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Fact v. Fiction

Fiction: If we raise corporate taxes, the corporations will leave the state and take their jobs with them.

Fact: If corporations move in order to avoid a modest increase, they'll find themselves paying much, much more almost anywhere else—including any of Oregon's neighboring states.

If corporations moved to Washington, they'd be paying nearly five times more in that state's Business & Occupation tax than they would in Oregon (WA rate=.00471 on retail businesses; OR rate=approximately .001). Plus, Oregon's minimum is capped at \$100,000; Washington doesn't have a cap.

According to the Council on State Taxation, the average state in the country collects taxes on corporations equal to 4.9% of gross state product. Washington's taxes are even higher, at 5.5% of gross state product. California and Nevada are at 4.6%. Idaho is at 4.7%. After the tax fairness measures are adopted, Oregon will still only be at 3.8%, well below the national average and substantially below Washington.

To put it another way: Under the new plan, Oregon will only raise corporate taxes by \$260 million. In order for Oregon to be at the national average for corporate taxation, we would have to raise corporate taxes by \$3.9 billion a biennium. We would have to raise corporate taxes by \$5.8 billion to draw even with Washington, \$2.9 billion to draw even with California or Nevada, \$3.2 billion to draw even with Idaho.

Prior to the tax fairness measures, Oregon had the 49th lowest corporate income taxes in the nation. Under the new plan, Oregon will have the 48th lowest corporate taxes – still close to the lowest in the nation.

Fiction: These tax increases will really hurt small businesses.

Fact: Most small businesses in Oregon are partnerships, LLPs, LLCs, and S corporations. These companies will pay a flat rate of \$150. C corporations that do not report a profit will only pay about one-tenth of one percent of their Oregon sales. Small businesses with sales of \$500,000 or less will pay just \$150 a year.

If a C corporation does report a profit, the increase of 1.3 percent will only apply to profits above \$250,000 a year. In other words, a corporation with \$260,000 in profit will only pay an extra \$130. In 2013 the tax increase drops to 1 percent, and will only apply to profits above \$10 million. Very few small businesses will be affected by this change.

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Fact v. Fiction continued...

Fiction: The personal income tax increases on income above \$250,000 (for couples, or \$125,000 for individuals) will disproportionately affect small businesses owners.

Fact: Because the personal tax increases only apply to income and/or profit shares after business expenses (wages, supplies, etc) are deducted, only small business owners who are paid more than \$250,000 will be affected. In fact, the Legislative Revenue Office says that **93 percent of small business owners won't be affected at all by this increase.**

While the vast majority of small business owners won't be affected, a lot of rich people do have some kind of investment in some sort of "small business." The definition both sides are using defines "small business owner" as someone who reports income from a business such as sole proprietorships, partnerships, and S-corps. It includes everyone from a partner at a successful boutique law firm to a mechanic's assistant who has a garage band that occasionally plays a gig for money (and reports the band income as small business income) to the owner of a mom and pop grocery store.

Even though most rich people make *some* of their money from an investment in a "small business," most of them don't make *most* of their money that way; in fact, the average rich person makes only 22% of their money from a "small business" source. They make 42% of it from capital gains and 31% from regular wages.

Fiction: Because some small business owners file their taxes through a "pass through" corporation (S-corp), the personal tax increase will apply to these small businesses.

Fact: The personal income tax is a tax on personal income; for a business owner, that's the owner's salary and/or share of the profits, after business expenses are taken care of. The only way the business owner would be affected is if their salary and/or share of the profits were more than \$250,000. That is true no matter what kind of business is involved. Regardless of how a business is organized, the fact remains that the Legislative Revenue Office says that **93 percent of small business owners won't be affected at all by this increase.**



Fact v. Fiction continued...

Fiction: If we raise taxes on the rich, they'll all leave the state.

Fact: Research shows that most people would not turn their lives upside down because of a 1.8 percent increase (0.9 percent increase after two years) in the tax rate on the amount of their income that exceeds \$250,000.

Some researchers at Princeton looked at this question recently. New Jersey raised taxes on the wealthy in 2004, and some people said all the rich people would leave the state. Contrary to those claims, the 2008 study showed that the number of wealthy people in New Jersey continued to increase. The researchers said that maybe a few rich people – perhaps as few as 67 individuals a year – left. But the total number of rich people in New Jersey was 44,000 and rising, so losing 67 was, in the researchers' words, "a small side effect of a tax policy that generated more than \$1 billion in 2006."

Additionally, Phoenix Marketing International did a study of "where the millionaires are" – which states had the highest number of millionaire households as a percentage of all households. Hawaii, New Jersey, California and Washington, and D.C., all of which have relatively high top income tax rates on the rich, were all in the top 10. By contrast, Florida, which has no income tax at all, was 19th; Texas, with no income tax, was 28th.

Fiction: The Legislature had billions of dollars in new money – they didn't need to raise taxes.

Fact: The economic crisis has hit Oregon hard. More people need services now than at any time since the Second World War. More and more Oregonians are eligible for, and urgently need, food stamps, unemployment and Medicaid. At the same time, the economic crisis has damaged the state's ability to fund essential services. The Federal stimulus package has helped, but only if we spent some state money. Even so, the Federal stimulus hasn't completely closed the gap, and Oregon will have to cut services if these measures are overturned. Furthermore, Oregon will only receive assistance from the Federal stimulus through the current budget cycle.

Fiction: The Legislature had \$1 billion in reserves that they could have used first.

Fact: Not true. The State has two major reserve funds: the Education Stability Fund and the Rainy Day Fund. The State spent the \$393 million Education Stability Fund and spent \$225 million of the \$337 million Rainy Day Fund, leaving just \$112 million – less than one-tenth of one percent of the General Fund budget - for emergencies. This is like a working family that brings in \$65,000 a year, but only has \$510 in savings. One car repair, one trip to the hospital, or one bad day could wipe it out. Opponents also point to phony "ending balances" at state agencies. This is like money in your bank account right before you pay your bills. The opponents are arguing that we should balance the budget by writing bad checks.

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