LEGISLATIVE NEWS
May 1, 2019

OREGON ASSOCIATION OF REALTORS®

Business Tax Passes Key Committee, Heads to House Floor
OAR secured an amendment that lessens the impact for real estate brokerages, but the legislation still has wide-ranging impacts for our industry and Oregon's economy.

You may have seen in the news that the legislature's Joint Committee on Student Success passed a sweeping business tax and education funding package (HB 3427) on Monday evening. The package now goes to the House Floor for a vote today.

The bill is a modified version of a gross receipts tax – a tax on gross revenues rather than profits. The proposed tax is similar to Measure 97 (2016), but also different in a few ways. Most notably, the proposed legislation applies to all business types (Measure 97 only applied to "C-corps"). And, rather than a 2.5% tax, HB 3427's rate is.57 percent and includes some deductions.

This session, the very public goal for legislative leadership has been to increase taxes for education by roughly $2 billion (about a 10% increase in the General Fund), focusing on PreK-12 education. Critics, however, say that without substantial reform to the state's pension system (PERS), most of the new tax dollars will be absorbed by PERS obligations over time.

HB 3427 Simplified

HB 3427 is a .57% tax on "commercial activity" above $1M which is generally defined as a taxpayer's business gross receipts sourced to Oregon ($5,700 of additional tax paid on each $1,000,000 above the initial $1 million threshold). The tax is on top of personal and corporate income taxes paid (it is not a replacement).

A subtraction equal to 35% of the greater of (a) Cost of Goods Sold (federal definition) or (b) total compensation costs apportioned to Oregon, is provided to reduce the "compounding," or "stacking" effects inherent to Gross Receipts taxes.

OAR's policies regarding housing and advocacy have been shared consistently with targeted legislators since the election. As a result of our relationship building and advocacy, **we successfully amended the bill** to lessen the impact of the legislation by better defining "split commissions." Prior to the amendment a brokerage could have been taxed on gross commission, even though the majority of each commission is the broker's commission, not retained by the brokerage. This would have been devastating to our industry.

Still, the bill represents a significant tax increase and will be particularly hard on businesses with low profit margins and those with significant costs in their supply chains.

On Wednesday April 24, the OAR Government Affairs Key Committee met during their bimonthly meeting and discussed an earlier version of the legislation in full. We are continuing to monitor the legislation very closely and engage as necessary and appropriate. And, your GAKC membership has made themselves available for emergency updates and directions. You can read the bill and associated testimony here and you can read some of the press coverage here.

Additional Updates:

Land Supply for Housing: HB 2001 is currently in Ways and Means. Work will like resume after the May Revenue Forecast (mid-May). The bill has been modified substantially. Additional amendments are needed. But, the legislation could eventually be a vehicle for polices that will increase Oregon's buildable lands inventory for housing stock.

Independent Contractors: Many our REALTOR® members have contacted our GA team regarding HB 2498. Early in the session we were promised amendments, should the bill move, to explicitly exempt real estate brokers licensed in brokers from alternative definitions of "independent contractors." Currently the bill is in House Rules. While technically still active this session, the path the bill has taken so far is an illustration of the difficulty the sponsors will have to pass the bill. With, or without our amendments.

Mortgage Interest Deduction: HB 3349 has moved to the House Revenue Committee. A hearing was held on April 15, where we testified against the legislation. Did you know, across income levels, 52% of Oregonians own their home outright? Oregon's tax system has a rate that increased as earnings exceed $125,000 single, or $250,000 joint. While most consider a progressive income tax "fair," why should any Oregonian ever pay an increased tax rate only because they have a mortgage loan?

Are you interested in helping advocate for homeownership? Text "REALTORS" to 30644!