

SCENARIO 4
IMPOSE BUSINESS GROSS RECEIPTS TAX/ELIMINATE CORPORATE INCOME TAX

Description

- Eliminate corporate income tax
- Impose .15% tax on gross receipts

Static Revenue Impact

Static revenue impact is set to be revenue neutral for 2011 calendar year. Over time revenue is likely to grow slightly faster because the gross receipts base has demonstrated greater long-term income elasticity than has the corporate income tax base.

Long-Term Economic Impact

The gross receipts tax works through to push up the price level in the OTIM simulation. However the increase is small (0.1%) because the rate increase is small. Employment and population decline slightly but investment increases in response to elimination of the corporate income tax. The return to capital rises 0.3%. Net household income falls \$230 million in the simulation because the burden of the corporate income tax is born partially by non-state residents while the gross receipts tax falls predominantly on state residents.

Dynamic Revenue Impact

The dynamic revenue impact from this simulation is very small (<\$1 million).

Distribution Effects

The lower household income is spread roughly proportionately across the income spectrum. The highest income group (>\$185,879) essentially breaks even after wage, price and economic activity changes.

Revenue Stability

Replacing the corporate income tax with a gross receipts tax has the unusual result of increasing both stability and long-run revenue growth. This is because the corporate income demonstrates the greatest short-term instability (highest quarterly standard deviation) of the major state and local revenue sources and the lowest long-term quarterly growth rate (tied with excise taxes). The stability and long run growth characteristics of the gross receipts tax are similar to the retail sales tax. Simulating the switch from a system with an average corporate income tax to one with no corporate income tax and higher gross receipts/sales taxes leads to less volatility (the quarterly standard deviation drops from 0.78% to 0.74%) and a higher long-term growth rate (average quarterly growth in revenue of 1.41% compared to 1.39%).

Administrative Issues

The corporate income tax is highly complex with substantial enforcement and compliance issues at the state level. Its elimination would reduce Department of Revenue costs significantly. This would be offset by the costs of implementing and administering a new gross receipts tax on business.

Corporate Income Tax and Gross Receipts Tax Swap (effective 1-1-2011):

- (1) 0.15% gross receipts tax rate
- (2) Corporate income taxes are reduced \$487 million (2011)
- (3) Estimated gross receipts taxes of \$487 million (2011)

Corporate Income Tax and Gross Receipts Tax Swap				
2011 Levels				
	Baseline	New Equilibrium	Change From Baseline	Percent Change
Private Sector				
Personal Income (\$M)	160,400	160,240	-159.9	-0.1%
Employment	2,383,753	2,381,686	-2,067	-0.1%
Population	3,957,000	3,955,738	-1,262	0.0%
Investment (\$M)	17,754	17,804	50.8	0.3%
Wage Index	100.0	99.9	-0.11	-0.1%
Return to Capital	100.0	100.3	0.26	0.3%
Price Levels	100.0	100.06	0.06	0.1%
Public Sector				
State Spending (\$M)	22,084.7	22,072.8	-11.9	-0.05%
GF Revenue (\$M)	7,098.4	7,092.6	-5.8	-0.08%
OF Revenue (\$M)	14,986.3	14,980.1	-6.2	-0.04%
Local Govt Revenue (\$M)	12,015.2	12,026.3	11.1	0.09%
Federal Tax Paid by Oregonians (\$M)	32,145.8	32,195.9	50.1	0.16%

Static Revenue Impact (\$M)	0.0
GF Change (\$M)	-5.8
OF Change (\$M)	-6.2
LR Change (\$M)	11.1
Dynamic RI (\$M)	-0.9
Dynamic RI (%)	NA

Total Net Household Income

	Baseline (\$M)	New Equilibrium (\$M)	Difference (\$M)	% Difference	Change in Number of Hholds	Mean HH Income Change (\$)
Less than \$16,579	\$4,414	\$4,397	-\$17	-0.4%	-33	-\$81
\$16,579 - \$29,413	\$9,876	\$9,858	-\$18	-0.2%	-48	-\$87
\$29,413 - \$41,768	\$14,142	\$14,118	-\$24	-0.2%	-54	-\$118
\$41,768 - \$60,474	\$20,577	\$20,535	-\$43	-0.2%	-111	-\$142
\$60,474 - \$86,675	\$33,115	\$33,052	-\$63	-0.2%	-132	-\$189
\$86,675 - \$117,067	\$17,876	\$17,840	-\$35	-0.2%	-72	-\$179
\$117,067 - \$185,879	\$14,947	\$14,917	-\$30	-0.2%	-55	-\$207
Above \$185,879	\$11,423	\$11,424	\$0	0.0%	0	\$4
TOTAL	\$126,371	\$126,141	-\$230	-0.2%	-504	

