

June 13, 2017

Joint Committee On Tax Reform
Oregon State Capitol
900 Court Street NE
Salem, OR 97301

Emailed to: lro.exhibits@oregonlegislature.gov

Dear Committee Members:

I am writing to urge your opposition on HB 2380-2.

My engineering company is a small DBE and MWESB firm based in Beaverton, and employs 3 engineers. We have been in business since 2012 and work almost exclusively on public agency projects as a subconsultant to larger engineering firms. Even though the current version of this bill published as HB 2830-2 would not result immediately in a sizeable commercial activity tax for our small firm, we remain greatly concerned about the impacts to our business should it pass.

We believe that the passage of this bill would impede our sales and growth opportunities for the following reasons:


- The prime consultant design firms would have to pay taxes just for including our small firm on their team, even when they do not receive any markup, profit, or net income from the transaction.
- Unless mandated by the owners contract to meet small business goals, the design firms to which we provide services may see the commercial activity tax as a reason to instead hire and keep services in house.
- When small business subcontracting goals are mandated by contract (which the vast majority do not), prime consultant design firms will merely meet the goal, rather than exceed them like existing common practice.

Other key concerns:

- The corporate tax would be considered an allowed overhead expense in accordance with the Federal Account Regulations (FAR), which is in direct conflict with the statement in Section 9, Paragraph (4), "The tax.... may not be billed or invoiced to another person." We believe this provision must be altered to allow compliance with the public contracting requirements used by Oregon.
- An increase in FAR allowed overhead expenses would unintentionally increase hourly fees for public projects across the board, limiting the improvements for already-constrained project budgets.
- Within the Architectural and Engineering industry, subcontracted services can typically be 30-40% for a project, and profit is commonly limited by public agencies to be a low margin. With the proposed tax rate for service industries being the highest rate at 0.75%, this tax would be applied at every level, rather than each company paying taxes for its own share of services.
- It is unclear whether subcontracted firms are intended to meet the definition of a pass-through entity. The definition and language surrounding credits for pass-through entities is not clear enough for the layperson to follow, and may result in misinterpretation and miscalculation of credits and taxes.

We understood that the State of Oregon has an interest in growing its small business community. We believe the commercial activity tax, as proposed in HB 2380-2, would end up being counterproductive to that goal. Thank you for your consideration of our position on HB 2380-2. Please oppose HB 2380-2.

Sincerely,


Tina Adams, PE, President