

Rep. Gomberg Testimony on HB 4067

Good morning Mr. Chairman, members of the committee:

During the recent Special Session, we passed tax reductions for 78,000 Oregon S-Corporations and LLC's. My proposal before you today is to expand that program by 10% - adding roughly 7,800 more small businesses that would benefit from lower tax rates. This bill will accomplish that goal while leaving 99.6% of tax-filers who benefited by our recent changes unaffected. The proposal is virtually revenue neutral. And finally, I'm advocating for predictability and stability in this tax program.

Please note that my comments today include the Dash-One amendments, which raise the threshold for the top rate bracket to \$1 million.

I'd like to talk first about expanding the program. The measure we passed requires qualifying companies to have a full-time, year-round employee. That doesn't work very well for many seasonal and smaller businesses. It doesn't work well in rural economies. In short, it doesn't work well in my district and in many of yours. So I'm proposing today that this qualifying requirement be reduced to include employers of part-time employees.

This change would benefit roughly 7,800 more businesses in fishing, farming, dairy, and tourism statewide. It would add smaller firms in a critical growth stage. And it would add companies that hire part-time working seniors and working parents.

These 7,800 companies would cost an additional \$7 million -- an average savings of \$900 per tax filer. That's a significant number especially when you consider that more than half of tax filers under the recent law will save only \$140.

So we are adding more companies--10% more—and we are providing them a more significant and meaningful level of relief. But this begs the question: how do we pay for this change and keep the measure as revenue neutral as possible? My amendment would limit the tax break to the first \$1 million of taxable profit. What that means is that taxpayers with less than \$1 million of qualifying income see no change; and those who net over \$1 million will still receive a \$35,500 tax break.

This limit would affect only 250 out of 78,000 firms. So please, let me be clear that 99.6% of the businesses benefited during the special session would see no change at all. And the small percentage who see a change are still receiving a substantial benefit -- \$35,500 - when previously they were looking at an average of \$41,000.

Said another way, my bill would help an average of 130 additional smaller businesses in each of our districts. 1300 more would get what they already have. And four would be limited to a mere \$35,000 break.

The difference would be \$8-10 million in revenue: very close to the projected \$7 million cost. Given the preliminary nature of these numbers, Legislative Revenue describes this as a neutral

exchange.

I have spoken before to this committee about predictability and stability in public policy. And I have expressed concerns that the open-ended nature of our recent legislation would encourage firms to change their tax status to seek out savings. There is nothing wrong with their doing that. The problem is that we don't know how many firms will shift or what the effect on revenue will be. Capping the break at \$1 million will benefit firms that presently qualify without providing a major incentive for other companies to re-classify.

To be clear, I have no problem with businesses that make money. I have nothing but respect, admiration, and a bit of envy for them. Oregon needs big businesses. But we should remember many big businesses started out as small ones. I think we can agree that our investment in Oregon's smallest, growing firms will make a real difference.

I have been asked why I have introduced this bill so soon after the Special Session. One answer is that I think it is never too soon to make improvements. But the deeper reason is this: I'm a small business guy. Nothing makes small business crazier than constantly changing rules. I don't want to implement the recent changes, and then change them again later. I want to offer small business a complete package when all of this goes into effect.

My own company started out with a sheet of plywood across the washing machine for a shipping department. Intel started on a kitchen table. Nike began selling shoes from the trunk of Phil's Knight's car.

Out there in Oregon, right now, there are people investing their experience, creativity, and their economic courage to make something out of nothing. They dream of being the next Leatherman or Columbia Sportswear or Rogue Brewing. Oregon will be better off if they succeed.

I ask you to move this measure to the house with a do-pass recommendation. Thank you.