

**Equity Alliance of Oregon
Senior Medical Deduction Testimony**

Equity Alliance Oregon

[equityallianceoregon.com]

June 20, 2013

Thank you Chair Burdick, and members of the committee, for allowing me to testify today.

For the record, my name is **John Calhoun**. I am an entrepreneur and investor from Chair Burdick's district in Portland. I am currently Managing Partner of InsideValuation Partners and I'm also the co-chair of the **Equity Alliance of Oregon**, a group of business owners and business leaders who believe that our state tax system can more equitably provide needed services and a stronger state for all Oregonians.

I am here today to support the proposal to modify the senior medical tax deduction. A recent financial analysis by the Northwest Economic Research Center has shown that Oregon's present form of the Senior Medical Deduction—if left unchecked—will grow to drain more and more away from the General Fund, meaning fewer dollars available for education and funding for medical services for truly vulnerable seniors.

While the concept of the tax break for seniors who have higher medical expenses than most other citizens and generally lower income is noble, most of the benefit of the present Oregon Senior Medical Deduction goes to individuals, like myself, and their dependents at upper-income levels. 55% of the tax benefit currently goes to the wealthiest 20% of tax payers. In other words, the people taking the majority of the tax break are the very people who need help the least.

Let me use myself as an example. I am currently 69 and my wife is 57. When I turned 62, my children were 18, 19, and 21. My income is consistently in that upper 20%. I got to deduct not just my medical expenses, but those of my wife and my college age children. Furthermore, I was employed and remain employed. So why should I [or my wife and children] have a significant tax deduction that was conceived to help seniors who could no longer work to pay their medical bills?

I am also mindful of the fact that Oregon is the only state in the nation with this tax break. In addition, the federal tax deduction for medical expenses greater than 7.5% of income would still apply to Oregon taxpayers, so those with high medical expenses will still retain that benefit. In addition, Oregon is one of the few states which also provide no taxation, regardless of ability to pay, for Social Security benefits.

At the same time, it seems that basic life-saving services for low-income seniors are constantly under threat of losing funding. One might also ask if wealthy seniors, like me, should get this tax break we do not need while young parents struggling to provide for their children do not? Our priorities are upside-down here.

This proposal will not only save revenue that can be used to help truly vulnerable seniors have access to care that allows them to live with independence and dignity, it also provides greater tax benefits for those low-income seniors who cannot take advantage of our current system. Regardless of our other budgetary issues, passing this legislation is the right thing to do.

Equity Alliance of Oregon
Testimony on "Small Business" Tax Cut

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For the record, my name is **John Calhoun**. I am an entrepreneur and investor from Portland. I am currently Managing Partner of InsideValuation Partners and I'm also the co-chair of the **Equity Alliance of Oregon**, a group of business owners and business leaders who believe that our state tax system can more equitably provide needed services and a stronger state for all Oregonians.

I'm here representing the Equity Alliance in opposition to this bill. We sympathize with the goal of reducing the gap between the tax rates that small businesses pay and the lower rates paid by larger corporations.

However, we think this tax cut is counterproductive for a host of reasons.

Aside from the fiscal problems of this proposal, there's a consideration of fairness here. This bill would mean that wealthy business owners would pay a lower tax rate than their employees. To us, that is fundamentally unfair, and this bill should be rejected on that basis alone.

Additionally, this proposal creates the potential for a whole host of loopholes that could dramatically drive up the cost of this tax cut, because it will create a big incentive for people to change their behavior in order to take advantage of it.

Under this proposal, you will see more people in LLCs or partnerships shift their compensation from salaries to partnership payments and pay the lower tax rate. Others could create new entities in order to take advantage of the lower taxes. For example, could a Portland Trailblazer create an LLC, and then have the team pay his compensation to the LLC, which would then create income for him at the lower rate?

Doctors and trial lawyers, to give other likely examples, could form LLCs or partnerships and reap the benefits of lower taxes. In short, more income will be shifted into new entities than is accounted for in the cost estimates of this proposal.

Another factor is out-of-state businesses. For example, I'm the managing partner of an LLC headquartered out of state. If I receive this tax cut, it will mean more money in my pocket, but it will not create any economic benefit or add jobs for Oregon.

At the same time, we have to ask: What benefit is this bill really intended to provide? If it's to "create jobs," this bill has some glaring problems. Let's look at an example: Under this proposal, a married "small business" owner bringing in \$250,000 would

get a tax cut of around \$5,000. That is far too little money to hire even a single employee. Even at four times that income level—someone making \$1 million per year—the tax cut would be around \$20,000. That's maybe enough to hire a part-time clerk, but that's about it. This is hardly a job-creating stimulus.

We also have to ask: If someone is bringing in more than \$1 million, or even a quarter of a million dollars, how can we justify giving them a tax break that a carpenter, police officer, or secretary can't qualify for? As for a cap of \$10 million? That is nothing more than a tax cut for the wealthy. It has nothing to do with small business or creating jobs. Anyone earning millions of dollars in income has all the capital needed to create jobs. If the demand for their product or service is there they are going to invest. If it isn't, a 2% cut in income taxes will not convince them to invest more in that business.

The tax cuts under this proposal are too small to have any impact on hiring decisions by the normal understanding of what is a small business, will only amount to new giveaways to wealthy people who don't need the help, and will take millions away from Oregon's basic priorities.

As people who actually run businesses, we know that companies don't hire new employees just because they get handed some additional funds. They hire new employees when demand increases. This bill would do nothing to boost demand for anyone's business. Only an improving, thriving middle-class economy can create such a boost, and that can only be accomplished by funding basic services that families and small businesses depend on.

As business owners who want to see Oregon continue to grow more prosperous as we emerge from the recession, we believe that this proposal represents a move in the wrong direction. If we truly want to create a state where small businesses can thrive, we need to focus on investing in what matters—funding K-12 classrooms, higher education, and basic infrastructure—not handing out more tax cuts to the already wealthy.