Oregon's Corporate Activities Tax: An Ill-Conceived, Inflationary Failure

by MICHAEL SIPE, President — CrossPointe Capital

The Oregon Legislature instituted the Corporate Activities Tax (CAT) in 2019. Every Democrat legislator and no Republicans voted for it. Advocates pitched it as a way to fund improvements in the education system. The law was a terrible idea, devoid of business or common sense. Time has proven that CAT is unfair, regressive, oppressive to small businesses and extremely inflationary. Worst of all, CAT failed to improve public education. The Legislature should immediately give Oregonians cost-of-living relief by repealing the CAT tax. Here's why.

CAT is disguised as a tax on corporations; however, it's actually a multiple-level tax that increases the cost of goods and services we buy every day. Most people are familiar with a retail sales tax, where consumers pay a tax on the final retail price of a product. CAT is MUCH worse than this, as it's a complex revenue-based tax imposed at each step of the supply chain. Also, since CAT is imposed on taxable REVENUE, not net profit, it cuts especially hard on price-constrained, low-margin businesses.

As the market allows, businesses are permitted to pass the tax on at each level, and thus it multiplies, until a product reaches the retailer, which also passes along the now geometrically increased tax burden to the consumer, who is blind to how the state has inflated the cost of everything from groceries to cars to houses. If you intentionally set out to drive up prices, it would be hard to create a more insidious way to do so.

To understand the inflationary effect of the CAT Tax, consider a homebuilder who builds and sells two houses a year in Central Oregon. Building a house requires materials and labor. On the material side, the company that harvests and sells trees to a sawmill pays a tax on that sale and passes it on to the sawmill. The mill processes the logs into lumber and sells the lumber to a distributor, at a price that includes the CAT tax on the forester's and the mill's revenue. The distributor sells the lumber to a retailer, at a price that includes the CAT tax on the forester's, the mill's and the distributor's revenue. The retailer sells the lumber to the builder, at a price that includes the CAT tax on the forester's, the mill's, the distributor's and the retailer's revenue. The builder then uses the lumber to build the two houses, selling them to two local families at prices that include the CAT tax on the forester's, the mill's, the distributor's, the retailer's and the home builder's revenue.

The CAT's compounding effect on lumber is mirrored with countless other materials used in building a house. It also drives up much of the cost of the labor. Everything that goes into building the houses is increased by the CAT tax. Is it any wonder houses cost so much?

This same effect happens throughout Oregon's economy. The result is that nearly everything we buy is more expensive than it would otherwise be. And the tax our state government imposed is one culprit.

I am sure there are better ways to fund education than CAT, but some might argue all this inflation would be worth it if the CAT actually made Oregon's schools better, as our legislature promised it would. However, the additional BILLION dollars per year in taxes we pay has made no discernable difference. Not only that, while closing schools by COVID mandate, Governor Kate Brown kept collecting the CAT tax, despite the fact that small businesses across the state were struggling to survive. Yet even with a multi-billion-dollar windfall of funds from the CAT, Oregon schools remain mired at the bottom of national education rankings.

We cannot afford an ill-conceived and inflationary tax that has failed to deliver its promised benefits. The Corporate Activities Tax should be repealed in the next Legislative session.

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