



## ***SB 165 The Business Owners' Tax Break – End It or Demand Much More***

*Testimony for Senate Finance and Revenue – Jody Wisner – 2.16.2017*

We oppose this bill as written. It demands only marginally more of the recipients of the business owners' tax break enacted in 2013 as part of the PERS Grand Bargain.

Pretending that a requirement of employing one more person, for an unspecified number of additional hours, at what might be as little as minimum-wage, is worthy of a tax break is wrong. It has provided as much as \$60,000 in annual benefit to a business owner. This bill is an inadequate solution to the ill-conceived notion that business owners deserve another tax break, just because they are business owners. 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, this broad legislation provided capital to recipients who didn't necessarily have any need for capital. A business with nearly \$5 million in taxable income is in fact unlikely to have difficulty getting capital, yet they are benefitting under the law.

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

On page 2 of the bill you find the change:

**Compared to the immediately preceding tax year, the partnership or S corporation has a net increase in full-time equivalent employees and its employees have an equal or higher average hourly wage; and**

At least 1,200 aggregate hours of work in Oregon are performed, by the close of the tax year for which the reduced rate is allowed, by employees who meet the requirements of paragraph (b) of this subsection and who are employed by the partnership or S corporation. In determining whether this requirement is met, only hours worked in a week in which a worker works at least 30 hours may be considered.

First of all, this isn't clear. Is an additional person on the team working the 1200 hours required, are more hours of work required? It's a year later, but not even an extra penny of pay per hour required. But that's beside the point. The thinness of the correction – from 1200 hours by one

or more employees to an unspecified increase—isn't demanding much, and it isn't the correct solution.

**The only truly acceptable solution is ending the business owners' tax break enshrined in ORS 316.043 and returning the tax rates for partnerships and s-corporate business owners to the same rates their employees pay.**

If you decide you can't get the votes to end this legislation, then please, strengthen the language in the bill to reward only those business owners who bring significant numbers of new, high-quality employment to the state rather than rewarding everyday growth of jobs we might well have to subsidize. To achieve this, add these elements to the bill:

1. The employer must triple their direct hire, permanent Oregon workforce, increasing the FTE hours of employment by 3 times above the FTE of the beginning of the fiscal year.
2. The increase must be made through expansion, not by buying another business and acquiring the FTE associated with that acquisition.
3. Wages paid must be 1.5 times the average wages of the Oregon county in which the employees work the majority of their hours. This salary requirement might avoid giving this tax break to the owners of a new fast food restaurant, yard service, or hotel – where employees will be so poorly paid that they'll still qualify for subsidized housing or TANF.
4. Except for their own direct hires, jobs created through employment agencies and professional employer organizations are not eligible.
5. The maximum benefit shall not be more than 3% of wages paid to employees hired to fill the new positions eligible under this bill. This last provisions makes sure that the state will still receive some of the income taxes of the employees.

**As we understand it, ending the business owners' tax break will return to the General Fund \$177 million next biennium.**

**Instead this \$177 million could be used to:**

- **Retain 1040 teachers for the next two years rather than laying them off**
- **Prop up PERS**
- **Keep an adequate number of foster care workers to protect our vulnerable children, or**
- **Continue the Oregon Promise made to community college students and more fully fund the Oregon Opportunity Grant program.**

**Truly, we hope in considering your priorities, you will end this unfocused subsidy.**