COMMON SENSE INSTITUTE

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BALLOT MEASURE 118:

A SEISMIC CHANGE TO OREGON'S TAX SYSTEM

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Voters face a proposal to increase Oregon's taxes on corporations six-fold, with the proceeds to be distributed equally across all residents

ABOUT THE AUTHORS

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ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Oregon's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Oregonians. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the Oregon economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

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INTRODUCTION

Over the next few weeks, Oregonians will be voting on a measure that would fundamentally change the tax revenue structure for both households and businesses in Oregon. Oregon's traditional reliance on personal and corporate income tax collections would become much less pronounced. Under the proposal, Oregonians would face the most aggressive gross receipts tax in the nation by far. This tax structure would result in a larger relative burden on low-income households and slower long-term revenue growth for the state.

Given the unprecedented scale of the proposed gross receipts tax under the proposal, its economic impact is highly uncertain. That said, both businesses and households will face higher costs. These increased costs will reduce local economic activity significantly, even if the exact magnitude is unclear.

The increase in tax collections under the proposal is intended to be distributed to all eligible individuals in the form of rebates. However, given the nature of the proposal, the positive economic impact of rebate payments would be watered down. Rebate payments are subject to federal taxes, will create a hole in the state General Fund, and will, in part, be collected by high-income households that will save much of the windfall rather than injecting it into the economy in the near term. Moreover, households would face higher costs for a wide range of necessities, including utilities, fuel, telecommunication services, groceries, healthcare, building materials, and construction services.

The increase in tax collections under the proposal is intended to be distributed to individuals in the form of rebates.

KEY FINDINGS

- **The gross receipts tax proposed under Measure 118 is unprecedented in scope and would result in Oregon having five times more dependence on gross receipts taxes than that of any other state.**
- **The unprecedented magnitude of the proposed tax under Measure 118 suggests that the dynamic impacts to the economy will be large but uncertain. To supplement the revenue estimates produced by the Oregon Legislature, CSI modeled several scenarios to illustrate potential economic outcomes in 2025 should Measure 118 become law:**
  - **Scenario #1: Firms reorganize to avoid the tax**
    - **Given that only corporations are subject to the proposed tax under Measure 118, many firms may choose to reorganize under different entity types. Tax collections are equivalent to a 1.3% tax on total output in the state.**
  - **Scenario #2: Firms reduce output by 10% of total Oregon output of $589.5 billion**
    - **Employment decreases by 218,757, gross output decreases by $52.36 billion, and personal income decreases by $16.6 billion. In this scenario, tax revenue from the gross receipts tax will be $1.57 billion lower than current estimates.**
  - **Scenario #3: 10% of firms leave Oregon**
    - **Output declines by $27.6 billion, employment falls by 110,983, personal income is reduced by $8.6 billion. Tax revenue from the gross receipts tax will be $816 million lower than estimated.**
  - **Scenario #4: In Response to the Gross Receipts Tax, Utilities and Telecom Firms Raises Prices 3% to Offset**
    - **Total output falls $647.5 million as a result of the 3% price increase. Every sector experiences a decline in output. Because of the decrease in output, gross receipts tax revenue is $19.4 million lower.**

- **Scenario #5: Electricity, Natural Gas, Telephone and Facsimile Equipment, Internet Access, Water Supply & Sanitation, and Telecommunications Services Firms Raise Consumer Prices 3% and all other Firms Raise Consumer Prices 1.5%.**
    - **Under this scenario, output decreases by $8.5 billion and the gross receipts tax revenue declines by $255.2 million.**

- **The proposed tax structure would result in a larger relative burden on low-income households, and slower long-term revenue growth for the state.**
- **Unlike most gross receipts taxes that charge low rates to a broad base of taxpayers, Measure 118 would do the opposite, charging a high rate to a small number of filers. These filers would face a strong incentive to avoid the tax, thus increasing the likelihood of economic distortions.**
- **Administrative challenges and the potential for fraud are significant. The Department of Revenue will be required to identify residents who do not file taxes, and other agencies will need to step in when federal benefits are lost due to income from rebates.**
- **Although all industries would see their tax burdens increase under the proposal, utilities, construction, wholesale & retail trade, and healthcare would be particularly hard hit.**
- **The positive economic impact of rebate payments would be watered down. Rebate payments are subject to federal taxes, will create a hole in the state General Fund, and will be collected by high-income households that will save much of the windfall rather than injecting it into the economy in the near term. Moreover, all households would face higher costs for a wide range of necessities.**

PROPOSED CHANGES UNDER MEASURE 118

The basic framework of Measure 118 greatly expands Oregon's current corporate minimum tax in order to fund annual rebates to all eligible individuals. Currently, the corporate minimum tax represents a small portion of Oregon's overall corporate tax burden, generating less than 5% of corporate revenues. Under the minimum tax, S-Corporations in Oregon are required to pay $150 annually. C-Corporations are charged either a percentage of their profit, or a minimum tax based on their sales within the state, whichever is higher. The minimum tax schedule increases along with sales to a maximum of $100,000 for C-Corporations with annual sales above $150 million.

Measure 118 proposes that this minimum tax be increased with the addition of a 3% tax on sales in Oregon above $25 million for both C-Corporations as well as S-Corporations. When fully implemented, it is estimated that this change would result in a six-fold increase in corporate tax payments. Not only would corporate tax liability swell, but the proposal would also change the distribution of tax burdens dramatically. In the current system, the vast majority of tax liability is generated by taxing profits. Under Measure 118, nearly all corporate tax liability would be based on sales. In addition, S-Corporations would bear a much larger burden than they do currently under the $150 corporate minimum payment, and personal income tax payments.

The revenue generated by the proposal is to be distributed evenly across all individuals who have lived in Oregon for more than 200 days during the past year. Collections in the current year are divided by the number of eligible individuals and paid out as rebates in the following year. Authors of the petition estimated that this would result in a $750 rebate payment. According to a study issued by the Oregon Legislative Revenue Office (LRO) in July, the rebate would be much larger. Given the current legal interpretation of the proposal, LRO estimates that rebates in 2027 would equal $1,600 per person.

GROSS RECEIPTS TAXES

Measure 118 is in essence a massive tax on gross receipts, i.e., a company's topline sales, not its income or profit. Gross receipts taxes are relatively uncommon, with only six states using some version of them. Oregon is one such state, having passed a modified version of a gross receipts tax (the Corporate Activity Tax) in 2019. Notably, revenues from Oregon's Corporate Activity Tax are only a fraction of what is proposed under Measure 118. If passed, this program would be the most aggressive gross receipts tax in the nation.

Proponents argue the benefits of gross receipts taxes are that they minimize economic distortions by levying a low tax rate on a broad base of taxpayers and tend to be relatively stable over the business cycle. On the downside, like all taxes on sales, gross receipts taxes are regressive and place a larger relative burden on low-income households. Gross receipts taxes are also subject to pyramiding, where the same product or service can be taxed multiple times as it moves up through stages of production. They also often represent double taxation in states that levy general sales taxes. Finally, firms in high-volume, low-margin industries are disproportionately impacted by gross receipts taxes and often have no choice but to pass along the burden to their customers in the form of higher prices, or to eliminate unprofitable operations. In a dynamic economy, the larger tax burden will no doubt result in job losses and/or higher costs for Oregon's households and businesses. Longer term, cost increases will also erode the competitiveness of Oregon's regional economy and lead to income and output losses.

On the downside, like all taxes on sales, gross receipts taxes are regressive and place a larger relative burden on low-income households.

HOW MEASURE 118 AND OREGON'S TAX SYSTEM STAND APART

Taxes under Measure 118 would be vastly different than other gross receipts taxes given its design and Oregon's existing tax system. Rather than charging low rates to a broad base of taxpayers, Measure 118 would do the opposite, charging a high rate to a small number of filers. As such, the potential for economic distortions is greatly amplified.

According to LRO estimates, around 2,200 firms (less than 2%) would see their tax burdens increase under the proposal. Many of these firms would have sales relatively close to the $25 million tax threshold, and therefore would see small increases in their tax burden under Measure 118. Most of the revenue generated by the proposal would be paid by a handful of the largest firms. LRO estimates that more than 30 percent of the increase in collections can be traced to the 30 largest firms.

The high sales threshold is not the only element of Measure 118 that results in a narrower base than most gross receipts taxes. The proposal only impacts C-Corporations and S-Corporations, leaving other passthrough entities such as LLCs and partnerships unaffected. It is unclear to what extent corporations will be able to change their business structure to avoid their new tax burden, however tax professionals are already analyzing choice-of-entity planning for their clients.

Although such a narrow tax base increases the potential for economic distortions overall, it likely will lead to less pyramiding than occurs with most gross receipts taxes. With so few firms accounting for the increased tax liability, it becomes less likely that they are large suppliers to each other. However, several notable exceptions can be identified. Wholesalers and distributors such as commodity firms often supply large firms further up the chain of production. Agricultural distributors sell to large retailers, materials firms sell to large businesses in the construction industry and the like. Given that many of the businesses at the end of the production chain generate small margins, the potential that they become unprofitable or pass along large price increases is significant.

Rather than charging low rates to a broad base of taxpayers, Measure 118 would do the opposite, charging a high rate to a small number of filers.

The sheer magnitude of the revenue plan is also unique. When the Corporate Activity Tax is included, gross receipts taxes in Oregon would amount to more than five times their share of revenue in any other state under the proposal. The implications of this massive shift are not clear, nor are the implications of shifting from tax liability based primarily on corporate profits to that based primarily on sales.

Oregon also differs from other states in its corporate tax apportionment formula. Oregon depends on a single-sales apportionment factor, where the tax liability of firms is based entirely on the amount of their product sold in Oregon, and not where their headquarters, facilities or employees are based.

Oregon's use of a single-sales factor for apportionment reduces the potential for economic distortions. Many of the largest firms that would be subject to the tax are multistate/international businesses for which their Oregon sales and tax burdens represent a drop in the bucket. The authors of Measure 118 likely had this in mind as they drafted the proposal. Many of the largest firms, including distribution, apparel and technology firms use uniform pricing strategies across states. Also, firms are able to deduct state tax payments from their federal tax liability, shifting some of the burden onto the federal budget deficit.

The fact that Measure 118 does not change the definition for sales does not entirely remove the incentive for firms to move out of state to avoid the tax burden. Notably, Oregon corporations are subject to a "throwback" provision when goods are sold to another state where sales are not taxable. In these cases, the sales are included in Oregon sales, creating an incentive to move operations out of Oregon.

Even if most firms stay within the state, economic distortions are likely to be large. Not all firms charge the same prices across their customers in different locations. In particular, Oregon's utilities, fuel and telecom providers would likely fold any increase in their tax burden directly into the rates they charge. Also, low-margin businesses such as grocery stores and construction firms may become unprofitable and smaller in scope if they cannot pass along the additional costs to their customers in the form of higher prices.

BUDGETARY SPILLOVERS

Broadly, Measure 118 is designed to be roughly revenue neutral where the revenues generated by the gross receipts tax are all distributed to eligible individuals. However, the language of the proposal does not address spillover effects on the broader Oregon state budget.

In particular, LRO estimates that the amount of discretionary revenue available in Oregon's General Fund will be reduced by billions of dollars by the proposal in the absence of additional legislative reforms. Rebates will be paid out to Oregonians in two ways—through tax credits for personal income tax filers, or direct payments to those who do not file taxes. Tax credits will reduce personal income tax collections deposited into the General Fund, while direct payments will increase General Fund spending requirements. In addition, traditional tax collections based on corporate profits will now be subject to the rebate calculation and no longer deposited into the General Fund. Personal income tax collections paid by owners of S-corporations will be reduced as well.

Also, some of the revenue allocated to rebate payments under the proposal are already dedicated to other purposes. In particular, Oregon's constitution requires that taxes generated from fuel sales be transferred to the Highway Fund, while unanticipated corporate revenue ("kicker" funds) be included in the State School Fund.

The proposal also includes a hold-harmless provision whereby any individual that loses means-tested state or federal benefits resulting from the rebate payments is compensated fully for their losses. It is unclear how large these hold-harmless payments will need to be given that federal waivers are not certain, and the petition language is not clear. If a rebate of $1,000 results in a $500 reduction in benefits, is a $500 payment required or does any further reduction in benefits arising from the additional $500 also need to be factored in?

ADMINISTRATIVE HURDLES

The administration of Measure 118 would create significant challenges for state agencies. Most of these challenges will be faced by the Department of Revenue. Not only would the Department need to expand its operations to run a new tax program but would also need to administer rebate payments and adjust them in future years once actual collections are known. In addition, other agencies will need to stand up benefit programs to replace lost federal payments due to the hold-harmless provision. These programs would need to be built up in a matter of weeks at the beginning of the new tax year. The Oregon Department of Administrative Services has estimated that the program would require 199 additional full-time state workers.

The first challenge that the Department of Revenue will face is identifying all individuals living in Oregon who are eligible for rebate payments. Only around four in five Oregonians are reflected on tax returns. Individuals who do not file include many low-income residents who are most in need of rebate payments and are also the most difficult to track. Locating individuals without a stable address or income and undocumented residents present significant hurdles. The potential for fraud is glaring.

Data limitations create further challenges for the program's administration. Corporations operate on different fiscal years, and actively amend their tax filings. As a result, corporate tax returns are not close to fully processed until three years after tax payments are due. The proposal requires that rebates be issued the year following tax collections and adjusted for actual liabilities (and the hold-harmless provision) in future years. With corporate tax liability extremely volatile and difficult to predict, additional uncertainty will be injected into the budget process.

The first challenge that the Department of Revenue will face is identifying all individuals living in Oregon who are eligible for rebate payments.

DYNAMIC ECONOMIC IMPACTS: REBATE PAYMENTS

There is tremendous uncertainty about how households and businesses will change their behavior in response to the proposed taxes and rebates under Measure 118. The large magnitude of the policy change will no doubt lead to unexpected outcomes. In order to examine the potential for changes in economic outcomes, the Common Sense Institute has run several broad scenarios through the REMI economic policy model. REMI is a dynamic economic modeling program created by Dr. George Treyz. Regional Economic Models, Inc. (REMI), founded by Dr.Treyz, in 1980 is located in Amherst, MA. The REMI model is a regional economic modeling program created to inform and improve the quality of public policy decisions.

The REMI dynamic economic model can help determine, with independent analysis, the short- and long-term costs, benefits, positives and negatives of major public policy initiatives, including: education, tax, budget, regulatory policies, land use, infrastructure, water, agriculture, tourism, transportation, housing, demographics, crime and security effectiveness, energy and other state and local projects, policy questions, ballot initiatives and strategy planning.

Ignoring additional taxes, the upside of the proposal is that rebate payments would increase the income level of Oregonians, allowing for additional spending and improved wellbeing. That said, the increased economic activity would not be as large as the $1,600 rebate payments would seem at first glance. Also, under most scenarios, the economic benefits of rebate payments would be fully offset by the economic costs of higher taxation.

Rebate payments would be taxable at the federal level. As a result, the net payments to individuals would be reduced by nearly 20%. With the program also resulting in a large reduction in state General Fund revenues, other state taxes may be increased in response, or the level of public services may be reduced.

The impact of rebate payments would be further watered down by an increase in prices. Businesses and households would face higher costs for a wide range of necessities, including utilities, fuel, telecommunication services, groceries, healthcare, building materials, and construction services.

Finally, unlike traditional basic income programs, rebates under Measure 118 would be distributed to all individuals, regardless of their income level. As a result, a large share of the payments would be saved by households and would not generate additional near-term economic activity. A recent study by the International Monetary Fund (IMF Marginal Propensity to Consume Study) found that 85% of households that received $650 COVID payments in the UK saved the entire payment, while only around 8% spent it all.

For a local example, the Oregon Office of Economic Analysis found little evidence this year of additional spending on the part of households despite record "kicker" rebates.

Ignoring the additional tax burden, CSI analysis suggests that after the Measure 118 program matured, the rebate payments taken on their own would lead to around 50,000 additional jobs in Oregon and around $9 billion in additional output. Of course, additional taxes cannot be ignored as these rebates are explicitly paid for, with the increased tax burden fully offsetting the positive economic impacts under all scenarios.

FIGURE 1

Impact of Transfer Payments from Government to Individuals (Measure 118)										
Category	Units	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total Employment	Thousands (Jobs)	48.5	55.4	58.4	58.0	55.9	53.1	50.6	48.3	46.8
Private Non-Farm Employment	Thousands (Jobs)	46.5	52.3	54.5	53.7	51.5	48.7	46.2	44.1	42.7
Residence Adjusted Employment	Thousands	47.0	53.2	56.1	55.9	54.1	51.6	49.3	47.3	46.0
Population	Thousands	17.8	32.4	44.6	54.0	60.9	65.4	68.0	69.4	70.1
Labor Force	Thousands	13.8	22.8	29.9	34.9	38.0	40.0	41.0	41.3	41.3
Gross Domestic Product	Billions of Current Dollars	6.0	7.9	8.8	9.2	9.2	9.1	8.9	8.8	8.7
Output	Billions of Current Dollars	10.3	13.5	15.1	15.7	15.8	15.5	15.3	15.0	15.0
Value-Added	Billions of Current Dollars	6.0	7.9	8.8	9.2	9.2	9.1	8.9	8.8	8.7
Personal Income	Billions of Current Dollars	8.2	9.5	10.5	11.2	11.7	12.0	12.4	12.7	13.0
Disposable Personal Income	Billions of Current Dollars	7.5	8.6	9.6	10.2	10.7	11.0	11.4	11.7	12.0
Real Disposable Personal Income	Billions of Fixed (2012) Dollars	5.1	5.4	5.8	6.1	6.2	6.3	6.4	6.5	6.6
Real Disposable Personal Income per Capita	Thousands of Fixed (2012) Dollars	1.0	0.9	0.9	0.9	0.8	0.8	0.7	0.7	0.7
PCE-Price Index	2012=100 (Nation)	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4

DYNAMIC ECONOMIC IMPACTS: BUSINESS DISTORTIONS

Once again, there is a tremendous amount of uncertainty as to how households and businesses will change their behavior in response to the proposed taxes and rebates under Measure 118. However, given the sheer magnitude of the tax change, along with the fact that it is focused on a very narrow base, suggests that some firms will face strong incentives to do all they can to lower their tax burden.

Given this uncertainty, broad scenarios were analyzed in the REMI model to give some idea of the magnitude of potential economic impacts. These scenarios begin with the industry-level revenue estimates produced by the Legislative Revenue Office.

SCENARIO 1 – AFFECTED FIRMS RE-ORGANIZE TO AVOID THE TAX THRESHOLD

Given that only corporations are subject to the proposed tax under Measure 118, many firms may choose to reorganize under different entity types. Firms will no doubt change their sales-sourcing methodologies as well

The additional revenue estimates of $6,770.6 billion generated by a 3% tax on gross receipts amounts to $225.687 billion of output. Gross receipts of $225.687 billion are 43% of $524.995 billion of total state output and $6,770.6 billion of additional tax revenue is equivalent to 1.29% tax on total output.

Not all firms will be able to avoid this additional tax burden through re-organization. The most likely scenario is that some re-organization will occur and the actual revenue from the gross sales tax will be less than estimated:

FIGURE 2 - SCENERIO 1

Sector	Number of Firms	REMI - Output (Value of all Sales of Goods & Services)	Measure 118 Tax Increase
Agriculture	4840	$6.185B	$33.1M
Mining	207	$35.201B	$6.0M
Utilities	175	$38.890B	$144.1M
Construction	15245	$167.281B	$382.8M
Manufacturing	6823	$391.138B	$528.4M
Wholesale	7806	$157.961B	$1495.9M
Retail	8816	$178.807B	$1484.0M
Transportation/Warehousing	3232	$94.608B	$185.7M
Information	4209	$133.389B	$336.0M
Finance & Insurance	8225	$227.239B	$929.1M
Real Estate, Rental	8534	$331.908B	$94.7M
Professional/Technical Services	20367	$165.800B	$110.9M
Management of Companies	3246	$67.121B	$719.2M
Admin Support/Waste Management	5659	$97.981B	$108.2M
Educational Services	1220	$19.647B	$6.2M
Healthcare and Social Assistance	8235	$207.596B	$113.9M
Arts, Entertainment, Recreation	1960	$20.577B	$7.5M
Accommodation & Food Services	6304	$89.381B	$32.5M
Other	5371	$56.498B	$52.4M
Total	120474	$2487.208B	$6770.6M

SCENARIO 2 – AFFECTED FIRMS LOWER OUTPUT BY 10% IN RESPONSE TO THE GROSS RECEIPTS TAX

Some firms in low-margin, high-volume industries do not have the ability to pass added costs to their customers in the form of higher prices. Many wholesalers, retailers and construction firms fall into this category. Some unprofitable operations will need to be shuttered due to increased costs.

Using table 5 in the Oregon Legislative Office Report on Initiative Petition 17: A Description and Preliminary Analysis, CSI determined that there are 2,402 firms (1,610 C - Corps and 792 S - Corps) that exceed the $25 million dollar threshold for the gross receipts tax. The tax generated by Measure 118 is estimated to be $8,149.2 million, relative to $271.6 billion of output. If we assume that firms reduce output by 10% of total Oregon output of $589.5 billion, employment decreases by 218,757, gross output decreases by $52.36 billion, and personal income decreases by 16.6 billion. In this scenario, tax revenue from the gross receipts tax will be $1.57 billion lower than current estimates.

SCENARIO 3 – AFFECTED FIRMS EXIT THE OREGON MARKET TO AVOID THE GROSS RECEIPTS TAX.

Although Oregon's single-sales apportionment factor makes it difficult for corporations to reduce their tax burden by moving their operations to other states, the large magnitude of the tax burden may result in some exits. In particular, firms that are highly exposed to the throwback provision in Oregon's tax code may choose to relocate.

In this scenario we assume that 10% of impacted firms stop operations in Oregon as a result of the gross receipts tax. In this scenario, 10% of impacted firms leaving reduces output by $27.2 billion.

The results show output declining by $27.6B, employment falls by 110,983, personal income declining by $8.6 billion. Tax revenue from the gross receipts tax will be $816 million lower than estimated.

For Scenarios 4 & 5 CSI utilizes the 2012 paper titled "Pyramiding, Production Efficiency, and Revenue under a Gross Receipts Tax" (Andre Barbe, 2012) where it is estimated that the impact of a 1% gross receipts tax raises average prices 0.5%.

SCENARIO 4 – IN RESPONSE TO THE GROSS RECEIPTS TAX, UTILITIES AND TELECOM FIRMS RAISES PRICES 3% TO OFFSET, ALL OTHER FIRMS PRICES ARE UNCHANGED.

Although many interstate/international firms rely on uniform pricing strategies, utility and telecom firms vary their rates based on local costs.

For this simulation, prices on the following sectors were increased by 3%: Electricity, Natural Gas, Telephone and Facsimile Equipment, Internet Access, Water Supply & Sanitation and Telecommunications Services.

The results are shown in the table below. Total output falls $647.5 million as a result of the 3% price increase. Every sector experiences a decline in output. Because of the decrease in output, gross receipts tax revenue is $19.4 million lower.

FIGURE 3

Change in Output from 3% Price Hike on Electricity, Natural gas, Water Supply & Sanitation, Telephone and Facsimile Equipment, Internet Access, and Telecommunications Services		
Industry	Change in Output	Change in Gross Receipts Tax
All Industries	-$647,492,900	-$19,424,787
Forestry, fishing, and hunting	-$538,605	-$16,158
Mining	-$1,172,683	-$35,180
Utilities	-$30,657,940	-$919,738
Construction	-$149,788,140	-$4,493,644
Manufacturing	-$54,425,664	-$1,632,770
Wholesale trade	-$37,596,028	-$1,127,881
Retail trade	-$74,962,200	-$2,248,866
Transportation and warehousing	-$16,373,825	-$491,215
Information	-$49,126,098	-$1,473,783
Finance and insurance	-$10,487,631	-$314,629
Real estate and rental and leasing	-$82,823,615	-$2,484,708
Professional, scientific, and technical services	-$22,457,121	-$673,714
Management of companies and enterprises	-$3,145,524	-$94,366
Administrative, support, waste management, and remediation services	-$22,696,019	-$680,881
Educational services; private	-$1,465,675	-$43,970
Health care and social assistance	-$29,103,858	-$873,116
Arts, entertainment, and recreation	-$2,316,807	-$69,504
Accommodation and food services	-$14,976,867	-$449,306
Other services (except public administration)	-$8,918,328	-$267,550
State and Local Government	-$34,460,276	-$1,033,808

Employment decreases by 0.1% as a result of the 3% increase in prices on Electricity, Natural Gas, Telephone and Facsimile Equipment, Internet Access, Water Supply & Sanitation and Telecommunications Services.

FIGURE 4

Change in Employment as a Result of Firm 3% Price Electricity, Natural gas, Water Supply & Sanitation, Telephone and Facsimile Equipment, Internet Access, and Telecommunications Services	
Industry	2025
All Industries	-2,742
Forestry, fishing, and hunting	-2
Mining	-5
Utilities	-21
Construction	-725
Manufacturing	-116
Wholesale trade	-93
Retail trade	-558
Transportation and warehousing	-97
Information	-71
Finance and insurance	-36
Real estate and rental and leasing	-149
Professional, scientific, and technical services	-133
Management of companies and enterprises	-4
Administrative, support, waste management, and remediation services	-139
Educational services; private	-21
Health care and social assistance	-169
Arts, entertainment, and recreation	-34
Accommodation and food services	-134
Other services (except public administration)	-81
State and Local Government	-155

SCENARIO 5 – IN RESPONSE TO THE GROSS RECEIPTS TAX, ELECTRICITY, NATURAL GAS, TELEPHONE AND FACSIMILE EQUIPMENT, INTERNET ACCESS, WATER SUPPLY & SANITATION, AND TELECOMMUNICATIONS SERVICES FIRMS RAISE CONSUMER PRICES 3% AND ALL OTHER FIRMS RAISE CONSUMER PRICES 1.5% BECAUSE OF THE 3% GROSS RECEIPTS TAX.

The results of the change in output are shown in the table below. Output decreases by $8.5 billion and the gross receipts tax revenue declines by $255.2 million.

FIGURE 5

Change in Output and Gross Receipts Tax as a Result of Firm Price Increases of 3% on Electricity, Natural gas, Water Supply & Sanitation, Telephone and Facsimile Equipment, Internet Access, and Telecommunications Services and 1.5% in all other sectors		
Industry	2025	Change in Gross Receipts Tax Revenue
All Industries	-$8,505,120,065	-$255,153,602
Forestry, fishing, and hunting	-$9,429,633	-$282,889
Mining	-$11,605,111	-$348,153
Utilities	-$61,309,128	-$1,839,274
Construction	-$1,510,498,405	-$45,314,952
Manufacturing	-$677,814,261	-$20,334,428
Wholesale trade	-$504,213,636	-$15,126,409
Retail trade	-$840,412,318	-$25,212,370
Transportation and warehousing	-$239,996,828	-$7,199,905
Information	-$146,177,678	-$4,385,330
Finance and insurance	-$290,974,920	-$8,729,248
Real estate and rental and leasing	-$1,331,901,612	-$39,957,048
Professional, scientific, and technical services	-$300,464,209	-$9,013,926
Management of companies and enterprises	-$47,846,694	-$1,435,401
Administrative, support, waste management, and remediation services	-$234,041,852	-$7,021,256
Educational services; private	-$45,761,884	-$1,372,857
Health care and social assistance	-$1,125,148,205	-$33,754,446
Arts, entertainment, and recreation	-$101,642,081	-$3,049,262
Accommodation and food services	-$309,770,866	-$9,293,126
Other services (except public administration)	-$291,779,039	-$8,753,371
State and Local Government	-$424,331,706	-$12,729,951

Employment falls by 41,695 or 1.59% as a result of the increased prices:

FIGURE 6

Change in Employment as a Result of Firm Price Increases-3% on Electricity, Natural gas, Water Supply & Sanitation, Telephone and Facsimile Equipment, Internet Access, and Telecommunications Services and 1.5% on all other firms

Industry	2025
All Industries	-41,695
Forestry, fishing, and hunting	-41
Mining	-53
Utilities	-41
Construction	-7,291
Manufacturing	-1,584
Wholesale trade	-1,242
Retail trade	-6,216
Transportation and warehousing	-1,342
Information	-247
Finance and insurance	-1,084
Real estate and rental and leasing	-2,401
Professional, scientific, and technical services	-1,754
Management of companies and enterprises	-55
Administrative, support, waste management, and remediation services	-1,634
Educational services; private	-673
Health care and social assistance	-6,860
Arts, entertainment, and recreation	-1,160
Accommodation and food services	-2,789
Other services (except public administration)	-3,319
State and Local Government	-1,908

BOTTOM LINE

The policy experiment proposed by Measure 118 is unique, not only due to the large transfer payments to households, but also due to the manner in which those payments are funded. Under the proposal, Oregon's dependence on gross receipts taxes would be five times the share seen in any other state. Also, unlike a typical gross receipts tax, only a small number of firms would be responsible for the majority of collections. Typically, gross receipts taxes spread low rates across a broad base of businesses in order to minimize economic distortions. Under Measure 118, the handful of impacted firms would face significant incentives to modify their behavior to minimize their tax burden.

Also, given the nature of the proposal, the positive economic impact of rebate payments would be watered down. Rebate payments are subject to federal taxes, will create a hole in the state General Fund, and will be collected by high-income households that will save much of the windfall rather than injecting it into the economy in the near term. Moreover, businesses and households would face higher costs for a wide range of necessities, including utilities, fuel, telecommunication services, groceries, healthcare, building materials, and construction services.

Given the massive scale of the experiment proposed under Measure 118, it is impossible to accurately estimate its potential economic impacts. That said, these impacts will no doubt be large and will clearly lead to a significant increase in the cost burden on Oregon's businesses and households.