



## Frequently Asked Questions About the Legislature's Permanent Corporate and Personal Income Tax Increases

### **Q. Why are you opposing the legislature's corporate and personal income tax increases?**

A. In the midst of the worst economic crisis in more than 70 years, the legislature voted to permanently increase income taxes on businesses and high-income Oregonians by \$733 million – the biggest tax increase in Oregon history. Legislators say it's only a tax on the rich. They're wrong. We'll end up paying more for groceries, gas and other services, and that will impact all Oregonians, especially the poor. Small businesses would be forced to lay off their workers, reduce wages and benefits, or close their doors if voters approve the legislature's permanent tax increases. Economists estimate these higher taxes will cost as many as 70,000 Oregonians their jobs.

### **Q. Who opposes the permanent tax increases?**

A. *Oregonians Against Job-Killing Taxes (OAJKT)*, a coalition of the state's business organizations and community groups, is overseeing a signature-gathering effort on two petitions that would refer the legislature's tax plan to voters at a special election on January 26, 2010. Assuming the coalition is successful in qualifying the two referendums to the ballot, OAJKT will run the campaign to defeat both tax increases.

### **Q. Who's behind the permanent tax increases?**

A. The two tax measures were passed by lawmakers in June, largely on a party-line vote. In fact, the passage of the personal tax increase was the result of a backroom deal in which one legislator traded his vote for pork barrel spending in his district. The primary advocates for higher permanent taxes are public employee unions. Defend Oregon, A political action committee funded primarily by public employee unions, is expected to oversee the campaign in favor of the permanent tax increases when the measures qualify for the January 26 election.

### **Q. What does the proposed permanent tax increase on businesses involve?**

A. The proposed business tax increase has two major elements: a corporate minimum tax increase and a corporate income tax rate increase. The most damaging increase in HB 3405, the business tax increase plan, is the way legislators chose to address Oregon's outdated corporate minimum tax, the amount corporations pay when they have no profits to tax. Legislators rejected business recommendations to increase the tax and adopted a punitive new plan that would tax businesses up to \$100,000 per year even if they didn't make a profit. Here are the main elements of the permanent tax increases in HB 3405:

1. It replaces the current \$10 corporate minimum tax for C-corporations with a permanent new tax on a company's Oregon sales, as follows:

Total Oregon Sales	Gross Sales Tax
Less than \$500,000	\$150
\$500,000-\$1 million	\$500
\$1 million - \$2 million	\$1,000
\$2 million - \$3 million	\$1,500
\$3 million - \$5 million	\$2,000
\$5 million - \$7 million	\$4,000
\$7 million - \$10 million	\$7,500
\$10 million - \$25 million	\$15,000
\$25 million - \$50 million	\$30,000
\$50 million - \$75 million	\$50,000
\$75 million - \$100 million	\$75,000
Over \$100 million	\$100,000

2. It increases the current \$10 corporate minimum tax for S-corporations to \$150.
3. It imposes a new "entity tax" of \$150 on businesses filing a partnership return.
4. It doubles Corporation Commission filing fees from \$50 to \$100 for Oregon corporations and to \$275 for non-Oregon companies doing business in the state.
5. It adds a new corporate income tax rate, increased from the current 6.6% rate, as follows:

Tax Years	Taxable Income Level	Tax Rate
2009 & 2010	More than \$250,000	7.9%
2011 & 2012		7.6%
2013 & thereafter	More than \$10 million	7.6%

**Q. What does the proposed permanent personal income tax increase involve?**

- A. HB 2649 would increase income taxes by 20% for individuals earning more than \$125,000 a year, giving Oregon the second highest income tax rate in the nation – higher than both New York and California. The proposed tax increases would be retroactive to January 1, 2009, and no money to cover the tax increase has been withheld from Oregonians' paychecks during all of 2009. Here are the main elements of the permanent tax increases in HB 2649:

1. It increases the current 9% personal income tax rate as follows:

Tax Years	Taxable Income Level	Tax Rate
2009, 2010 & 2011	\$125,000-\$250,000 individual \$250,000-\$500,000 joint	10.8%
	Above \$250,000 individual Above \$500,000 joint	11%
2012 & thereafter	Above \$125,000 individual Above \$250,000 joint	9.9%

2. It phases out the federal tax deduction as follows:

Adjusted Gross Income	Federal Tax Deduction
Less than \$125,000 individual or \$250,000 joint	\$5,500
\$125,000-\$135,000 individual or \$250,000-\$260,000 joint	\$4,400
\$130,000-\$130,000 individual or \$260,000-\$270,000 joint	\$3,300
\$135,000-\$140,000 individual or \$270,000-\$280,000 joint	\$2,200
\$140,000-\$145,000 individual or \$280,000-\$290,000 joint	\$1,100
Above \$145,000 individual or \$290,000 joint	-0-

**Q. If businesses have money to fund a campaign, how come they can't afford the new taxes?**

A. The majority of businesses in Oregon are struggling today. Small businesses would be forced to lay off their workers, reduce wages and benefits, or close their doors if voters approve the legislature's permanent tax increases. Economists estimate these higher taxes will cost as many as 70,000 Oregonians their jobs. It's unfair to tax businesses up to \$100,000 even if they don't make a profit. The fact is that for some businesses, this is a life or death issue.

**Q. Why would permanently increasing taxes affect jobs?**

A. The legislature's permanent tax increases tax the very people who create jobs in Oregon. Permanent tax increases will close businesses and take even more jobs out of state – devastating in a state with 12.2% unemployment. However, as a recent article in the New York Times pointed out, Oregon's unemployment is actually highest in the nation when those who are working only part time but need full-time work, and those who have given up looking for work are added in. When these groups are added, Oregon's 23.5% unemployment rate exceeds the rate in any other state. Raising taxes always has consequences. William B. Conerly, PhD, a Portland-based economic consultant and former Senior Vice President of First Interstate Bank, estimated the personal income tax increases in HB 2649 would cost up to 30,000 Oregonians their jobs by 2015. Another leading Oregon economist, Randall J. Pozdena, PhD, examined the impact of the business tax increases on Oregon employment. He estimates that, over a 10-year period, the business tax increases would cost 22,000 to 40,000 Oregonians their jobs – on top of the 30,000 lost to the personal income tax increases. Small businesses would be forced to lay off their workers, reduce wages and benefits or close their doors if voters approve the legislature's permanent tax increases.

**Q. Didn't the legislature have to raise taxes in order to balance the state budget?**

A. Not really. State government has not tightened its belt like the rest of us. Despite the current economy, legislators still increased overall state spending by 9%, or \$4.7 billion. The state already had \$1 billion in extra cash reserves to spend without enacting \$733 million in tax increases. The legislature is back to business as usual. If these taxes pass, Oregon lawmakers will continue to spend and spend and spend.

**Q. Will education, public safety and services for the poor suffer if the taxes do not pass?**

A. The legislature has refused to listen to the people time and time again. Voters have rejected income tax increases twice before, but the legislature keeps on coming back for more. The state already had \$1 billion in extra cash reserves to spend without enacting \$733 million in permanent tax increases, and no services have to suffer. Legislators simply can't control their desire to spend on their pet programs.

**Q. How were legislators able to pass such big permanent tax increases?**

A. Public employee unions spent millions to elect a legislature controlled by Democrats in order to pass new tax measures. In the 2008 election cycle, public employees spent more on elections in Oregon than in any other state, except California. \$250 million of the proposed tax increases will be used to pay for increased state employee salaries and benefits. It isn't fair to save public employee jobs at the expense of private sector jobs.

After the taxes passed, the political director for the largest state employee union called the tax increases “huge steps forward.” The new taxes, he pointed out, preserved union employees’ jobs in several agencies and created new union jobs in the Department of Revenue and other state agencies. As the *Yamhill Valley News Register* observed July 3: “Public employee unions were the big winners in 2009, solidifying the Democratic reputation for being in their pocket when deciding key legislation. Somehow, that coalition of lobbyists and legislators became blinded to the strong possibility that Oregonians will reject those tax hikes and leave the state’s over-extended budget in shambles.”

**Q. Were the votes on the tax increases bipartisan?**

A. Anything but. Democrats enjoyed supermajorities (the 60% of members needed to pass tax increases) in both the House and Senate this year. When the tax package came to the floor of the House, resistance by one Democratic legislator forced House Democratic leaders to seek Republican votes to provide the required supermajority. Passage of the personal income tax increase was the result of a backroom deal in which one legislator traded his vote for pork barrel spending in his district. The legislature also passed a law, on party lines, that prohibits employers from talking to employees about these permanent tax increase measures.

**Q. Is it true that business just wants to protect the extraordinarily low \$10 corporate minimum tax? Is that why you’re opposing these taxes?**

A. No. As the *Yamhill County News Register* reported July 3, “Democrats ignored pleas from a unified statewide business community by enacting massive, permanent tax hikes, and they over-protected their private and public union supporters at the expense of all tax-paying Oregonians.” In an unprecedented effort, a coalition of the state’s largest business groups proposed a “Shared Responsibility” plan to increase the outdated corporate minimum tax, without creating an unfair new tax on a company’s Oregon sales. The business community also supported temporary, broad-based tax increases to protect funding for education and other essential services. But legislative leaders rejected those recommendations and pushed for their permanent tax increases.

**Q. Aren’t these taxes just restoring fairness to Oregon’s tax system and asking those who can afford to pay more to contribute their fair share?**

A. No. It’s unfair that we’ll all end up paying more for groceries, gas and other services that will impact all Oregonians—especially the poor. It’s unfair that small businesses would be forced to lay off their workers, reduce wages and benefits, or close their doors. It’s unfair that as many as 70,000 Oregonians could lose their jobs at a time when entire families are already out of work. It’s unfair to tax businesses up to \$100,000 even if they don’t make a profit. It’s unfair for the legislature to continually approve income tax increases when the voters have rejected these tax increases twice before.

**Q. Are you saying the business community proposed some tax increases?**

- A.** Yes. The Alliance of Oregon's Business Associations, including more than 40 business groups, outlined a temporary, broad-based alternative. As the *Gresham Outlook* noted on June 13, "The Democrats in control of the Legislature couldn't be satisfied with a temporary solution to the immediate budget crisis. They saw an opportunity, with their newly established supermajorities in both the House and Senate, to make a permanent change." *The Oregonian* expressed a similar view June 30: "The tax referrals might well have been inevitable in any case, but the Democrats all but guaranteed them by sticking a finger in the eye of business. They blithely dismissed efforts by the Oregon Business Association, among others, to work out a compromise made up primarily of temporary tax increases. So here we go: Business in this state seldom has been this united, or this angry."