



HB 2060: Modify the Pass Thru Income Tax Break

House Revenue – Jody Wisner – 6.20.2017

This bill is your perfect opportunity to improve public policy.

Under current law, the profits of corporations are taxed twice, first at 6.6% or 7.6% under the Corporate Income Tax (CIT) or Corporate Minimum Tax rates (~.2% or less), and then the distributed profits are taxed at the owners' Personal Income Tax (PIT) rates. Profits of businesses reporting as sole proprietors are taxed one time at the owners' PIT rates. But, businesses organized as pass-throughs are taxed one time, as PIT, and some of those businesses, with actively engaged owners, are taxed at the reduced PIT pass-through rates. If basic horizontal equity is the goal, it's the c-corp tax system which would be adjusted.

- With a General Mills product, the corp will pay a CIT and the Shareholders will pay PIT. Potential Oregon taxes: 7.6% plus 9.9% = 17.5% on Oregon corporate profits and shareholder earnings.
- With a FishPeople product, some of the pass-through entity shareholders will pay the PIT and others will pay the reduced pass-through PIT rate, that is until that business has profits of more than \$5 million. Potential Oregon taxes: between 7.0% and 9.9% on Oregon profits on shareholder earnings.

This is illogical.

For your constituents, whether their grocer, hardware store, construction contractor, housekeeping service, or lawyer has their business organized as a sole proprietor, a pass-through entity or as a c-corp is a matter of indifference. So why are we treating business owners differently?

We've heard the rational for the pass-through rates was assisting start-ups, assisting export-market businesses, and getting capital to capital-constrained businesses.

We are currently funding many support services for start-up to mature businesses, from ONAMI, OTRADI and the Food Innovation Center to trade support or loans from Business Oregon. This seems the most direct approach to getting help where it is needed.

We read the bills and follow the money

However, to better direct the pass-through entity's reduced rates, we would recommend the following:

- To reach growing, but not mature companies, we'd change from requiring only one to requiring at least 3 employees, each working a minimum of 1200 hours through employment of no less than 30 hours a week.
- Limit the benefit to the list of traded-sector business types who can use the pass thru rates that are in the -8s of HB 2830.
- Phase out the rate reduction at \$3 m in profits rather than \$5 m, and
- Eliminate businesses with more than 25 full-time equivalent employees.
- Require wages of 1.5 times the average wages of the Oregon county in which the employees work the majority of their hours
- Limit the maximum benefit to not be more than 3% of wages paid to employees hired to fill the new positions eligible under this bill.
- Assure that the increase must be made through business creation, not by buying another business and acquiring the FTE associated with that acquisition.

We've heard in this room that the original purpose of the legislation was not job creation, but to deliver capital to business owners in a tight capital market. However, the original legislation provided capital to recipients who didn't necessarily have any unmet business need for capital. Taxpayers might just as likely use the tax savings for a trip to Europe.

There are better approaches to providing needed capital. Last session, with SB 1589 you set aside money to guarantee \$30 million in loans for businesses needing access to capital. The Credit Enhancement Fund includes the expectation that business owners repay their loans. The business owners' tax break was a radically different approach – reducing taxes for business owners whether they need capital or not.

We appreciate this effort to strengthen the language in the bill to support only those business owners who create additional high-quality jobs, during the early stages of growth in a traded-sector industry.