tax benefit because this is a non-refundable tax deduction, which delivers no benefit to tax filers who do not otherwise owe state income taxes.

On top of the unfairness in the policy, it's possible that the auto loan deduction turns out to be far more costly than currently assumed. Foreign car makers may have good legal grounds to challenge the limitation of the deduction to American-made vehicles. If they sue and win, the price tag for the deduction would go up a lot, not only going forward but retroactively. Oregon would be on the hook for new auto loans for foreign-made vehicles from when the policy went into effect. A simple way to avoid this risk and the potential loss of even more revenue is to fully disconnect from this provision.

Opportunity Zones: a wasteful tax break for wealthy investors

Congress renewed and tweaked a tax break for wealthy investors, the much-maligned "Opportunity Zone" program. This complicated program is a package of tax breaks on capital gains income — profits — derived from investments in areas designated as Opportunity Zones. Among the principal changes are that the tax break is now permanent, having no expiration date, and that it offers even more generous breaks for investments made in rural areas.

The changes don't fix the fact that the policy often rewards the wealthy for investments they would have made anyway, or that the policy does little to improve the lives of the people living in the so-called Opportunity Zones. Consider, for example, Soho House, an international club "for jet-setters and celebrities" that used the Opportunity Zones tax breaks to subsidize its expansion to Portland. On top of that, Opportunity Zones suffer from the same problem as other business tax breaks discussed above: in replicating the federal tax break, Oregon subsidizes investments made in other states.

Qualified Small Business Stock exclusion: another windfall for the wealthy

Another giveaway to the wealthy in the Republican budget plan is the extension and expansion of the Qualified Small Business Stock exclusion (QSBS). The tax break allows early investors in companies with assets of less than $75 million to shield from taxes up to $15 million in profits, as long as they own the stock for five years. Lawyers and accountants have found ways to game the tax break, multiplying the tax benefits reaped by billionaires. As critics from across the political spectrum point out, there is not much evidence that the tax break encourages investment, making it a true windfall for the wealthy.

There is no justification for Oregon to double down on this tax break for the wealthy and billionaires.

This list makes it clear that Republican leaders in Congress prioritized the rich and corporations. If Oregon lawmakers have different priorities, they can make that clear by disconnecting from these wasteful, poorly targeted handouts that will force the state to cut hundreds of millions of dollars over the coming budgets from early education, housing, and other crucial services.

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